

**Chief Executive: Dr Ann Black**

22-24 North Road  
Lerwick  
Shetland  
ZE1 0NQ

Telephone: 01595 744994  
Fax: 01595 744999  
mail@shetlandcharitabletrust.co.uk  
www.shetlandcharitabletrust.co.uk

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

Our Ref: EM/TA1/1

Date: 3 September 2014

Dear Sir/Madam

You are invited to the following:

**Shetland Charitable Trust  
Room 12, Islesburgh Community Centre, Lerwick  
Thursday 11 September 2014 at 10.00am**

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

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.
- (d) Confirm minutes of meeting held on 26 June 2014 (enclosed).

## ***For Decision***

1. Shetland Charitable Trust Annual Report and Accounts for the year to 31 March 2014. Report enclosed

2. Process for Reappointment or Recruitment of Appointed Trustees. Report enclosed.
3. Financial Hardship Scheme – Additional Funding. Report enclosed.
4. Amendment to Administrative Regulations. Report enclosed.
5. Risk Management – Annual Review. Report enclosed.
6. Substance Misuse Policy. Report enclosed.

***For Information***

7. Management Accounts – Three Months Ended 30 June 2014. Report enclosed.
8. Service Performance of Funded Organisations – Year Ending 31 March 2014. Report enclosed.
9. Fund Manager Transactions. Report enclosed.
10. Recommended Disbursements - Approvals. Report enclosed.
11. Capital Works Bridging Loan Scheme. Report enclosed.

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

***For Information***

12. Loans to Local Industry – Sums Due But Unpaid Over One Month Old as at 31 July 2014. Report enclosed.
13. Loans to Local Industry – Agricultural Loan Scheme Update. Report enclosed.
14. Appointment of Directors to Shetland Leasing and Property Developments Ltd (SLAP) and Shetland Heat Energy and Power Limited (SHEAP). Report enclosed.
15. Update from Subsidiary Companies. Verbal update.



---

## REPORT

To: Shetland Charitable Trust

11 September 2014

From: Chief Executive

Report: CT1409042

### **Shetland Charitable Trust Annual Report and Accounts for the year to 31 March 2014**

#### **1. Introduction**

- 1.1 The Annual Report and Accounts for the year to 31 March 2014, which follow as Appendix A, are prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.
- 1.2 Shetland Charitable Trust (the Trust) has seen an increase in funds of £3.9 million this financial year, mainly due to the gain on investments of £7.3 million. This has resulted in a strengthening of the Trusts net asset position, which now stands at £223.5 million (2013: £219.6 million).
- 1.3 Total incoming resources were £8.5 million and total resources expended were £11.8 million. This loss of £3.3 million was offset by gains on investments of £7.4 million, as shown in the table on page five of Appendix B.

#### **2. Commentary**

- 2.1 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 2014. David Watt of KPMG reported at the Audit and Governance Committee meeting on Wednesday 3 September 2014. The report states on page two that *"no significant audit issues arose during the course of our audit of Shetland Charitable Trust or SCT Renewables Ltd."*
- 2.2 The letter of representation from Trustees to KPMG, required to complete the audit, is attached as Appendix 4 of Appendix B.
- 2.3 Total charitable expenditure for the year was £10.1 million (2013: £10.7 million), which is within our target level of £11 million. Further information on charitable activities is provided in the Annual Report.
- 2.4 The Trust funds invested on global markets continued to grow this year, but at a much reduced level than the prior year, providing a gain of £7.3 million (2013: £17.5 million). The total investments of

the Trust have fallen by £16 million. This reduction was due to part of the loan from Shetland Leasing and Property Development Ltd (SLAP) being repaid through a reduction in our investment of £18 million. The remaining £4.5 million of the loan was repaid using cash. Investment management costs for the year were £273,000 (2013: £668,000) which is a reduction in the year of £395,000.

- 2.5 Gift Aid in the year totalled £2.6 million, £2 million of which was from SLAP (2013: £6 million) and £0.6 million from Shetland Heat Energy and Power Ltd (SHEAP) (2013: £0.4 million). This is a reduction of £3.8 million, mainly due to two years' Gift Aid payments being made by SLAP in 2013. The new non-executive directors of SLAP redefined arrangements, which allowed for the payment of Gift Aid in the year the profits were made rather than the previous arrangement of one year in arrears.
- 2.6 Programme related investments have decreased in the year due to the £18m reduction in the investment in SLAP as mentioned in paragraph 2.4. This was partly offset by the draw down of £1.2 million of investment by Viking Energy.

### **3. Financial Implications**

- 3.1 The Trust's net movement in funds for the year was a £3.9 million inflow (2013: £15.9 million inflow). The Trust continues to maintain a strong cash balance and has net assets at 31 March 2014 of £223.5 million (2013: £219.6 million).

### **4. Recommendations**

- 4.1 Trustees are asked to:-
  - a) approve the Annual Report and Accounts for the year to 31 March 2014 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 B (4), and
  - d) note the summary report from KPMG LLP, the Trust's auditors, attached as Appendix B.

Reference: KE/TA2  
Date: 3 September 2014

Report Number CT1409042

**Shetland Charitable Trust**

Trustees' report and consolidated  
financial statements

Charity number SC027025

31 March 2014

## Contents

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

## **Chair's introduction**

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

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

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

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

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

**R W Hunter**  
*Chair*

11 September 2014

## Trustees' Report

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

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

#### **Trustees**

##### *Selected*

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

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

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

**Chief Executive** Dr Ann Black

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

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

#### **Solicitors -**

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

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

##### **Commercial**

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

#### **Investment Managers**

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

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

Schroders Property Managers  
31 Gresham Street  
London  
EC2V 7QA

## Trustees' Report *(continued)*

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

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

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

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

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

#### **Governing Document**

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

The Trust Deed and its schedules appoints Trustees, states the charitable purposes of the Trust and also sets out the powers of the Trustees.

#### **Charitable Status**

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

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

The re-constituted Trust is made up of eight appointed Trustees recommended by a selection panel and appointed by the Trustees, and seven Councillor Trustees who are elected members of, and appointed by, Shetland Islands Council.

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

#### **Management and Administration**

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

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

#### **Minutes**

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

## Trustees' Report *(continued)*

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

#### **Subsidiary Companies**

The Trust has four wholly owned subsidiary companies. On 13 September 2012, the Trustees decided to change the composition of the boards of these companies. After a selection process, the following independent Non-Executive Directors were appointed with effect from 1 December 2012.

|  |  |
|--|--|
| <b>Shetland Leasing and Property Developments Limited (SLAP)</b> | Susan Groat – Chair<br>Bryan Leask (Resigned 25 November 2013)<br>William Manson |
|--|--|

|   |  |
|---|--|
| <b>Shetland Heat Energy and Power Limited (SHEAP)</b> | Andrew Blackadder - Chair<br>Martin Tregonning (Resigned 22 July 2014)<br>Paul Clelland (Resigned 18 May 2014) |
|---|--|

CT Shetland (TM) Limited is a dormant company whose present purpose is to register and own certification trademarks, for example knitwear trademarks. It has been decided that meantime it only requires one director.

|                                    |                                      |
|------------------------------------|--------------------------------------|
| <b>C. T. Shetland (TM) Limited</b> | Keith Massey (appointed 23 May 2013) |
|------------------------------------|--------------------------------------|

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

|                               |             |
|-------------------------------|-------------|
| <b>SCT Renewables Limited</b> | James Smith |
|-------------------------------|-------------|

#### **Risk Management**

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

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

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



## Trustees' Report *(continued)*

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

#### **Priorities**

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

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

#### **Strategic Partnerships**

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

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

The Trust wishes to ensure that the charitable activities it carries out are appropriate and complementary to those activities carried out by other community and public bodies. Rather than employ people who are experts in particular fields, the Trust seeks advice from senior managers in the Shetland Islands Council as to what activities it might carry out for the public benefit of the inhabitants of Shetland. The Service Co-ordinators provide professional advice, with the final decision to support a project or activity lying with the Trustees. Any grant recipient is subject to "Performance Monitoring", which is carried out with the expert help of the Service Co-ordinators.

#### **Grant Making Policy**

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

#### **Financial Objectives**

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

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

#### **Budgets**

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

## Trustees' Report *(continued)*

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

During the year to 31 March 2014, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

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

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

The Trust has worked with the organisations funded to develop a system of service performance reporting. Trustees considered a progress report on service performance in September 2013, which set out, in detail, how the Trust's money makes a difference to people and communities. On the whole, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern.

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

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

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

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

Details of the activities and performance of the Trust's subsidiary companies are provided in Section 5 of this report. In summary, SLAP and SHEAP have generated profits for the Trust in 2013/14. The rentals from the land at the Sullom Voe terminal also made a useful contribution.

The Trust continues to review its own management and administration costs. These have fallen from over £900,000 in 2002/03 to under £700,000 in 2013/14 partly due to the introduction of service level agreements with the Shetland Islands Council for the provision of agreed, specific, expert work, as negotiated by the Trust's independent management. Furthermore, the Trust staff has gradually reduced from 11 in 2005/06 to 5 full time equivalents in 2013/14.

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

## Trustees' Report *(continued)*

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

#### Charitable Expenditure

|  | 2013/14<br>budget<br>£ | Actual spend<br>to 31 March<br>2014<br>£ | 2013<br>spend<br>£ |
|--|------------------------|--|--------------------|
| <b><u>Trusts over £0.5m</u></b>              |                        |  |                    |
| Shetland Amenity Trust                       | 1,052,728              | 1,052,728                                | 1,052,728          |
| Shetland Arts Development Agency             | 696,038                | 696,038                                  | 696,038            |
| Shetland Recreational Trust                  | 2,518,550              | 2,518,550                                | 2,518,550          |
| <b><u>Other Charitable Organisations</u></b> |                        |  |                    |
| Disability Shetland Recreation Club          | 12,641                 | 12,641                                   | 12,641             |
| The Swan Trust                               | 44,650                 | 44,650                                   | 44,650             |
| VAS - New Shetlander                         | 670                    | 670                                      | 670                |
| Shetland Churches Council Trust              | 54,055                 | 54,055                                   | 54,055             |
| Shetland Youth Information Service           | -                      | -  | 188,840            |
| Shetland Befriending Scheme                  | 54,418                 | 54,418                                   | 54,418             |
| Citizens Advice Bureau                       | 147,383                | 147,383                                  | 147,383            |
| COPE Limited                                 | 154,967                | 154,967                                  | 154,967            |
| Couple Counselling Shetland                  | 12,000                 | 12,000                                   | 12,000             |
| Shetland Link Up                             | 47,994                 | 47,994                                   | 47,994             |
| Voluntary Action Shetland                    | 144,367                | 144,368                                  | 144,367            |
| Festival Grants                              | 30,000                 | 30,000                                   | 30,000             |
| Local Charitable Organisations               | 14,000                 | 11,552                                   | 10,552             |
| Royal Voluntary Service                      | 47,622                 | 47,622                                   | 47,622             |
| Peer education project                       | 12,000                 | 12,000                                   | -                  |
| <b>Sub Total Organisations</b>               | <b>5,044,083</b>       | <b>5,041,636</b>                         | <b>5,217,475</b>   |

## Trustees' Report *(continued)*

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

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

Total charitable expenditure and administration costs are shown before adjustment for pension adjustments under FRS 17 totalling £85,000, and reallocation of governance costs, as detailed in Note 2 to the financial statements.

