

Shetland Charitable Trust

**Trustees' report and consolidated
financial statements**

Charity number SC027025

31 March 2019

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Chair's Introduction

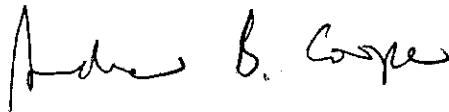
The Trust has had a positive year. Change continues to be a theme of each year now. Bobby Hunter, our long serving Chair has retired from the Trust. He has been a sure guide through the rapid evolution of the Trust in the past few years, and has played a major role in putting the Trust in the strong position it is in today.

We also lost a number of other, very experienced Trustees, who made an immense contribution during their time on the Board. However, our strong governance principles and dedicated staff have ensured that the underlying work of the Trust goes on as before. We have been successful in recruiting new Trustees with considerable experience in various fields that will bring valuable expertise to our deliberations.

The Trust is in a strong financial position despite the troubles of the world, and this reflects the excellent investment decisions made in the sure hands of the Investment Advisory Committee chair and members. We are now in a position to review our strategic plans, with a focus on a new disbursement plan, which we hope to start implementing in the coming year.

Two major changes this year were the sale of Shetland Leasing and Property (SLAP) to Shetland Islands Council and a resolution of the position of the Trust in Viking Energy. The SLAP sale was a mutually beneficial deal to both parties. The new agreement between Viking Energy Shetland and SSE is a recognition of the commercial reality of developing the project, and should ensure a reasonable return on the Trust's investment, if the project does go ahead.

Our work as Trustees is supported by a small but high calibre staff team. Their commitment is reflected in the achievement of Healthy Working Lives Gold Award and the Walk to Work Award. As incoming Chair my position has been made much easier by the support of the new Vice- Chair. Thanks too to Chairs of the advisory committees, Trustees and staff.



A B Cooper
Chair

12 September 2019

Trustees' Report

Section 1: Reference and Administrative Details

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

Selected

R W Hunter, Chair (demitted 31 May 2019)	K Harrison (appointed 1 June 2019)
A B Cooper, Vice Chair (appointed Chair 6 June 2019)	R C Leask (appointed 1 June 2019)
T Macintyre (demitted 31 May 2019)	R M Leask (appointed 1 June 2019)
P Malcolmson (demitted 31 May 2019)	R C Leith (appointed 1 June 2019)
K I Massey (demitted 31 May 2019)	E Miller(appointed 1 June 2019)
I R Napier	A J Ockendon (appointed 1 June 2019)
J L B Smith (demitted 31 May 2019)	
G Hay (resigned 31 May 2019)	
W A Ratter (resigned 12 August 2019)	
M I Roberts (appointed Vice Chair 6 June 2019)	
J Garriock	
Y Hopkins	

Chief Executive Dr Ann Black

Bankers Bank of Scotland
117 Commercial Street
Lerwick
ZE1 0DL

Auditor KPMG LLP
319 St Vincent Street
Glasgow
G2 5AS

Solicitors -

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

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

Schroders Property Managers
1 London Wall Place
London
EC2Y 5AU

Trustees' Report *(continued)*

Section 1: Reference and Administrative Details (continued)

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

Section 2: Structure, Governance and Management

Governing Document

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

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

Charitable Status

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

Trustees – Appointment, Induction and Training

The Trust is made up of twelve appointed Trustees recommended by a selection panel and appointed by the Trustees.

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

Management and Administration

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

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

Trustees' Report *(continued)*

Minutes

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

Subsidiary Companies

The Trust had four wholly owned subsidiary companies at the start of the financial year. Shetland Leasing and Property Development Limited was sold on 23 October 2018. The following are the directors of the companies:

Shetland Leasing and Property Developments Limited (SLAP) Michael Thomson – Chair (resigned 23 October 2018)
William Manson (resigned 23 October 2018)
Brian Anderson (resigned 23 October 2018)
Colin Clark (resigned 23 October 2018)

Shetland Heat Energy and Power Limited (SHEAP) James Armitage – Chair
Allan Wishart
Simon Collins (resigned 25 October 2018)
Derek Leask
Garry Tait (resigned 31 January 2019)
Wendy Grant (appointed 15 June 2018)

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

C. T. Shetland (TM) Limited Keith Massey (resigned 31 May 2019)
Jolene Garriock (appointed 1 June 2019)

SCT Renewables Limited has a 90% interest in Viking Energy Shetland LLP 'the Shetland Partner' in the Viking Energy Partnership.