## Trustees' Report *(continued)*

### Section 5: Financial Review

#### Growth and Unrestricted Funds

The Trust relies chiefly on funds generated by investments on the world's markets. Around £12.1 million was generated in 2013/14. This includes the growth in value of the investments as well as dividend income received. In addition, in 2013/14, around £2.6 million income was derived from investments in Shetland, valued at around £40 million, in SLAP, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure.

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

#### Reserves Policy

The policy of the Trustees is to invest the reserves of the Trust to generate income to support charitable expenditure and to maintain the real value of the reserves in the long term. The current value (as at 31 March 2014) of the Trust's reserves that are invested to generate income (i.e. not the 'Donated Properties') is around £225 million, which covers current levels of expenditure for around 20 years. Trustees seek to control risk through proper diversification and take advice, as appropriate, in determining the mix of asset types in its investments. None of the Trust's funds are for restricted purposes. Trustees are free to determine how to apply their Unrestricted Reserves in a manner consistent with the Trust objectives and in line with its Budget Strategy.

#### Investments

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

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

2013/14 was a good year for investment returns, achieving £14.7 million (about 6.9%). The Trust's target is to be self-sustaining with net investable assets of £220 million (in March 2015 money). The good performance of all the investments meant that at 31 March 2014, the Trust was above that target.

#### Stock Exchanges

As at 31 March 2014, three fund managers managed the Trust's Stock Exchanges portfolio. BlackRock Global Investors manage around £111 million invested in equities (shares), Insight Investment manage around £52 million in bonds, and Schroders Property Managers manage around £26 million in commercial property.

#### Cash on Deposit

The Trust has entered into a Service Level Agreement with Shetland Islands Council whereby the Trust has access to the money markets at a level which it may not have been able to achieve on its own. Surplus cash has achieved at least base rate by this mechanism.

#### Subsidiary Companies

Shetland Leasing and Property Developments Limited (SLAP) is a wholly owned subsidiary of the Trust. Its main activity is the purchasing, developing and letting of about 30 properties throughout Shetland. SLAP gift aids its profits to the Trust. The property portfolio is valued at £20 million and it generated rental income of over £2.1 million in 2013/14. The Board of Directors resolved to make a gift aid payment of £1.9 million to the Trust in the financial year 2013/14. This mechanism means that neither body pays tax on the profits.

Shetland Heat Energy and Power Limited (SHEAP) is a wholly owned subsidiary of the Trust, set up to operate the Lerwick District Heating Scheme. SHEAP has over 1,100 customers receiving heat. The Board of Directors resolved to make a gift aid payment of £0.6 million to the Trust in the financial year 2013/14.

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

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

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

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

#### **Decisions about Investments**

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

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

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

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

**R W Hunter**  
*Chair*

11 September 2014

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

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

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

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

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

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

ABCD

37 Albyn Place  
Aberdeen  
AB10 1JB  
United Kingdom

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

We have audited the group and charity financial statements ("the financial statements") of Shetland Charitable Trust for the year ended 31 March 2014 set out on pages 13 to 33. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

### **Respective responsibilities of Trustees and auditor**

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

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the charity's affairs as at 31 March 2014 and of the group's and charity's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

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

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

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

**David Watt**

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

*Chartered Accountants*

*Eligible to act as an auditor in terms of section 1212 of the Companies Act 2006*



## Consolidated statement of financial activities

for the year ended 31 March 2014

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

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

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

## Trust statement of financial activities

for the year ended 31 March 2014

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

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

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

## Consolidated balance sheet

as at 31 March 2014

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

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

**R W Hunter**  
Chairman

**J W G Wills**  
Vice-Chairman

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

## Trust balance sheet

as at 31 March 2014

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

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

**R W Hunter**  
Chairman

**J W G Wills**  
Vice-Chairman

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

## Consolidated cash flow statement

for the year ended 31 March 2014

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

## Notes to the consolidated cash flow statement

for the year ended 31 March 2014

| <b>Reconciliation of net outgoing resources to net cash outflow from operating activities</b> | <b>2014</b>    | <b>2013</b>     |
|---|----------------|-----------------|
|   | <b>£000</b>    | <b>£000</b>     |
| Net outgoing resources before other recognised gains and losses                               | (4,085)        | (8,243)         |
| Loss on sale of fixed assets  | 41             | 115             |
| Investment income and interest receivable   | (4,760)        | (4,470)         |
| Depreciation and impairment of tangible fixed assets  | 2,001          | 1,387           |
| Movement in pension liability, excluding actuarial gains and losses                           | 85             | 58              |
| (Increase)/decrease in stock  | (11)           | 5               |
| (Increase)/decrease in debtors  | (107)          | 580             |
| (Decrease)/increase in creditors  | (1,717)        | 1,043           |
| Decrease in provisions  | (21)           | (708)           |
|   | <hr/>          | <hr/>           |
| <b>Net cash outflow from operating activities</b>   | <b>(8,574)</b> | <b>(10,233)</b> |
|   | <hr/> <hr/>    | <hr/> <hr/>     |
| <br>  |                |                 |
| <b>Reconciliation of net cash flow to movement in net funds</b>                               | <b>2014</b>    | <b>2013</b>     |
|   | <b>£000</b>    | <b>£000</b>     |
| Increase/(decrease) in cash in the year   | 723            | (917)           |
| Cash inflow from increase in liquid resources   | 183            | 2,823           |
|   | <hr/>          | <hr/>           |
| Change in net funds resulting from cash flows   | 906            | 1,906           |
| Net funds at the start of the year  | 13,070         | 11,164          |
|   | <hr/>          | <hr/>           |
| Net funds at the end of the year  | 13,976         | 13,070          |
|   | <hr/> <hr/>    | <hr/> <hr/>     |
| <br>  |                |                 |
| <b>Net funds comprise:</b>  |                |                 |
| Cash in hand held by investment managers  | 5,916          | 5,733           |
| Cash at bank and in hand  | 8,060          | 7,337           |
|   | <hr/>          | <hr/>           |
|   | <b>13,976</b>  | <b>13,070</b>   |
|   | <hr/> <hr/>    | <hr/> <hr/>     |

## Notes to the financial statements

*(forming part of the financial statements)*

### 1 Accounting policies

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

#### ***Basis of preparation***

The financial statements have been prepared under the historical cost accounting rules, as modified by the revaluation of investments and in accordance with applicable accounting standards and the provisions of the Trust Deed, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 and the Statement of Recommended Practice "Accounting and Reporting by Charities" issued in March 2005.

Shetland Charitable Trust has three 100% owned subsidiary companies which are trading. The Trust and its subsidiaries have taken advantage of the exemption contained in FRS 8 *Related parties* and have therefore not disclosed transactions or balances between the parent or entities which form part of the group (or investees of the group qualifying as related parties).

#### ***Basis of consolidation***

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

In accordance with FRS 21 *Events after the balance sheet date*, gift aid payments are accounted for in the subsidiary undertakings in the year in which an irrevocable commitment to make a payment has been made.

#### ***Fund accounting***

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

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

#### ***Incoming resources***

##### *Activities for generating funds*

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

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

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

##### *Investment income*

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *Other incoming resources*

Rental income included within accruals and deferred income in the balance sheet is credited to incoming resources over the period of the lease to which it relates.

#### *Donated assets*

Tangible fixed assets donated to the Trust are accounted for as incoming resources within the expendable endowment at valuation or cost. The assets are depreciated in accordance with the Trust's depreciation policy.

#### *Resources expended*

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

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

#### *Cost of generating funds*

The cost of generating funds represents fund managers' fees.

#### *Governance costs*

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

#### *Grants*

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

#### *Investments*

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

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

#### *Tangible fixed assets and depreciation*

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

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

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



## Notes (continued)

### 1 Accounting policies (continued)

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

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

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

#### *Investment properties*

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

#### *Taxation*

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

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

#### *Pension costs*

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

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

#### *Stock*

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

#### *Cash and liquid resources*

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

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

## Notes (continued)

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

#### Charitable expenditure

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

|  | 2014<br>£000  | 2013<br>£000  |
|--|---------------|---------------|
| <b>General funds</b>                                     |               |               |
| Payments to charitable organisations                     | 5,041         | 5,217         |
| Schemes  | 2,679         | 2,709         |
| Direct schemes   | 1,945         | 2,130         |
| One-off projects   | -             | 182           |
| Charitable grants repaid                                 | (229)         | (11)          |
|  | <hr/>         | <hr/>         |
| Total charitable grants                                  | 9,436         | 10,227        |
| Support costs, excluding governance costs (below)        | 591           | 437           |
| Pension adjustments under FRS 17                         | 85            | 58            |
|  | <hr/>         | <hr/>         |
| Total charitable expenditure – general funds             | 10,112        | 10,722        |
|  | <hr/>         | <hr/>         |
| <b>Expendable endowment</b>                              |               |               |
| Depreciation – see note 4                                | 1,206         | 1,264         |
|  | <hr/>         | <hr/>         |
| <b>Total resources expended on charitable activities</b> | <b>11,318</b> | <b>11,986</b> |
|  | <hr/> <hr/>   | <hr/> <hr/>   |

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

#### Support costs

Support costs for the year of £591,000 (2013: £437,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £696,000 (2013: £587,000) in respect of staff costs (see note 3), of which £309,948 (2013: £328,378) was charged to subsidiaries.

#### Governance costs

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

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

## Notes (continued)

### 3 Staff numbers and costs

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

|                          | 2014<br>£000 | 2013<br>£000 |
|--------------------------|--------------|--------------|
| Wages and salaries       | 523          | 465          |
| Social security costs    | 34           | 39           |
| Pension costs / (credit) | 139          | 83           |
|                          | 696          | 587          |
|                          | 696          | 587          |

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

No employee (2013: one employee) received an emolument totalling between £60,000 and £69,999 and one employee (2013: one) received an emolument totalling between £70,000 and £79,999. Retirement benefits are accruing to these members of staff under a defined benefit pension scheme; contributions in 2013/14 totalled £12,324. No other employees received emoluments totalling in excess of £60,000 in either the current or previous financial year.