SCT Renewables Limited James Smith (resigned 31 May 2019)
Ian Napier (appointed 1 June 2019)

Risk Management

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

As a result of this review, a new Risk Management Assessment was presented to Trustees on 28 February 2019. The five strategic key risks are:

No.	Risk	Current Risk Level	Lead Committee
1	Governance	Amber	Audit & Governance Advisory Committee
2	Reputational	Amber	General Purposes Advisory Committee
3	Investment	Amber	Investment Advisory Committee
4	Disbursement	Green	General Purposes Advisory Committee
5	Strategic Direction	Amber	General Purposes Advisory Committee

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

Trustees' Report *(continued)*

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

Disclosure of information to auditor

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

Section 3: Objectives and Activities

Priorities

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

- support services to people in need
- support services for the elderly
- support services for children and young people
- contribute to maintaining and developing Shetland's environment

Strategic Partnerships

The Trust is a 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 seeks to enhance the quality of life and 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.

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

Grant Making Policy

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

Financial Objectives

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

In 2015, Trustees approved a new Financial Plan to run from 1 April 2016 to 31 March 2020. The aim of this plan is to reduce the expenditure of the Trust to £8.5 million by 2020. Following the Investment Strategy review implemented in 2016, this was revised to £9.0 million by 2019/20 to reflect the increase in fund management costs. It was felt that the maximum expenditure of £11 million in the previous financial plan did not allow the Trust to be sustainable. A budget of £9 million has been set for the year to 31 March 2020 in line with the Financial Plan.

Trustees' Report (continued)

Section 3: Objectives and Activities (continued)

Budgets

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

Section 4: Achievements and Performance

During the year to 31 March 2019, the Trust provided grant assistance to the following organisations towards the cost of providing a range of social, leisure, cultural, heritage and environmental activities:

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

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

The Trust has worked with the organisations funded to develop a system of service performance reporting. Trustees considered a progress report on service performance in September 2018, which set out, in detail, how the Trust's money makes a difference to people and communities. On the whole, Trustees were satisfied that most organisations were performing satisfactorily against their stated targets, and there were no significant areas of concern.

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

- Arts Grant Aid Scheme
- Senior Citizen's Clubs

Over the years, the Trust has invested in a range of community facilities and equipment. The facilities and assets include:

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

Details of the activities and performance of the Trust's subsidiary companies are provided in Section 5 of this report. In summary, SLAP and SHEAP generated profits for the Trust in 2018/19. The rental from the land at the Sullom Voe terminal also made a contribution.

Trustees' Report *(continued)*

Section 4: Achievements and Performance *(continued)*

Charitable Expenditure

	2018/19 budget £	Actual spend to 31 March 2019 £	2018 spend £
Grants over £0.5m			
Shetland Amenity Trust	1,189,045	1,189,045	1,235,102
Shetland Arts Development Agency	633,974	633,974	664,426
Shetland Recreational Trust	3,082,989	3,082,989	3,193,176
Support to Rural Care Model	2,091,516	2,091,516	2,196,844
Other Revenue Grants			
Disability Shetland Recreation Club	12,641	12,641	12,641
The Swan Trust	17,913	17,913	35,825
Shetland Churches Council Trust	13,501	13,501	27,002
Shetland Befriending Scheme	54,418	54,418	54,418
Citizens Advice Bureau	132,265	132,265	132,265
COPE Limited	154,967	154,967	154,967
Shetland Link Up	47,994	47,994	47,994
Voluntary Action Shetland	144,361	144,361	144,361
Festival Grants	7,500	7,500	15,000
Shetland Samaritans	4,000	4,000	4,000
Dunrossness Inter-Church Fellowship	7,552	7,552	7,552
Buses for Elderly and Disabled	44,358	44,358	46,232
Royal Voluntary Service	46,985	46,985	46,985
Sub Total Organisations	7,685,979	7,685,979	8,018,790
	2018/19 budget £	Actual spend to 31 March 2019 £	2018 spend £
Schemes			
Arts Grant Scheme	20,000	7,798	8,008
Senior Citizen's Clubs	15,000	7,975	7,600
Sub Total Schemes	35,000	15,773	15,608
Surplus Grants Refunded	-	(2,858)	(1,346)
Sub-total charitable expenditure	7,720,979	7,698,894	8,033,052
Trust Administration, including governance costs	649,753	563,101	511,843
Total	8,370,732	8,261,995	8,544,895