The chair and the vice-chair received Trustees' allowances totalling £nil (2013: £622) from the Trust and its group during the year. Expenses totalling £4,091 (2013: £4,449) were reimbursed to 6 trustees (2013: 14 trustees) during the year.

### 4 Tangible fixed assets

| Group                    | Land and<br>buildings<br>£000 | District heating<br>scheme<br>infrastructure<br>£000 | Investment<br>properties<br>£000 | Vessel and<br>aircraft<br>£000 | Other plant<br>and<br>machinery<br>and AUC<br>£000 | Total<br>£000 |
|--------------------------|-------------------------------|--|----------------------------------|--------------------------------|--|---------------|
| <b>Cost or valuation</b> |                               |  |                                  |                                |  |               |
| At beginning of year     | 25,494                        | 17,137   | 16,740                           | 865                            | 4,427  | 64,663        |
| Additions                | -                             | -  | 10                               | -                              | 1,045  | 1,055         |
| Disposals                | -                             | -  | (41)                             | -                              | -  | (41)          |
| Revaluations             | (12)                          | -  | (10)                             | -                              | -  | (22)          |
| Transfers                | -                             | -  | 1,035                            | -                              | (1,035)  | -             |
|                          | 25,482                        | 17,137   | 17,734                           | 865                            | 4,437  | 65,655        |
|                          | 25,482                        | 17,137   | 17,734                           | 865                            | 4,437  | 65,655        |
| <b>Depreciation</b>      |                               |  |                                  |                                |  |               |
| At beginning of year     | 21,817                        | 12,356   | -                                | 422                            | 610  | 35,205        |
| Charge for year          | 1,001                         | 217  | -                                | 34                             | 749  | 2,001         |
|                          | 22,818                        | 12,573   | -                                | 456                            | 1,359  | 37,206        |
|                          | 22,818                        | 12,573   | -                                | 456                            | 1,359  | 37,206        |
| <b>Net book value</b>    |                               |  |                                  |                                |  |               |
| <b>At 31 March 2014</b>  | <b>2,664</b>                  | <b>4,564</b>   | <b>17,734</b>                    | <b>409</b>                     | <b>3,078</b>                                       | <b>28,449</b> |
|                          | 2,664                         | 4,564  | 17,734                           | 409                            | 3,078  | 28,449        |
| At 31 March 2013         | 3,677                         | 4,781  | 16,740                           | 443                            | 3,817  | 29,458        |
|                          | 3,677                         | 4,781  | 16,740                           | 443                            | 3,817  | 29,458        |

## Notes (continued)

### 4 Tangible fixed assets (continued)

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

The investment properties were valued on an open market value for existing use basis as at 31 March 2014 by Stephen Johnston BSc FRICS of David Adamson & Partners. These valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual Practice Statements.

The net book value of other tangible fixed assets is analysed as follows:

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

## Notes (continued)

### 5 Managed funds

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

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

As at 31 March 2014, the Trust's funds other than programme-related investments are managed by Insight Investment Management, BlackRock Global Investors and Schroders Property Managers. The split of the portfolio between the investment managers is as follows:

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

## Notes (continued)

### 6 Programme-related investments

|                           | Group        |  | Charity                                  |              |
|---------------------------|--------------|--|--|--------------|
|                           | 2014<br>£000 | 2013<br>£000                             | 2014<br>£000                             | 2013<br>£000 |
| Equity (below)            | 4,489        | 3,676                                    | 22,449                                   | 39,407       |
| Loans (note 7)            | 319          | 386                                      | 319                                      | 386          |
|                           | 4,808        | 4,062                                    | 22,768                                   | 39,793       |
|                           | 4,808        | 4,062                                    | 22,768                                   | 39,793       |
| <b>Equity – Group</b>     |              | <b>Shares in subsidiary undertakings</b> | <b>Unlisted investments</b>              | <b>Total</b> |
|                           |              | <b>£000</b>                              | <b>£000</b>                              | <b>£000</b>  |
| <i>Cost</i>               |              |  |  |              |
| At beginning of year      |              | 4,032                                    | 626                                      | 4,658        |
| Additions                 |              | 900                                      | -  | 900          |
|                           |              | 4,932                                    | 626                                      | 5,558        |
| Cost at end of year       |              | 4,932                                    | 626                                      | 5,558        |
| <i>Provisions</i>         |              |  |  |              |
| At beginning of year      |              | 356                                      | 626                                      | 982          |
| Provided in year          |              | 87                                       | -  | 87           |
|                           |              | 443                                      | 626                                      | 1,069        |
| Provisions at end of year |              | 443                                      | 626                                      | 1,069        |
| <i>Net book value</i>     |              |  |  |              |
| At 31 March 2014          |              | 4,489                                    | -  | 4,489        |
|                           |              | 4,489                                    | -  | 4,489        |
| At 31 March 2013          |              | 3,676                                    | -  | 3,676        |
|                           |              | 3,676                                    | -  | 3,676        |
| <b>Equity – Charity</b>   |              |  | <b>Shares in subsidiary undertakings</b> |              |
|                           |              |  | <b>£000</b>                              |              |
| <i>Cost</i>               |              |  |  |              |
| At beginning of year      |              |  |  | 41,220       |
| Additions                 |              |  |  | 1,192        |
| Disposals                 |              |  |  | (18,000)     |
|                           |              |  |  | 24,412       |
| Cost at end of year       |              |  |  | 24,412       |
| <i>Provisions</i>         |              |  |  |              |
| At beginning of year      |              |  |  | 1,813        |
| Provided in year          |              |  |  | 150          |
|                           |              |  |  | 1,963        |
| Provisions at end of year |              |  |  | 1,963        |
| <i>Net book value</i>     |              |  |  |              |
| At 31 March 2014          |              |  |  | 22,449       |
|                           |              |  |  | 22,449       |
| At 31 March 2013          |              |  |  | 39,407       |
|                           |              |  |  | 39,407       |

**Notes** *(continued)*

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

As stated in note 1, these consolidated financial statements include the results of the charity's wholly owned trading subsidiaries, Shetland Leasing and Property Developments Limited (SLAP), Shetland Heat Energy and Power Limited (SHEAP) and SCT Renewables Limited (SCT R). The trading results of these companies are summarised below:

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

## 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:

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

Included within the companies' profit (loss) for the year is a total of £2,554,542 (2013: £6,458,005) payable to the Trust by way of gift aid from SLAP and SHEAP which has been eliminated within the consolidated statement of financial activities.

The assets and liabilities of the subsidiaries were:

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

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

### 7 Programme-related investments – Loans

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



**Notes** (continued)

**8 Debtors**

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

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

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

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

**10 Provisions for liabilities and charges**

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

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

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

**Notes** *(continued)*

**11 Expendable endowment**

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

**12 Unrestricted income funds**

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

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

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

**Notes** *(continued)*

**13 Pension scheme**

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

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

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

Movements in present value of defined benefit obligation:

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

Movements in fair value of plan assets:

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

**Notes** *(continued)*

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

Expenditure recognised in the statement of financial activities:

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

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

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

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

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

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

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

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

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

**Notes** (continued)

**13 Pension scheme** (continued)

In valuing the liabilities of the pension fund at 31 March 2014, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

Current pensioner aged 65: 23 years (male), 25.8 years (female).

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

**History of plans**

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

*Balance sheet*

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

*Experience adjustments*

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

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

**14 Related parties**

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





*cutting through complexity*

# Shetland Charitable Trust

Audit highlights memorandum and management letter

Audit: year ended 31 March 2014

29 August 2014

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 18 May 2011.

**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>        |  |            |
| ✓                               | <ul style="list-style-type: none"> <li>We anticipate issuing an unqualified audit opinion on the 2013-14 financial statements, following their approval by the Trustees.</li> </ul>  | Page 4     |
| <b>Accounting matters</b>       |  |            |
| ✓                               | <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 17.</li> </ul>  | Page 4     |
| <b>Auditing matters</b>         |  |            |
| ✓                               | <ul style="list-style-type: none"> <li>No significant audit issues arose during the course of our audit of Shetland Charitable Trust or SCT Renewables Limited. Several audit misstatements were identified during the audit of Shetland Leasing and Property Developments Limited and Shetland Heat Energy and Power Limited; all misstatements were corrected and appropriately included within the financial statements, with the exception of the deferred tax adjustment for £43,000 within SLAPD.</li> <li>No significant regulatory or tax matters came to our attention during the course of our normal audit work.</li> </ul>   | Page 4     |
| <b>Systems and controls</b>     |  |            |
| ✓                               | <ul style="list-style-type: none"> <li>No control deficiencies were identified relating to the Trust during the course of our audit work. Two improvement points were identified within the subsidiary companies, both related to the authorisation of journals within SLAPD and SHEAP.</li> </ul>   | -          |
| ✓                               | <ul style="list-style-type: none"> <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 within the Trust due to the reduction in staff numbers from the prior year.</li> </ul>  | -          |
| <b>Financial position</b>       |  |            |
| ✓                               | <ul style="list-style-type: none"> <li>The group recorded net outgoing resources of £4.1 million (2013: £8.2 million), but a net inflow of funds of £3.1 million (2013: net inflow of £9.0 million) after recognising gains on managed funds and actuarial losses on the pension scheme. The Trust recorded net outgoing resources of £3.3 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 inflow on funds was £4.0 million (2013: inflow of £15.9 million). The underlying financial position of the group remains strong, with net assets of £229.0 million (Trust: £223.5 million).</li> </ul> | Page 5     |
| <b>Mandatory communications</b> |  |            |
| ✓                               | <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>  | Appendix 1 |

# Financial statements and accounting

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



# Financial statements and accounting Audit conclusions

The Trust has maintained appropriate arrangements over the preparation of its 2013-14 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 receipt of management representations and 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 2014, 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 2014 with the Trustees, as well as 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 2014, 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 statements and supporting documentation for subsidiary companies was provided at the agreed start of the audit.
- 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.
- There was one adjustment to the initial draft financial statements for the Trust and several adjustments made to the initial draft financial statements of the subsidiary companies; all adjustments were corrected for inclusion within the financial statements.
- Consolidation balances for the group financial statements were completed after our initial period on site.
- Some presentational and textual changes were made to improve the overall disclosures within the financial statements.

The Trust generated a net inflow in funds for the year of £4.0 million (2013: inflow of £15.9 million).

The reduction in the net increase in funds was impacted by a smaller increase in the market value of managed funds, and a decrease in the level of gift aid, as a result of the timing of gift aid payments in the prior period.

## Financial position

The Trust's net movement in funds for the year was a £4.0 million inflow. This headline figure is lower than the £15.9 million surplus in the prior year, resulting from significant reductions in the level of gift aid received from subsidiary companies, and a smaller gain on managed fund investments compared to the prior period.

### Investment income and expenditure

Investment income has increased by £270,000 in the year, but realised and unrealised gains on investments from the Trust's managed funds decreased significantly in the year by £10.2 million. This is due to the volatile financial performance of funds in global markets during the year.

Investment management costs have decreased in the year by £395,000. The Trust now pays most of its investment management costs directly through its fund transactions rather than by invoices as in previous years.

### Gift aid from subsidiaries

Gift aid in the year has decreased by £3.9 million. This is a result of the timing of gift aid payments from SLAPD in the prior financial period. In the current period, gift aid of £1.9 million was received from SLAPD and £700,000 was received from SHEAP.

### Expenditure on charitable activities

Charitable activities expenditure declined by £668,000 compared to prior year, reflecting £377,900 spent on one off projects in the prior period (nil during the year to 31 March 2014) and a £175,800 reduction in funding to other charitable organisations, in line with the budget for 2013-14 approved by the Trustees. Overall, there was a £96,000 under spend against budget due to a number of relatively minor under spends, of which a £50,000 under spend in the Christmas grant scheme was the most notable.

|   | 2013-14<br>£000 | 2012-13<br>£000 |
|---|-----------------|-----------------|
| Investment income                                   | 4,737           | 4,470           |
| Gift aid from subsidiary companies                  | 2,606           | 6,458           |
| Rental and other income                             | 1,108           | 1,334           |
| <b>Total incoming resources</b>                     | <b>8,534</b>    | <b>12,263</b>   |
| Investment management costs                         | (273)           | (668)           |
| Provision (made)/released against equity investment | (150)           | (438)           |
| Charitable activities                               | (11,318)        | (11,986)        |
| Governance costs                                    | (103)           | (90)            |
| Interest payable on subsidiary loans                | -               | (474)           |
| <b>Total resources expended</b>                     | <b>11,844</b>   | <b>13,656</b>   |
| Actuarial losses in defined pension scheme          | (117)           | (292)           |
| Gains on investments                                | 7,377           | 17,559          |
| <b>Net movement in funds</b>                        | <b>3,950</b>    | <b>15,874</b>   |

Source: Draft financial statements



The net movement in funds for the year of £4.0 million (2013: surplus of £15.9 million) has resulted in a strengthening of the Trust's net asset position.

## 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 increased by £1.0 million as a result of stock market gains in the year. Programme related investments have decreased due to an £18 million disposal from the share capital reorganisation relating to SLAPD, offset by an additional £1.2 million investment in SCT Renewables Limited and £150,000 increase in the provision against programme related investments.

### Current assets and liabilities

Debtors have decreased from prior year by £900,000 mainly due to a year end balance due from SLAPD falling by £1.1 million in respect of the additional gift aid payable for the year. This has been offset by other minor movements in debtor balances, such as a reduction in trade debtors year on year and increases in prepayments. Creditors due within one year have decreased by £22.9 million from the previous year due to the Trust's loan from its subsidiary company SLAPD being repaid within the financial year and a £440,000 decrease in other creditors and accruals.

### Going concern

The Trust has net assets at the balance sheet date of £223.5 million, an increase of £4.0 million from 2013. The Trust continues to maintain a strong cash balance and its subsidiary companies SLAPD and SHEAP remain profitable and forecast further gift aid payments in the coming financial periods. SCT Renewables Limited made a small loss of £94,000 in the year. The Trust had net current assets at yearend of £6.4 million. This is due to a £22.5 million loan from SLAPD being repaid during the period, whilst there being comparatively small reductions in both debtors and cash.

|                               | 2013-14<br>£000 | 2012-13<br>£000 |
|-------------------------------|-----------------|-----------------|
| Tangible fixed assets         | 7,199           | 8,405           |
| Investments                   | 188,929         | 187,923         |
| Programme related investments | 22,768          | 39,793          |
| Debtors                       | 3,277           | 4,203           |
| Cash                          | 3,331           | 3,968           |
| Creditors                     | (173)           | (23,113)        |
| Pension liability             | (1,795)         | (1,593)         |
| <b>Net assets</b>             | <b>223,536</b>  | <b>219,586</b>  |

Source: Draft financial statements

### Pension liability

The net pension liability has increased by £202,000 in the year, resulting from the updated actuarial valuation of the Trust's share of the Shetland Island Council defined benefit pension scheme. £117,000 of this increase is charged through actuarial gains and losses, with the remainder charged to charitable activities.



## Financial statements Subsidiary companies

The revised governance arrangement for the Trust's subsidiary companies has not significantly affected the 2013-14 financial statements preparation process in respect of those companies. There has, however, been more ownership of financial reporting taking place within the subsidiaries themselves rather than Trust finance staff and management performing these tasks wholly on behalf of the companies. The approval process of the individual subsidiary financial statements was subject to revised arrangements in the prior period with more direct reporting to the new directors of both companies.

| Audit of subsidiary companies                                    |  |
|--|--|
| Area   | 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 £695,000 in the year, but included in this figure is gift aid payments in the year to the Trust totalling £1.96 million in relation to the financial year 2013-14. The annual revaluation exercise of the company's investment property portfolio resulted in a loss of £684,000. The Trust repaid a £22.5 million loan to SLAPD during the period, offset by a return of capital for £18.0 million at the same time.</p> <p>With the exception of the adjustments arising from the updated valuation of investment properties, there were no significant accounting judgements made by the directors in the financial statements. We identified five audit misstatements in the course of our audit work, all misstatements were appropriately corrected and included within the financial statements with the exception of a £43,000 adjustment relating to deferred tax for the year.</p> <p>Internal controls tested for the purposes of our financial statements audit appeared to be designed, implemented and operating effectively, although one improvement point was identified as journal entries were not signed as reviewed prior to being posted.</p> <p><b>Shetland Heat Energy and Power Limited ("SHEAP")</b></p> <p>SHEAP made a profit before gift aid of £65,000. A gift aid payment of £687,000 was made in respect of profits generated in the prior year. The company continues to operate at capacity numbers for customers and therefore revenue has remained relatively consistent with the prior period.</p> <p>There were no significant accounting judgements made by the directors in the preparation of the financial statements. We identified seven 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.</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, although one improvement point was identified as year end journals were not authorised prior to being posted.</p> |

Our audit work over SCTR and VES LLP is substantially complete pending completion of our finalisation procedures and receipt of appropriate representations from the respective Boards of Directors.

We identified no audit misstatements or control weaknesses or other matters to report in our audit of SCTR Renewables Limited or Viking Energy Shetland LLP.

| Audit of subsidiary companies                           |  |
|---|--|
| Area  | KPMG comment   |
| Subsidiary companies' structure and operations – 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. During 2013-14, the third party appeal against successful planning consent from the Scottish Ministers, was unsuccessful and the Judicial Review found in favour of Viking Energy project.</p> <p>SCTR made a loss of £93,500 in 2013-14, resulting from a provision in the company's investment in VES LLP of £86,600, administration expenses of £8,500 and interest receivable of £1,600. No gift aid payment is expected to the Trust while the Viking project remains in its developmental stage. The company invested a further £900,000 in VES LLP in the year.</p> <p><b>Viking Energy Shetland LLP ("VES LLP")</b></p> <p>VES LLP made a loss of £96,200 in the year, resulting from expenditure incurred by SCTR on behalf of VES LLP and subsequently recharged in the year. The partnership invested a further £1.0 million in Viking Energy Partnership ("VEP") in the year through cash calls paid on behalf of VES LLP by SCTR. VES LLP has the accounting functionality to process its own financial transactions and now relies significantly less on its parent companies.</p> |

# Appendices

1. Mandatory communications
2. Adjusted audit differences
3. Auditor independence
4. Management representation letter
5. Accounting developments
6. Tax legislation update



## Appendix one Mandatory communications

| Area  | Key content   | Reference  |
|---|---|------------|
| <p><b>Adjusted audit differences</b><br/>Adjustments made as a result of our audit</p>  | <p>There was one adjusted audit difference in the financial statements of the Trust with a negative impact on funds of £150,000 as a result of a provision against equity investments in subsidiary companies.</p> <p>No other adjustments were identified during the course of our audit work relating to the Trust.</p>                             | Appendix 2 |
| <p><b>Unadjusted audit differences</b><br/>Audit differences identified that we do not consider material to our audit opinion</p>           | <p>There was one unadjusted difference within Shetland Leasing and Property Developments Limited for £43,000 relating to deferred tax for the year.</p>   | -          |
| <p><b>Draft management representation letter</b><br/>Proposed draft of letter to be issued by the Trust to KPMG prior to audit sign-off</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 2014.</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>  | -          |

Under UK auditing standards (ISA UK&I 260) we are required to provide those charged with governance with a summary of adjusted audit differences identified during the course of our audit. The adjustment below has been included in both the consolidated and individual financial statements for Shetland Charitable Trust for the year ended 31 March 2014.

| Adjusted audit differences (£) |  |  |                          |   |
|--------------------------------|--|--|--------------------------|---|
| No.                            | Detail   | Statement of financial activities<br>Dr/(Cr) | Balance sheet<br>Dr/(Cr) | Comments  |
| 1                              | Dr Provision made against equity investments<br>Cr Equity investment | 150,369                                      | (150,369)                | Being adjustments to correct no provision being made against equity investments in the current financial period where the net book value of investments exceeded the net assets of the group companies. |
| <b>Total</b>                   |  | <b>150,369</b>                               | <b>(150,369)</b>         |   |

**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.**

### **Auditor independence**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Trust for professional services provided by us during the reporting period.

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

### **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 audit Trustees 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; and
- Independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to Trustees of the Trust.

### **Confirmation of audit independence**

We confirm that as of 29 August 2014, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

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

Yours faithfully

**KPMG LLP**

## Appendix four Management representation letter

Dear S/s

This representation letter is provided in connection with your audit of the Group and Trust financial statements of Shetland Charitable Trust ("the Trust"), for the year ended 31 March 2014, for the purpose of expressing an opinion:

- as to whether these financial statements give a true and fair view of the state of the Group's and the Trust's affairs as at 31 March 2014 and of the Group's and the Trust's incoming resources and application of resources for the financial year then ended;
- whether the financial statements 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).