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

Trustees' Report (continued)

Section 5: Financial Review

Growth and Unrestricted Funds

The Trust relies chiefly on funds generated by investments on the world's markets. Around £29 million was generated in 2018/19. This includes growth in value of the investments as well as dividend income received. In 2018/19, around £4.1 million income was derived from investments in Shetland, valued at around £12 million. These included investments in SLAP, the land at Sullom Voe Terminal and the District Heating Scheme infrastructure. SLAP was sold by the Trust on 23 October 2018, realising £17.3 million in sale proceeds and £3.35 million in gift aid.

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 2019) of the Trust's reserves that are invested to generate income (i.e. not the 'Donated Properties') is around £294 million (2018 - £251 million). For the current year, this includes £12.3m of funds held within cash at bank that will be included in the investment portfolio later this year. Trustees seek to minimise risk through diversification within its investments and take advice, as appropriate, in determining the mix of asset types in its investments. None of the Trust's funds are for restricted purposes. Trustees are free to determine how to apply their Unrestricted Reserves in a manner consistent with the Trust objectives and in line with its Budget Strategy.

Investments

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

- Shares and other securities quoted on the world markets
- UK Property
- Cash on deposit
- Subsidiary companies

2018/19 was a good year for investment returns, achieving total returns of £29 million (about 11.5%).

Stock Exchanges and Property Portfolios

As at 31 March 2019, four fund managers managed the Trust's Stock Exchanges and Property portfolios. BlackRock Global Investors manage around £84.4 million invested in passive equities (shares), Baillie Gifford & Co. manage around £127.6 million invested in active equities (shares), Insight Investment manage around £29.0 million in a diversified growth fund, and Schroders Property Managers manage around £41.4 million in commercial property.

Cash on Deposit

The Trust has access to the money markets for the investment of cash deposits.

Subsidiary Companies

Shetland Leasing and Property Developments Limited (SLAP) was a wholly owned subsidiary of the Trust. SLAP was sold on 23 October 2018. The Board of Directors resolved to make a gift aid payment of £3.35 million to the Trust for the period to 23 October 2018.

Shetland Heat Energy and Power Limited (SHEAP) is a wholly owned subsidiary of the Trust, set up to operate the Lerwick District Heating Scheme. SHEAP has over 1200 customers receiving heat and it generated income of over £2.5 million in 2018/19. SHEAP recorded a small profit in 2018/19, but no gift aid payment will be made to the Trust in the financial year 2018/19.

SCT Renewables Limited is a 100% owned subsidiary of the Trust. The Trust has invested £10.0 million at 31 March 2019. Viking Energy Shetland LLP is a 90% owned subsidiary of SCT Renewables Limited. It is a partner 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.

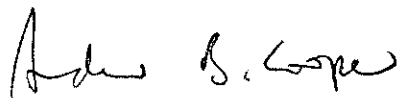
The Trust's investment strategy is based on 75% in shares (37.5% actively managed and 37.5% managed passively), 15% in property and 10% in a diversified portfolio of assets. The investment strategy was implemented in 2016/17 and seeks to maintain diversification whilst increasing average returns in the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

Section 6: Plans For The Future

The Trust is currently concentrating on its strategy for 2020 to 2025. The Strategy 2020–2025 and Financial Plan 2020 -2025 have been developed and formal approval will be sought during 2019/20.