These financial statements comprise the Trust and consolidated Balance Sheet, the Trust and consolidated Statement of Financial Activities, the consolidated cash flow statement, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Trustees confirm that the representations it makes 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 its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### Financial statements

1. The Trustees have fulfilled its responsibilities, as set out in the terms of the audit engagement dated 11 February 2010 for the preparation of financial statements that:
  - I. give a true and fair view of the state of the Group's and the Trust's affairs as at the end of its financial year and of its incoming resources and application of resources for that financial year;
  - II. have been properly prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"); and
  - III. 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).

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

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 FRS 21 *Events after the balance sheet date* requires adjustment or disclosure, have been adjusted or disclosed.

### Information provided

4. 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 Trust from whom you determined it necessary to obtain audit evidence.
  5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
  6. The Trustees acknowledge its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Trustees acknowledge its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- The Trustees have disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.



## Appendix four Management representation letter (continued)

7. The Board has 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.
8. The Board has 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 Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with FRS 12 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Board has disclosed to you the identity of 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 FRS 8 *Related Party Disclosures*.
11. The Board confirms 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) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the 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 its knowledge of the business.
- 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 settlements and curtailments have been identified and properly accounted for.
- This letter was tabled and agreed at the meeting of the Board of Trustees on [date].
- Chair, on behalf of the Board.
- Appendix A to the Board Representation Letter of Shetland Charitable Trust: Definitions**
- Financial Statements**
- A complete set of financial statements comprises:
- a balance sheet as at the end of the period;
  - a statement of financial activities for the period;
  - a statement of total recognised gains and losses for the period;
  - a cash flow statement for the period;
  - a reconciliation of movement in members' interest; and
  - notes, comprising a summary of significant accounting policies and other explanatory information.

## Management representation letter (continued)

### Material Matters

Certain representations in this letter are described as being limited to matters that are material. The ASB's *Statement of Principles for Financial Reporting* states that:

"An item of information is material to the financial statements if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessments of management's stewardship."

### 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 8 *Related Party Disclosures* 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, the party is an associate (as defined in FRS 9 *Associates and Joint Ventures*) of the entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - 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 retirement benefit scheme 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 scheme, 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

The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged.

### New UK GAAP

In March 2013, the Financial Reporting Council (FRC) issued FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. This is the main part of the new UK GAAP regime and follows the issue in November 2012 of FRS 100 (overview of the framework) and FRS 101 (reduced disclosure framework that is not applicable to charities).

Charities will apply FRS 102, or, if eligible the FRSSE. They are not allowed to apply EU-IFRS or FRS 101. FRS 102 is based on the IFRS for Small and Medium Sized Enterprises (IFRS for SMEs) although amendments were made specifically for the UK market. There is a reduced disclosure framework under FRS 102 which, if certain criteria are met, exempts a charity's subsidiaries (both charities and companies), and the parent charity itself, from preparing a cash flow statement, and certain other disclosures.

New UK GAAP is applicable for accounting periods beginning on or after 1 January 2015. This will require a transition balance sheet for Shetland Charitable Trust to be prepared as at 31 March 2015.

| Accounting regime                 | Applicable Charities SORP  | Example:   |
|-----------------------------------|--|--|
| FRS 102                           | <ul style="list-style-type: none"> <li>■ Charities SORP (FRS 102)</li> </ul> | <ul style="list-style-type: none"> <li>■ Larger charities</li> </ul>   |
| FRS 102 with reduced disclosures, | <ul style="list-style-type: none"> <li>■ Charities SORP (FRS 102)</li> </ul> | <ul style="list-style-type: none"> <li>■ Qualifying* parent charity and subsidiaries (both charities and companies) in a charitable group</li> </ul> |
| FRSSE                             | <ul style="list-style-type: none"> <li>■ Charities SORP (FRSSE)</li> </ul>   | <ul style="list-style-type: none"> <li>■ Small** charities</li> </ul>  |

\* A qualifying parent or subsidiary is a member of a group that prepares publicly available financial statements intended to give a true and fair view, in which it is consolidated. Fewer exemptions are available for financial institutions.

\*\* As defined by company law (see following slides)

**FRS 102 GAAP differences**

Differences between FRS 102 and current UK GAAP that may impact charities include:

|                                       | Current UK GAAP   | FRS 102   |
|---------------------------------------|---|---|
| Defined benefit pension plans         | <ul style="list-style-type: none"> <li>■ Multi-employer plans (including group) off balance sheet in individual accounts</li> <li>■ Expected return on assets reflects returns expected on assets held</li> </ul> | <ul style="list-style-type: none"> <li>■ Group plans must be on at least one balance sheet. For non-group multi-employer plans, provision is made for agreed deficit funding</li> <li>■ One net interest charge/credit based on net balance sheet asset/liability i.e., return on asset element calculated using liability discount rate</li> </ul> |
| Goodwill                              | <ul style="list-style-type: none"> <li>■ Rebuttable presumption that amortised over maximum life of 20 years</li> <li>■ Intangibles generally subsumed within goodwill</li> </ul>                                 | <ul style="list-style-type: none"> <li>■ Amortised over a presumed life of five years unless has longer life</li> <li>■ Intangibles recognised separately</li> </ul>  |
| Derivatives                           | <ul style="list-style-type: none"> <li>■ Generally off balance sheet (non-FRS 26)</li> </ul>  | <ul style="list-style-type: none"> <li>■ On balance sheet</li> </ul>  |
| Intercompany payables and receivables | <ul style="list-style-type: none"> <li>■ Recognised at face value (non-FRS 26)</li> </ul>   | <ul style="list-style-type: none"> <li>■ Recognised at fair value</li> <li>■ If the loan is for a fixed term (&gt;12 months) and not at a commercial rate then fair value will not equal face value.</li> </ul>   |

**FRS 102 Public benefit entity requirements**

Under FRS 102 charities are public benefit entities (PBEs) and therefore follow the PBE requirements given for:

- Property held for the provision of social benefits
- Funding commitments
- Concessional loans – loans between a PBE and a third party at below market rate that are not repayable on demand
- Incoming resources from non-exchange transactions – donated goods & services
- Public benefit entity combinations – combinations that are in substance a gift, or are a merger



### Statement Of Recommended Practice (SORP)

In July 2014 (following consultation in November 2013) the SORP Committee issued the two new Charity SORPs to reflect the new UK accounting framework.

The new SORPs provide a comprehensive framework for charity accounting that all charities that prepare accrual accounts must follow. The new SORPs apply to financial years beginning on or after 1 January 2015.

Responding to sector feedback the new framework provides a SORP to support each of the accounting standards from which charities can choose, depending on their size:

- 1) Charities SORP for the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102 SORP)
- 2) Charities SORP for the Financial Reporting Standard for Smaller Entities (FRSSE SORP)

The separation of the SORP means that users of the FRS 102 SORP will not be disrupted by the withdrawal and revision of the FRSSSE as a result of the 2013 Accounting Directive. Broadly speaking, in order to use the FRSSSE, charities must meet two out of three of the following criteria:

- an annual income of less than £6.5 million;
- total assets of less than £3.26 million;
- or fewer than 50 employees.

FRS 102 may be followed by any charity.

The two SORPs are modular in format and have the same structure and order of modules. However the requirements differ significantly due to underlying differences in terminology, accounting policies and disclosures required by the FRSSSE and FRS 102. The FRSSSE SORP and FRS 102 SORP share the same requirements for the form and contents of the trustees' annual report, fund accounting and common formats for the balance sheet, however there are many areas of difference including a different treatment for realised and unrealised gains and losses on investments in the statement of financial activities. Charities following the FRSSSE will have reduced disclosures and the cash flow statement is optional, but will have to follow the FRS 102 SORP where accounting for a transaction is not covered by the FRSSSE or FRSSSE SORP, and will have to transition to the new FRSSSE once available. It is therefore expected that many charities eligible to follow the FRSSSE will opt to follow the FRS 102 SORP, and we refer only to the FRS 102 SORP in the slides that follow.

The new SORPs can be viewed on the SORP microsite <http://www.charity.sorp.org/>. The SORPs use the terms "must", "should" and "may" to distinguish between those requirements that must be followed in order to comply with the SORP from other recommendations which charities can opt to follow when preparing their accounts.

There are additional requirements in the FRS 102 SORP for "larger" charities defined as those charities requiring an audit, i.e. with gross income >£500,000, or gross assets >£3.26 million and gross income >£250,000.

Charities SORP (FRS 102) – summary of key changes from current SORP (2005)

| Summary of key differences |   |
|----------------------------|---|
| FRS 102 SORP               |   |
| Trustees' Report           | <ul style="list-style-type: none"> <li>■ Risk management – expanded for larger charities who must include a description of the principal risks and uncertainties faced by the charity and plans and strategies to manage these risks.</li> <li>■ Achievements and performance – the trustees should provide a balanced picture of progress against objectives and may include the effect or impact of results on beneficiaries and wider society.</li> <li>■ Remuneration – larger charities must disclose the pay arrangements of key management personnel including any benchmarks or criteria used to set their pay.</li> <li>■ Going concern – nature of any uncertainties should be explained (required by Auditing Standards).</li> <li>■ Reserves policy – the trustees must disclose the reserves policy; a policy to hold nil reserves must be explained.</li> <li>■ Pension liability – disclose the impact of any material pension liability.</li> <li>■ Trustee names – the concession allowing only 50 trustee names to be given has been removed so that now all trustee names must be reported.</li> <li>■ Social investment policy – larger charities must explain how programme related investments contribute to charitable aims and objectives.</li> </ul> |
| SoFA                       | <ul style="list-style-type: none"> <li>■ The number of headings within the SoFA has been reduced and a "plain English" style adopted to describe the nature of the income or expenditure included within each heading of the SoFA.</li> <li>■ Governance costs is no longer a separate heading but are included in support costs.</li> <li>■ The treatment of investment gains and losses has changed to reflect FRS 102 requirements. These will be recognised within the "Income and Expenditure" part of the SoFA instead of the "STRGL" part where they currently sit, i.e. will now be "above the line".</li> <li>■ Comparatives are required for all SOFA columns, either on the face of the SOFA or in a note.</li> </ul>  |
| Cash flow statement        | <ul style="list-style-type: none"> <li>■ The statement of cash flows required by FRS 102 is different to the current format but still allows either the direct or indirect method to be used.</li> <li>■ The new SORP gives more guidance than the current SORP with examples of cash flows that fall within the three mandatory headings – operating, investing and financing activities.</li> </ul>   |

Charities SORP (FRS 102) – summary of key changes from current SORP (2005) (continued)

| Summary of key differences          |  |
|-------------------------------------|--|
| FRS 102 SORP                        |  |
| Income                              | <ul style="list-style-type: none"> <li>■ Income is recognised when it is probable (previously virtually certain). The FRS 102 SORP includes guidance as to when legacies are recognised, using a three-point test, and a portfolio approach.</li> <li>■ Income from donated goods for sale or distribution is recognised at time of receipt at fair value unless impractical or too costly. Otherwise it is recognised as income when the goods are sold or distributed.</li> <li>■ Possible that in certain circumstances income from contracts could be classified as restricted income.</li> </ul>  |
| Expenditure                         | <ul style="list-style-type: none"> <li>■ Liabilities and provisions should be discounted where settlement is delayed for more than 12 months and the effect is material.</li> <li>■ A liability for paid annual leave and sick leave is recognised if material.</li> <li>■ FRS 102 SORP does not permit details of institutional grants to be made in a separate publication but these may be detailed on the charity website or in the trustees' annual report rather than a note to the accounts.</li> </ul>   |
| Trustee and management remuneration | <ul style="list-style-type: none"> <li>■ The total remuneration paid to key management personnel must be disclosed. The charity may disclose the employee benefits received by its CEO or highest paid staff member, or all key management personnel on an individual basis.</li> <li>■ Any benefits or expenses paid to trustees are disclosed on an individual basis, including expenses waived by trustees.</li> <li>■ Donations made by trustees to the charity must be disclosed in total where no conditions apply to those donations.</li> <li>■ Details of redundancy and termination payments for staff must be disclosed.</li> </ul> |
| Balance sheet                       | <ul style="list-style-type: none"> <li>■ Social investments include programme related investments and the new "mixed motive investments", which is an investment made both to generate an investment return and to further the investing charity's purposes. Social investments are recognised at fair value, if this can be measured reliably, or else at cost less impairment.</li> <li>■ Transition opportunity to revalue tangible fixed assets and treat this as deemed cost going forwards.</li> </ul>   |
| Accounting for groups               | <ul style="list-style-type: none"> <li>■ FRS 102 SORP provides guidance clarifying the treatment for charity combinations, e.g. mergers and acquisitions of interests in charities and non-charitable entities.</li> <li>■ Incorporated charities are excluded from the definition of branches and are accounted for as subsidiaries.</li> </ul>   |

#### **Auto-enrolment**

All charities must “auto-enrol” eligible jobholders into either:

- a) National Employment Savings Trust (“NEST”); or
- b) Their own qualifying workplace scheme

Requirements phased in between October 2012 and October 2017 for all eligible Jobholders, those between the age of 22 and the State Pension Age. When the scheme is fully in force employers will have to pay a minimum of 3% of qualifying earnings. Employees can only opt out after 1 month in the scheme, but, crucially, must be auto-enrolled again after three years. There may be opportunity to offset the additional cost to employers through salary sacrifice.

#### **Employment Allowance**

From April 2014 all UK employers (businesses and charities) will be eligible for a new £2,000 Employment Allowance. The effect of this allowance is that it will reduce the overall amount of Employer’s NIC payable to HMRC each year.

Each business will be able to employ one individual on an annual salary of £22,400, or four staff on the National Minimum Wage (£12,070 per annum), without having to pay any Employer’s NIC at all.

The scheme will be administered through payroll reporting and Real Time Information and employers will be required to opt in to confirm eligibility for the allowance. It is not yet known how the new Employment Allowance will operate in relation to companies with multiple payrolls, more than one PAYE scheme reference or Group structures.



*cutting through complexity™*

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. Use of this report is RESTRICTED – See Important Notice page.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).





---

## REPORT

To: Shetland Charitable Trust

Date: 11 September 2014

From: Chief Executive

Report: CT1409029

### Process for Re-Appointment or Recruitment of Appointed Trustees

#### 1. Introduction

- 1.1 The purpose of this report is to approve a process for the re-appointment, recruitment and selection of Appointed Trustees.
- 1.2 The end of the first Term of Office for some Appointed Trustees is on 30 November 2014.
- 1.3 To ensure so far as possible that this is a fair process, open to everyone who wishes to apply, the Trustees, the Chief Executive and any other party involved in the process shall have regard to the Code of Practice for Ministerial Appointments to Public Bodies in Scotland published by the Commissioner for Ethical Standards in Public Life in Scotland which came into force on 1 October 2013, as it may be amended or replaced from time to time.

#### 2. Background

- 2.1 The Trustees of Shetland Charitable Trust ("the Trust") are appointed or re-appointed in accordance with the Schedule of Governance Arrangements appended to the Deed of Trust dated 13<sup>th</sup> and 14<sup>th</sup> September 2012 and registered in the Books of Council and Session on 27<sup>th</sup> September 2012 ("the Deed of Trust") per Appendix A attached.
- 2.2 Paragraph 4(c)(i) of the said Schedule of Governance ("the Schedule of Governance") provides that, "One half of the First Appointed Trustees appointed under Paragraph 9(a)(i) shall retire on 30<sup>th</sup> November, 2014.....".

#### 3. Willingness for Appointment for a second Term

- 3.1 Those Appointed Trustees who are due to retire on 30 November 2014, or at the end of a Term as defined in the Deed of Trust thereafter, and are eligible for reappointment for a further term, are required to advise the Chief Executive in writing two months prior to their retirement date of their willingness to be re-appointed.

#### **4. Selection Panel**

- 4.1 Trustees shall establish a Selection Panel as provided for in paragraph 7 of the Schedule of Governance arrangements comprising:-
- (1) an Independent Chair appointed by the Trustees who shall not be a Trustee of the Trust; and
  - (2) two Trustees at least one of whom must be an Appointed Trustee
- 4.2 The Chief Executive will recommend an Independent Chair for appointment by the Trustees.

#### **5. Selection of Appointed Trustees**

- 5.1 The Selection Panel will, in the first instance, consider the re-appointment of existing Appointed Trustees and shall be entitled to have regard to the following criteria:-
- (1) the knowledge of the Trust and its activities gained by the Appointed Trustees during their First Term;
  - (2) attendance at Trustee Meetings; and
  - (3) interests and ability to participate in the decision making process; throughout the Term.
- 5.2 If vacancies arise:-
- (1) from this process; or
  - (2) in the event that any of the Appointed Trustees due to retire are unwilling to be re-appointed

the Selection Panel in consultation with the Chief Executive shall consider the skills of the Trustees of the Trust and thereafter, the Chief Executive will arrange to advertise for Trustees with reference to that skills set and any specific skills requirement identified.

#### **6. Recommendations by the Selection Panel**

- 6.1 The Selection Panel shall make such recommendations to the Trustees for approval in terms of paragraph 4(a) of the Schedule of Governance Arrangements for Appointed Trustees.



## **7. Financial Implications**

- 7.1 If vacancies arise, there will be advertising costs incurred for recruitment of new appointed Trustees.
- 7.2 The expenses of a Selection Panel Chair would require to be reimbursed.
- 7.3 Both the costs at 7.1 and 7.2 can be managed from within the budget which has already been agreed for Trustee expenses in the financial year 2014/15.

## **8. Recommendations**

- 8.1 I recommend that Trustees agree:
  - (a) the process for re-appointment of Appointed Trustees for a second term; and
  - (b) the process for appointment of Appointed Trustees, if required, for a first term.

as per Paragraph 4 of the said Schedule of Governance.

Reference: AB/EM/TA48  
Date: 30 July 2014

Report Number CT1409029



**Deed of Trust**

by

**Malcolm John Bell and others  
as Trustees of Shetland Charitable Trust  
(Scottish Registered Charity SC027025)**

---

2012

KJP/SAM S0608.003

**TURCAN CONNELL**

LEGAL • WEALTH MANAGEMENT • TAX

PRINCES EXCHANGE, 1 EARL GREY STREET, EDINBURGH, EH3 9EE

Telephone 0131 228 8111 Fax 0131 228 8118

DX 723300 Edinburgh 43 LP 1 Edinburgh 14

E-mail enquiries@turcanconnell.com www.turcanconnell.com

WE, MALCOLM JOHN BELL, residing at Edgecott, 34 St Olaf Street, Lerwick ZE1 0BX, MARK ROBERT BURGESS, residing at Mayburn Cottage, Ladysmith Road, Scalloway ZE1 0XD, PETER JAMES CAMPBELL, residing at 8 Sandyloch Drive, Lerwick ZE1 0SR, GARY KENNETH CLEAVER, residing at 1 Hillsgarth, Baltasound, Unst, ZE2 9DY, ALASTAIR THOMAS JAMES COOPER, residing at Linga, Mossbank ZE2 9RB, STEVEN WILLIAM COUTTS, residing at Glenlea, Weisdale ZE2 9LQ, ALLISON GEORGE LESLIE DUNCAN, residing at 1 Hillock, Dunrossness ZE2 9JR, ROBERT SIMPSON HENDERSON, residing at Maraberg, Cullivoe, Yell ZE2 9DD, ANDREA ISOBEL MANSON, residing at Greystones, Brae, ZE2 9QJ, WILLIAM ANDREW RATTER, residing at Gaets A Voc, Ollaberry, ZE2 9RX, FRANK ANDREW ROBERTSON, residing at Columbus, Selivoe, Bridge of Walls ZE2 9NR, GARY ROBINSON, residing at 17 Burnside, Lerwick ZE1 0QH, DAVID ALEXANDER SANDISON, residing at Bonhoga, 7 Castle Street, Scalloway, ZE1 0TP, MALCOLM GEORGE SMITH, residing at Breasclete, Sandwick, ZE2 9HH, THEODORE GEORGE CAMERON SMITH, residing at Stenaquoy, Wormadale, Whitenesss, ZE2 9LJ, MICHAEL WILLIAM STOUT, residing at Kirkabister, Bressay, ZE2 9ER, AMANDA JOAN WESTLAKE, residing at Maya Datcha, 41 Burgh Road, Lerwick, ZE1 0LA, JONATHAN WITNEY GARRIOCK WILLS, residing at Sundside, Bressay, ZE2 9ER, ALLAN SINCLAIR WISHART, residing at Seafielde Lodge, Lower Sound, Lerwick ZE1 0RN and VAILA WISHART, Eden Cottage, Setter, Burra, ZE2 9LB, (the addresses of the foregoing parties all being in Shetland), being respectively some of the members of the Shetland Islands Council, incorporated under the Local Government etc (Scotland) Act 1994, for the electoral divisions of variously Lerwick South, Lerwick North, Shetland South, Shetland North, Shetland Central, Shetland West and North Isles and VALERIE MARGARET LILLIAS NICOLSON, residing at Midgarth, Twageos Road, Lerwick and ROBERT WALTER HUNTER, residing at Millburn, Bridge End, Burra, ZE2 9LD both Shetland, being respectively Head Teacher of the Anderson High School, Lerwick and Lord Lieutenant of Shetland, and as such members of Shetland