The Strategy 2020-2025, sets out the Trust's ambition, objectives and priorities for the period. The Financial Plan seeks to maintain the Trust's long term financial strategy. That is to use the average investment growth above inflation on the Trust's reserves to support annual expenditure, and so to be able to pass on the reserves preserved against inflation to future generations

A B Cooper
Chair



12 September 2019

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the recommendations of the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- state whether the financial statements comply with the trust deed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the charity or to cease operations, or have no realistic alternative but to do so.

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

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



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

Opinion

We have audited the financial statements of Shetland Charitable Trust ("the charity") for the year ended 31 March 2019 which comprise the Consolidated statement of financial activities, Trust statement of financial activities, Consolidated balance sheet, Trust balance sheet, Consolidated cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the charity's affairs as at 31 March 2019 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 accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion

We 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.

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the trustees and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The trustees have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the charity or to cease their operations, and as they have concluded that the group and charity's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the trustees' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and charity's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the charity will continue in operation.

Other information

The trustees are responsible for the other information, which comprises the Trustees' Annual Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. We are required to report to you if:

- based solely on that work, we have identified material misstatements in the other information; or
- in our opinion, the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements.

We have nothing to report in these respects.

Matters on which we are required to report by exception

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

- the charity has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Trustees' responsibilities

As explained more fully in their statement set out on page 10, the trustees are responsible for: the preparation of financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the charity's 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.



Bruce Marks

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

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

319 St Vincent Street,

Glasgow

G2 5AS

16 September 2019

Consolidated statement of financial activities for the year ended 31 March 2019

	Note	Unrestricted funds					2018		Total £000
		2019		Discontinuing General funds £000	Total £000	Continuing	Discontinuing		
		Continuing General funds £000	Expendable endowment £000						
Income and endowments from									
Other trading activities	7	2,626	-	1,160	3,786	2,608	2,321	4,929	
Investments		3,517	-	-	3,517	3,387	-	3,387	
Rental income		775	-	-	775	757	-	757	
Other income		67	-	-	67	15	-	15	
Total income and endowments		6,985	-	1,160	8,145	6,767	2,321	9,088	
Expenditure on									
Expenditure on raising funds	7	(2,585)	-	(432)	(3,017)	(2,805)	(846)	(3,651)	
Investment Management		(1,049)	-	-	(1,049)	(938)	-	(938)	
Provision made against equity investment	7	3	-	-	3	-	-	-	
Charitable activities	2	(8,338)	(75)	-	(8,413)	(8,791)	-	(8,791)	
Total expenditure		(11,969)	(75)	(432)	(12,476)	(12,534)	(846)	(13,380)	
Net gains on investments	13	-	25,371	36	25,407	23,558	-	23,558	
Net income/(expenditure)		(4,984)	25,296	764	21,076	17,791	1,475	19,266	
Other recognised gains and losses									
Actuarial (losses)/gains in defined benefit pension scheme	18	(235)	-	-	(235)	354	-	354	
Net movement in funds		(5,219)	25,296	764	20,841	18,145	1,475	19,620	
Fund balances brought forward	13, 14	(14,861)	303,434	-	288,573	268,953	-	268,953	
Fund balances carried forward		(20,080)	328,730	764	309,414	287,098	1,475	288,573	

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

The notes on pages 18 to 35 form a part of the financial statements.