Islands Council, such Head Teacher and such Lord Lieutenant, the present Trustees accepting and acting under Deed of Trust by Shetland Islands Council dated Tenth and registered in the Books of Council and Session on Twenty fourth, both days of September Nineteen hundred and ninety seven (hereinafter referred to as the "1997 Deed of Trust" and the Trust constituted by the 1997 Deed of Trust then being known as the Shetland Islands Council Charitable Trust, now being known as the Shetland Charitable Trust (Scottish Registered Charity SC027025) being hereinafter referred to as "the Trust") HEREBY DECLARE that in implementation of a Scheme under Section 39 of the Charities and Trustee Investment (Scotland) Act 2005 as approved by the Office of the Scottish Charity Regulator on 3rd July 2012 the assets of the Trust comprising (i) all and any property heritable or moveable real or personal made over to us, as Trustees foresaid for the purposes of the Trust created by the 1997 Deed of Trust (ii) any other property of any description which may be made over to the Trustees as aftermentioned for the purposes of the Trust and (iii) the investments and property representing the property within (i) and (ii) from time to time (all hereinafter referred to as "the Trust Fund") are held on and from the Effective Date as defined in the Schedule of Governance Arrangements annexed and executed as relative hereto (hereinafter referred to as the "Schedule of Governance Arrangements") by the Trustees as defined in the Schedule of Governance Arrangements in trust in accordance with the terms and provisions of this Deed of Trust, the Schedule of Powers annexed and executed as relative hereto and the Schedule of Governance Arrangements (hereinafter referred to as the "2012 Deed of Trust") for the purposes hereinafter written namely:-

#### **Payment of Expenses**

(FIRST) The Trustees shall pay all expenses which may be incurred by them or under their authority in connection with the trust hereby created as the same shall be instructed by an

account under their hands or by the discharged accounts hereof paid by their order without any other voucher.

### Objects of Trust

(SECOND) The Trustees shall hold the Trust Fund at their sole discretion to make grants or loans with or without interest out of the income or capital of the Trust Fund for any 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") and provided that any such grant or loan is for charitable purposes: Declaring that without prejudice to the generality of the foregoing such grants or loans may be made towards all or any of the following purposes:-

- (a) In carrying out developments on or in connection with the said area calculated to promote the welfare of the community;
- (b) In encouraging and assisting the holding of meetings of members of the community for purposes of recreation, instruction or education;
- (c) In improving, maintaining and encouraging the improvement and maintenance of means of communication in the said area, and in particular by (i) building or improving or maintaining ports, harbours, piers, roads, bridges or aerodromes; (ii) hiring or chartering or purchasing and operating any boat, ship, vessel, aeroplane or any kind of land, sea or air vehicle; (iii) laying or maintaining telephone and telegraph wires or cables, whether on land or under the sea; and (iv) installing and operating stations for wireless and television;
- (d) In promoting directly or indirectly the development of any industry or industries among the community for its benefit in any manner in which the Trustees consider desirable;
- (e) In promoting directly or indirectly the development of agriculture among the community for its benefit;

- (f) In encouraging the education of the community by such means as the Trustees may consider desirable;
- (g) In improving the medical service to the community by such means as the Trustees may consider desirable;
- (h) In the preservation and improvement of 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;
- (i) In the founding, endowing and equipping of schools, colleges, institutions, laboratories, experimental stations, libraries, sports centres, welfare centres or technical education centres for the community;
- (j) In encouraging the study and practice of any useful branch of human knowledge by the provision of buildings, equipment or otherwise as the Trustees may consider desirable;
- (k) In the doing of all such other things as are incidental to any of the foregoing 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.

### **Surplus Income**

(THIRD) Any income of the Trust Fund not expended in any year may at the discretion of the Trustees be accumulated as the Trustees may determine but with power to resort thereto in future years.

### **Supplementary Deed**

(FOURTH) The Trustees may from time to time by Deed or Deeds revocable or irrevocable supplement or alter or amend the provisions of the 2012 Deed of Trust 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 PROVIDED always that nothing in this Clause shall authorise or be deemed to authorise any departure from or modification of the objects declared in Clause (SECOND) hereof or the application of any part of the Trust Fund or the income thereof for any purpose which is not a purpose charitable in law.

### **Trustees' Powers**

The Trustees shall have the fullest powers of administration and management of the Trust Fund as if they were absolute owners thereof and beneficially entitled thereto, and in particular and without prejudice to these general powers the Trustees shall have the powers specified in the Schedule of Powers annexed and executed as relative hereto, such powers to be exercised or not exercised as the Trustees may decide in their sole and absolute discretion at any time and from time to time provided always that no power vested in the Trustees hereunder shall be exercised in such manner that the Trust Fund or the income thereof or any part thereof shall be held, paid or applied other than for purposes charitable in law.

### **Apportionments**

All interest, dividends, rents and other periodical payments of income received by the Trustees after the date of these presents shall be regarded as wholly income of the Trust Fund and that without reference to the periods in respect of which the same are earned or paid and that notwithstanding the provisions of any Statutes dealing with apportionments and similarly on the sale or realisation of any part of the Trust Fund by the Trustees or on the purchase or acquisition by them of any other property heritable or moveable, real or personal, the whole of the proceeds of sale or realisation shall be treated as capital and all the interest, dividends, rents and others received subsequent to such purchase or acquisition shall be treated as income, there being no



apportionment of such proceeds or interest, dividends, rents and others as between capital and income.

#### **Persons transacting with Trustees**

Purchasers, tenants, debtors and others transacting with the Trustees shall be nowise concerned with the application of the sums to be paid by them to the Trustees or with any of the conditions and provisions contained in these presents nor shall they be entitled to notice or to enquire whether these sums be applied or not towards the uses and purposes of the trust but they shall be sufficiently exonerated and discharged by the conveyances, discharges or other writings to be granted by the Trustees or by any factor, attorney, solicitor, accountant, stockbroker or agent duly authorised by them.

#### **Finality of discretionary powers**

Whenever it shall be necessary in connection with the affairs of the trust hereby created for the Trustees to exercise any discretionary power whatever decision or resolution they may act upon shall be final and binding on all parties interested either directly or indirectly and the actings of the Trustees shall not be liable to be called in question upon any ground whatever except fraud.

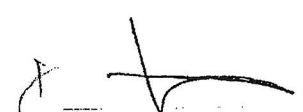

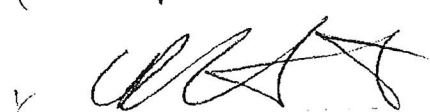
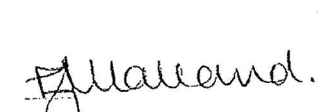

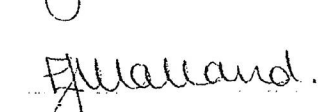
#### **Trustees' Immunity**

The Trustees shall not be in any way liable for any loss suffered as a result of the exercise of any of the powers given to them by these presents or for any fall in value of or for the validity and sufficiency of investments, securities and others held by them or on their account whether made or retained by the Trustees or for omissions or for neglect in their management or for one another or for factors, attorneys, solicitors, accountants, stockbrokers, agents or others appointed or employed by them except that they were habit and repute responsible at the time of

their appointment or employment but each for his or her own actual personal intrusions only.

**Irrevocability**

And we declare these presents to be irrevocable: IN WITNESS WHEREOF these presents typewritten on this and the preceding six pages together with the Schedule of Powers and Schedule of Governance Arrangements annexed were executed for and on behalf of the Trustees of Shetland Charitable Trust conform to a Power of Attorney by Malcolm John Bell and Others as Trustees aforesaid dated Fourth July and subsequent dates and registered in the Books of Council and Session on Sixth August both months in the year Two thousand and twelve as follows:- they were signed by William Andrew Ratter (subscribing "D Ratter") at Lerwick on the Thirteenth day of September Two thousand and Twelve in the presence of Simon Aeneas Mackintosh, Princes Exchange, 1 Earl Grey Street, Edinburgh, they were signed by Robert Walter Hunter (subscribing "R Hunter") at Lerwick on the Fourteenth day of the said last mentioned month and year in the presence of Edna Joy Mainland, 22-24 North Road, Lerwick, Shetland and they were signed by David Alexander Sandison (subscribing "D Sandison") at Lerwick on the said last mentioned date in the presence of the said Edna Joy Mainland.

|   |    |  |
|---|----|--|
|  | DR | <br>Simon A. Mackintosh<br>witness |
|  | RH | <br>Edna Joy Mainland<br>witness   |
|  | DS | <br>Edna Joy Mainland<br>witness   |

This is the SCHEDULE OF POWERS  
referred to in the 2012 DEED of TRUST  
dated 13TH AND 14TH SEPTEMBER 2012

**To hold original assets or to sell**

1. To hold any assets heritable or moveable, real or personal, which are transferred by the 2012 Deed of Trust or which may subsequently be made over to the Trustees or to sell the same and reinvest the proceeds.

**To invest**

2. To invest the Trust Fund in the purchase or on the security of such heritable or real property including rights under Leases, corporeal or incorporeal moveables, investments, stocks, shares (including ordinary stocks and shares and including partly-paid shares), deposits and securities, real or personal (including bonds or securities payable to bearer) whether within the United Kingdom or abroad as the Trustees shall in their sole discretion think fit, it being our intention that the Trustees shall not be restricted to the class of investments authorised by law to Trustees but shall have as full and ample powers of investment as if they themselves were absolute owners of the Trust Fund and beneficially entitled thereto.

**To enter into Conservation Agreements**

3. To enter into Conservation Agreements for the better preservation of the Trust Fund or any part thereof.

**To create Advisory Councils or Committees**

4. To create, should the Trustees so desire, an Advisory Council or Councils or Committee or Committees to act along with them and/or advise them on any or all of the objects of the Trust provided always that the creation, constitution, membership and continuance

of any such Advisory Council or Committee or the individual membership thereof shall be entirely at the discretion of the Trustees.

**To use nominees**

5. To have registered in the names of a nominee all or any part of parts of the Trust Fund and to pay reasonable fees to such nominee.

**To distinguish between capital and income**

6. To decide what money represents capital and what represents income of the Trust Fund and the proportion in which the expenses of the Trust are to be charged against capital and income respectively, notwithstanding any rule of law or practice to the contrary, and all similar questions which may arise in relation to the trust.