Trust statement of financial activities
for the year ended 31 March 2019

	Note	Unrestricted funds			2018.	
		2019		Total	Continuing	Total
		Continuing				
General funds £000	Expendable endowment £000	£000	£000	£000	£000	
Income and endowments from						
Income from investments		3,517	-	3,517	3,387	3,387
Other trading activities (Gift Aid receipts from subsidiary undertakings)	7	3,354	-	3,354	2,083	2,083
Rental income		775	-	775	757	757
Other income		64	-	64	5	5
Total income and endowments		7,710	-	7,710	6,232	6,232
Expenditure on						
Expenditure on raising funds		(1,049)	-	(1,049)	(938)	(938)
Provision made against equity investment	7	(36)	-	(36)	(111)	(111)
Charitable activities	2	(8,338)	(75)	(8,413)	(8,791)	(8,791)
Total expenditure		(9,423)	(75)	(9,498)	(9,840)	(9,840)
Gains on disposal and investment assets	4,13	1,557	25,371	26,928	23,558	23,558
Net income/(expenditure)		(156)	25,296	25,140	19,950	19,950
Other recognised (losses)/gains						
Actuarial losses in defined benefit pension scheme	18	(235)	-	(235)	354	354
Net movement in funds		(391)	25,296	24,905	20,304	20,304
Total funds brought forward	13,14	(19,015)	303,434	284,419	264,115	264,115
Fund balances carried forward		(19,406)	328,730	309,324	284,419	284,419


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

The notes on pages 18 to 35 form a part of the financial statements.

Consolidated balance sheet
as at 31 March 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Fixed assets					
Tangible assets	5		4,857		22,181
Investments	6	281,958		251,374	
Programme-related investments	7, 8	6,662		5,521	
			<u>288,620</u>		<u>256,895</u>
Total fixed assets			<u>293,477</u>		<u>279,076</u>
Current assets					
Stocks		43		32	
Debtors	9	1,119		1,905	
Cash at bank and in hand	10	19,279		11,763	
			<u>20,441</u>		<u>13,700</u>
Total current assets		<u>20,441</u>		<u>13,700</u>	
Creditors: amounts falling due within one year	11	<u>(1,687)</u>		<u>(1,781)</u>	
Net current assets			<u>18,754</u>		<u>11,919</u>
Total assets less current liabilities			<u>312,231</u>		<u>290,995</u>
Provisions for liabilities and charges	12		<u>(13)</u>		<u>-</u>
Net assets excluding pension liability			<u>312,218</u>		<u>290,995</u>
Pension liability	18		<u>(1,972)</u>		<u>(1,661)</u>
Net assets including pension liability			<u>310,246</u>		<u>289,334</u>
Represented by:					
Expendable endowment	13		328,730		303,434
Unrestricted income funds:	14				
General funds			(17,434)		(17,354)
Trading funds			90		3,743
Revaluation reserve			-		411
			<u>(17,344)</u>		<u>(13,200)</u>
Unrestricted income funds excluding pension reserve			<u>(17,344)</u>		<u>(13,200)</u>
Pension reserve	14		<u>(1,972)</u>		<u>(1,661)</u>
Total unrestricted income funds	14		<u>(19,316)</u>		<u>(14,861)</u>
Non-controlling interest			832		761
Group funds attributable to the Charity			<u>309,414</u>		<u>288,573</u>
Total group funds			<u>310,246</u>		<u>289,334</u>

These financial statements were approved by the trustees on 12 September 2019 and were signed on their behalf by:

A B Cooper  Chair
R C Leask  Trustee

The notes on pages 18 to 35 form a part of these financial statements.

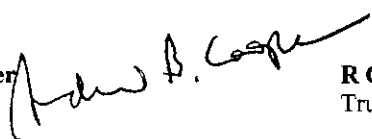
Trust balance sheet

as at 31 March 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Fixed assets					
Tangible assets	5		248		323
Investments	5, 6	281,958		251,374	
Programme-related investments	7, 8	12,509		27,478	
			<u>294,467</u>		<u>278,852</u>
Total fixed assets			294,715		279,175
Current assets					
Debtors	9	410		2,895	
Cash at bank and in hand		16,617		4,335	
			<u>17,027</u>	<u>7,230</u>	
Total current assets		17,027		7,230	
Creditors: amounts falling due within one year	11	446		(325)	
			<u>16,581</u>	<u>6,905</u>	
Net current assets			16,581	6,905	
Net assets excluding pension liability			311,296	286,080	
Pension liability	18		(1,972)	(1,661)	
			<u>309,324</u>	<u>284,419</u>	
Net assets including pension liability			309,324	284,419	
Represented by:					
Expendable endowment	13		328,730		303,434
Unrestricted income funds:					
General funds	14		(17,434)		(17,354)
Pension reserve	14		(1,972)		(1,661)
			<u>(19,406)</u>	<u>(19,015)</u>	
Total unrestricted income funds	14		(19,406)	(19,015)	
			<u>309,324</u>	<u>284,419</u>	
Total Trust funds			309,324	284,419	

These financial statements were approved by the trustees on 11 September 2019 and were signed on their behalf by:

A B Cooper
Chair



R C Leask
Trustee



The notes on pages 18 to 35 form a part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2019

Cash flows from operating activities	<i>Note</i>	2019	2018
		£000	£000
Net outgoing resources before other recognised gains and losses		(4,219)	(4,292)
<i>Adjustments for:</i>			
Investment income and interest receivable		3,517	(3,387)
Depreciation and impairment of tangible fixed assets	5	577	994
Movement in pension liability, excluding actuarial gains and losses	18	76	76
Realised (losses)/gains on managed fund investments	6	(23,387)	(20,727)
Gains/(losses) on investment assets		25,371	23,558
Movement in agricultural loans	8	108	26
(Increase)/Decrease in stock		(11)	9
(Increase)/Decrease in debtors	9	786	(804)
(Decrease)/Increase in creditors	11	(94)	144
Decrease in provisions	12	13	(2)
		<hr/>	<hr/>
Net cash flow from operating activities		2,737	(4,405)
		<hr/>	<hr/>
Cash flow from investment activities			
Purchase of managed funds investments	6	(28,300)	(3,231)
Purchase of tangible fixed assets	5	(388)	(386)
Purchase of shares within joint venture	7	(1,250)	(125)
Sale of managed funds investments	6	20,106	4,615
Gain on sale of discontinued operations		17,130	-
Net movement in cash flows attributable to managed fund Investments	6	998	(843)
Consolidation of Viking Energy Shetland LLP		-	2,449
		<hr/>	<hr/>
Net cash flow from investing activities		8,296	2,479
		<hr/>	<hr/>
Cash flow from financing activities			
Investment income and interest received		(3,517)	3,387
		<hr/>	<hr/>
Net cash flow from financing activities		(3,517)	3,387
		<hr/>	<hr/>
Net increase in cash and cash equivalents		7,516	1,461
Cash and cash equivalents at 1 April	10	11,763	10,302
		<hr/>	<hr/>
Cash and cash equivalents at 31 March	10	19,279	11,763
		<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies

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

1.1 *Basis of preparation*

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

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

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

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

Judgements made by the trustees, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 20. The charity's business activities, together with the factors likely to affect its future development, performance and position are set out in the Trustee's Report on pages 8 to 9. The financial position of the charity, its cash flows, liquidity position and borrowing facilities are described in the Trustee's Report on pages 15 to 17. In addition, pages 8 to 9 of the financial statements include the charity's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The charity has considerable financial resources together with long-term investments with a number of fund managers across different geographic areas and industries. As a consequence, the Trustees believe that the charity is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Trustees have a reasonable expectation that the charity has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.2 *Basis of consolidation*

These financial statements consolidate the assets and liabilities of the charity and its subsidiaries, Shetland Leasing and Property Developments Limited, Shetland Heat Energy and Power Limited, SCT Renewables Limited (formerly known as Viking Energy Limited) and Viking Energy Shetland LLP, on a line by line basis. The income and expenditure of these subsidiaries are also consolidated on a line by line basis, where appropriate. Shetland Leasing and Property Developments Limited was sold on 23 October 2018. The income and expenditure for the company is consolidated to this date.