**To repair and improve**

7. To expend both capital and income of the Trust Fund as shall appear to the Trustees necessary or desirable to be expended from time to time in insuring, putting and keeping in good repair and replacing any heritable or real property (including without prejudice to the generality buildings, fences, drains, ditches, roads, plantations and others) corporal moveables and other effects forming part of the Trust Fund and in erecting any additional buildings or making any additional fences, drains, ditches, roads or plantations or executing any other works of any kind on such heritable or real property which they may consider necessary or desirable and in keeping up the offices, gardens and other grounds of and the game and fishings on any such heritable or real property.

**To cut woods and to plant**

8. To thin or cut down woods or plantations forming part of the Trust Fund and to sell or dispose thereof as the Trustees shall judge necessary or desirable and to plant timber.

**To pay taxes, etc**

9. To expend both capital and income of the Trust Fund –

- (a) for payment of all duties, rates, taxes, parochial burdens and other charges affecting or payable out of any property forming part of the Trust Fund, and
- (b) for any purposes which the Trustees shall judge to be necessary or desirable for the administration, management, cultivation, letting, working, maintenance or improving of the Trust Fund or of any part thereof.

**To deal with minerals**

- 10. To deal with minerals and mineral substances forming part of the Trust Fund either by themselves or in association with another or others and that in such way or ways as the Trustees may think fit provided always that this power is exercised in furtherance only of the terms and purposes of this Trust and that no part of the income or capital of the Trust Fund shall be applied otherwise than for purposes charitable in law.

**To grant allowances to tenants**

- 11. To grant to tenants such allowances as the Trustees shall think fit in respect of expenditure made or undertaken by such tenants for improvements or repairs on their houses, farms, farm buildings or other possessions or on any other account which the Trustees may think proper.

**To carry on businesses**

- 12. To begin or carry on or join or concur in the beginning or carrying on of any business or businesses where such business or businesses would be in furtherance of the terms and purposes of this Trust provided always that no part of the capital or income of the Trust Fund shall be applied in the exercise of this power otherwise than for purposes charitable in law.

**To promote companies**

- 13. To promote or concur in the incorporation, flotation or reconstruction or amalgamation of any company where such company would be in furtherance of the terms and purposes

of this Trust provided always that no part of the capital or income of the Trust Fund shall be applied in exercise of this power otherwise than for purposes charitable in law.

**To grant proxies**

14. To grant proxies in favour of one or more of the Trustees or any other person or persons to attend, act and vote for the Trustees at all meetings of any company, corporation, trust or undertaking or in any bankruptcy proceedings in which the Trustees may be interested as shareholders, stockholders, debenture holders, creditors or otherwise or at any class meeting of shareholders, stockholders, debenture holders or creditors of such company, corporation, trust, undertaking or bankruptcy.

**To settle claims**

15. To settle all disputed claims competent to or against the Trust Fund.

**To borrow money**

16. To borrow money either on the security of the Trust Fund or without security and pay or apply the monies so raised in any manner in which money forming part of the capital of the Trust Fund may be paid or applied.

**To appoint agents, etc**

17. To appoint one or more of the Trustees or any other person or persons to be factors, solicitors, accountants, stockbrokers or agents for executing and carrying into effect the powers and purposes of the Trust or any of them with or without cautioners for their intromissions and to allow to such factors, attorneys, solicitors, accountants, stockbrokers or agents for their trouble their usual professional charges or if they are not members of a profession such fees as are proper and reasonable as also to employ such specialist and clerical assistance as may be required for the proper and efficient administration and management of the Trust Fund.

**To pay expenses**


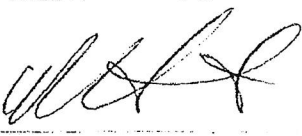
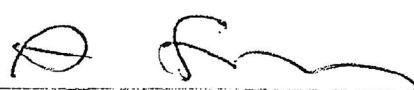
18. To reimburse the Trustees out of the Trust Fund for all expenses reasonably incurred by them in connection with the administration of the Trust without in any way prejudicing their rights, privileges and immunities as gratuitous trustees including the right to resign.

**To Delegate**

19. To delegate in any way and to any extent to any person or persons, committee or committees, company or authority whatsoever the exercise of any of the powers conferred on the Trustees herein or by law.

**To exercise powers conferred on Trustees by Statute**

20. In so far as more ample powers are not given by these presents the Trustees shall have the powers conferred on trustees by the Trusts (Scotland) Acts 1921 and 1961 and by any Acts amending the same relating to trustees in Scotland (which powers shall not be held to be at variance with the terms and purposes of this Trust).
21. To renounce irrevocably in whole or in part at any time and from time to time any power given to the Trustees by this Schedule.

  
-----  
  
-----  
  
-----

This is the SCHEDULE OF  
GOVERNANCE ARRANGEMENTS  
referred to in the 2012 DEED of TRUST  
dated 13TH AND 14TH SEPTEMBER 2012

## 1 Definitions:-

In this Schedule of Governance Arrangements:-

“Appointed Trustee” means a trustee appointed or re-appointed by the Trustees under Paragraph 4 and shall include the First Appointed Trustees 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;

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

“Councillor Trustee” means a Councillor appointed or re-appointed under Paragraph 5 and shall include the First Councillor Trustees unless the context requires otherwise;

“Existing Trustees” means the granters of the 2012 Deed of Trust and their successors;

“Effective Date” means such date as shall be determined by the Existing Trustees and shall be not later than 31st March 2013 and in the event of no determination by the Existing Trustees, 31st March 2013;

“First Appointed Trustee” and “First Councillor Trustee” means a trustee appointed as such under Paragraph 9;

“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 Appointed Trustees the term of office from the date of appointment until retiral as specified in Paragraph 4(c) and for Councillor Trustees the term of office from the date of appointment until retiral as specified in Paragraph 5(b);



“Trustees” includes Appointed Trustees, First Appointed Trustees, Councillor Trustees and First Councillor Trustees and references to Trustees shall include the Existing Trustees and the Remaining *ex officio* Trustees as defined in sub-paragraph 9(c)(i) unless the context requires otherwise;

## 2 Trustees

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.

## 3 Number and Body of Trustees

Subject to the provisions of Paragraph 9 relating to the transition to the new governance arrangements:-

- (a) The Trustees shall normally be fifteen in number and any vacancy shall be promptly filled.
- (b) The body of Trustees shall be made up of seven Councillor Trustees and eight Appointed Trustees.
- (c) Notwithstanding any vacancy in the number of Trustees at all times there shall be deemed to be a full complement of Trustees.
- (d) 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 Appointed Trustees

- (a) The Trustees shall, on the recommendation of the Selection Panel, appoint Appointed Trustees.
- (b) Subject to sub-paragraph (c) below, Appointed Trustees shall serve a Term and shall be eligible for re-appointment for one further Term thereafter.
- (c)
  - (i) One half of the First Appointed Trustees appointed under Paragraph 9(a)(i) shall retire on 30th November, 2014 and the remaining one half shall retire on 31st May 2019.
  - (ii) Appointed Trustees appointed on the retiral of the First Appointed Trustees due to retire on 30th November 2014 shall retire on 31st May 2019.
  - (iii) Appointed 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 Appointed 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 Appointed 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 retirement.

- (e) No Councillor may be an Appointed Trustee and in the event that any Appointed Trustee, during his Term is elected as a Councillor, he will demit office as an Appointed 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 six of whom at least three must be Appointed 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 Appointed Trustees.
- (b)
  - (i) The Selection Panel established in relation to the selection of individuals for appointment as the First Appointed Trustees shall comprise an independent Chair appointed by the Trustees but who shall not be a Trustee of the Trust and two existing Trustees at least one of whom must not be a Councillor.
  - (ii) Thereafter, the Selection Panel so established shall comprise an independent Chair appointed by the Trustees but who shall not be a Trustee of the Trust and two Trustees at least one of whom must be an Appointed Trustee.


## 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

- (a) In advance of the Effective Date:-
  - (i) The Existing Trustees shall appoint the First Appointed Trustees; and
  - (ii) Shetland Islands Council shall appoint the First Councillor Trustees.
- (b) Subject to sub-paragraphs (c) and (d) below, as at the Effective Date:-
  - (i) All Existing Trustees shall demit office;

- (ii) The First Appointed Trustees shall take up office;
  - (iii) The First Councillor Trustees shall take up office; and
  - (iv) All *ex officio* appointments shall cease to operate.
- (c) If, as at the Effective Date, the number of First Appointed Trustees appointed under sub-paragraph (a)(i) above is less than eight then, as and from the Effective Date:-
- (i) the *ex officio* appointments of the Head Teacher of the Anderson High School, Lerwick and the Lord Lieutenant of Shetland ("the Remaining *ex officio* Trustees") shall continue and shall be treated as Trustees of the Trust for all purposes other than for calculating the total number of First Appointed Trustees;
  - (ii) the power to appoint First Appointed Trustees conferred on the Existing Trustees in terms of sub-paragraph (a)(i) above shall rest with the Remaining *ex officio* Trustees and First Appointed Trustees, if any, appointed by the Existing Trustees under sub-paragraph (a)(i) above;
  - (iii) on the date the eighth First Appointed Trustee takes up office, the Remaining *ex officio* Trustees shall demit office and the *ex officio* appointments of the Remaining *ex officio* Trustees shall cease to operate; and
  - (iv) until such time as the Remaining *ex officio* Trustees demit office they shall, other than for calculating the number of First Appointed Trustees, be treated as Appointed Trustees for all purposes and further, until such time as the Remaining *ex officio* Trustees demit office, the number of Trustees referred to in paragraph 3 of this Schedule may be temporarily increased to sixteen to allow the operation of the provisions of this Schedule.
- (d) If, as at the Effective Date, the number of First Councillor Trustees appointed under sub-paragraph (a)(ii) above is less than seven then, as and from the Effective Date, such First Councillor Trustees appointed in terms of sub-paragraph (a)(ii) above shall take up office.
- (e) Subject to the terms of this Schedule, Existing Trustees are eligible for appointment as Trustees and such Trustees will be deemed not to have served any prior Term for the purposes of this Schedule.



**Deed of Trust**

by

**Malcolm John Bell and Others  
as Trustees of Shetland Charitable  
Trust  
(Scottish Registered Charity SC027025)**

---

2012  
KJP/SAM S0608.003

**TURCAN CONNELL**  
LEGAL • WEALTH MANAGEMENT • TAX

PRINCES EXCHANGE, 1 EARL GREY STREET, EDINBURGH, EH3 9EE  
Telephone 0131 228 8111 Fax 0131 228 8118  
DX 723300 Edinburgh 43 LP 1 Edinburgh 14  
E-mail [enquiries@turcanconnell.com](mailto:enquiries@turcanconnell.com) [www.turcanconnell.com](http://www.turcanconnell.com)