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

1.3 *Fund accounting*

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

Notes (continued)

1 Accounting policies (continued)

1.3 Fund accounting (continued)

The trading funds represent the accumulated results of Shetland Leasing and Property Developments Limited (to 23 October 2018), Shetland Heat Energy and Power Limited, SCT Renewables Limited and Viking Energy Shetland LLP, adjusted to remove interest payable by the Trust to those companies and gift aid payments to the Trust by those companies.

1.4 Income and endowments from other trading activities and rental income

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

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

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

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

Investments

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

1.5 Expenditure

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

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

Cost of generating funds

The cost of generating funds represents fund managers' fees.

Governance costs

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

1.6 Basic financial instruments

Trade and other debtors/creditors

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

Notes (continued)

1 Accounting policies (continued)

1.6 Basic financial instruments (continued)

Investments in preference and ordinary shares

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

Cash and cash equivalents

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

1.7 Grants

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

1.8 Discontinued operations

Discontinued operations are components of the group that have been disposed of at the reporting date and previously represented a separate major line of business or geographical area of operation or were subsidiaries acquired exclusively with a view to resale.

They are included in the statement of financial activities in a separate column for the current and comparative periods, including the gain or loss on sale or impairment loss on abandonment.

1.8 Investments

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

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

1.9 Tangible fixed assets and depreciation

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

1.9 Tangible fixed assets and depreciation (continued)

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

1.10 Investment properties

The Trust hold no investment properties following the sale of Shetland Leasing Property and Developments Limited.

1.11 Taxation

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

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

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

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

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

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

1.12 Employee benefits

Defined benefit plans

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

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

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

Notes (continued)

1 Accounting policies (continued)

1.12 Employee benefits (continued)

Defined benefit plans

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

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

1.13 Stock

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

1.14 Cash and cash equivalents

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

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

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

Charitable activities

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

	2019 £000	2018 £000
General funds		
Payments to charitable organisations	7,686	8,019
Schemes	16	15
Charitable grants repaid	(3)	(1)
	<hr/>	<hr/>
Total charitable grants	7,699	8,033
Support costs, including governance costs (below)	563	512
Pension adjustments	76	76
	<hr/>	<hr/>
Total charitable expenditure – general funds	8,338	8,621
	<hr/>	<hr/>
Expendable endowment		
Depreciation	75	170
	<hr/>	<hr/>
Total resources expended on charitable activities	8,413	8,791
	<hr/> <hr/>	<hr/> <hr/>

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

Support costs

Support costs for the year of £423,000 (2018: £409,000) principally represent administration expenses and are all deemed to be attributable to the group's charitable activities. Included within administration expenses is £250,369 (2018: £241,081) in respect of staff costs (see note 3), of which nil (2018: £nil) was charged to subsidiaries.

Notes (continued)

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

Governance costs

Governance costs totalling £140,000 (2018: £103,000) comprise the costs associated with the Trust's compliance with charity regulation and good practice. They include £31,000 (2018: £29,000) representing an appropriate apportionment of salary costs based on the proportion of the Chief Executives time spent on governance, together with Trustees' expenses (note 3), and audit fees (note 2) of £26,000 (2018: £27,000).

	Group and charity	
	Total 2019 £000	Total 2018 £000
Allocation of staff and support costs, including Trustees' allowance and expenses (see note 3)	31	29
Other costs	83	47
External auditor's remuneration:		
Audit of these financial statements	26	27
Audit of subsidiary undertakings (excluded from charitable governance costs)	14	13
Other services: taxation in relation to subsidiary undertakings	9	8
Total governance costs	163	124

3 Staff numbers and costs

The group had an average of 15 employees during the year (2018: 17). The aggregate payroll cost of these employees was as follows:

	2019 £000	2018 £000
Wages and salaries	613	649
Social security costs	63	62
Pension costs	69	69
	745	780

Employee costs totalling nil (2018: £nil) were charged by Shetland Charitable Trust in respect of work performed by its subsidiary companies. Eight employees worked wholly or mainly on Shetland Heat Energy and Powers Limited's activities during the year. One employee worked part-time on SCT Renewables Limited's activities during the year. One employee worked part-time on Shetland Leasing and Property Developments Limited. Two employees worked wholly or mainly on Viking Energy Shetland LLP during the year.

Two employees (2018: one) received emoluments totalling between £80,000 and £89,999. Retirement benefits are accruing to these members of staff under a defined benefit pension scheme; contributions in 2018/19 totalled £20,566. One employee received emoluments totalling in excess of £60,000 in the current or previous financial year.

Included above are the emoluments paid to key management personnel comprising 5 employees totalling £376,853 (2018: 5 employees totalling £346,314) including £34,333 (2018: £33,561) in social security costs and £38,005 (2018: £29,257) in pension contributions.

Expenses totalling £2,605 (2018: £2,715) were reimbursed or paid on behalf of 3 trustees (2018: 4 trustees) during the year.

Notes (continued)

4 Disposal of business

Disposal of business in the current period

Shetland Leasing and Property Development Limited has been disposed of in the year and has been classified as a discontinued operation. Shetland Charitable Trust made a gain on this disposal of £1,557,000.

5 Tangible fixed assets

Group	Land and buildings £000	District heating scheme infrastructure £000	Investment properties £000	Vessel and aircraft £000	Other plant, machinery and AUC £000	Total £000
<i>Cost or valuation</i>						
At beginning of year	11,411	3,989	18,724	865	1,884	36,873
Additions	-	-	85	-	304	389
Disposals	-	-	(18,809)	(865)	(11)	(19,685)
At end of year	11,411	3,989	-	-	2,177	17,577
<i>Depreciation</i>						
At beginning of year	11,088	247	1,689	588	1,081	16,025
Charge for year	75	133	261	17	107	593
Disposals	-	-	(1,950)	(605)	(11)	(2,566)
At end of year	11,163	380	-	-	1,177	12,720
<i>Net book value</i>	248	3,609	-	-	1,000	4,857
At 31 March 2019						
At 31 March 2018	323	3,742	17,035	277	804	22,181

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

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

Notes (continued)

5 Tangible fixed assets (continued)

Charity

	Land and buildings £000	Donated Assets £000	Total £000
<i>Cost</i>			
At beginning and end of year	2,252	9,159	11,411
<i>Depreciation</i>			
At beginning of year	1,952	9,136	11,088
Charge for year	75	-	75
At end of year	2,027	9,136	11,163
<i>Net book value</i>			
At 31 March 2019	225	23	248
At 31 March 2018	300	23	323

6 Managed funds

Group and Charity	2019 Market Value £000	2019 Cost £000	2018 Market Value £000	2018 Cost £000
UK equities	25,349	22,818	41,045	37,591
Overseas equities	186,586	113,479	148,128	97,622
Diversified Investment Fund units	28,951	26,702	23,514	22,002
Property units	39,650	31,131	36,299	28,749
	280,536	194,130	248,986	185,964
Total investments	280,536	194,130	248,986	185,964
Cash on deposit and in hand	1,422	1,417	2,389	2,387
	281,958	195,547	251,375	188,351

Notes *(continued)*

6 **Managed funds** *(continued)*

	2019 £000	2018 £000
<i>Reconciliation of market value of investments</i>		
Market value at beginning of year	251,375	231,189
Investments purchased	28,300	3,231
Investments sold	(20,106)	(4,615)
Total realised gains on managed fund investments	23,387	20,727
Movement in investment managers' cash balances, accrued income and expenses	(998)	843
	281,958	251,374

As at 31 March 2019, the Trust's funds other than programme-related investments are managed by Insight Investment Management, BlackRock Global Investors, Baillie Gifford & Co. and Schroders Property Managers. The split of the portfolio between the investment managers is as follows:

	2019 Market value £000	2019 Cost £000	2018 Market value £000	2018 Cost £000
Insight Investment Management	28,951	26,702	23,514	22,002
BlackRock Global Investors	84,357	55,798	81,205	55,069
Baillie Gifford	127,590	80,511	107,983	80,160
Schroders Property Managers	41,060	32,536	38,673	31,120
	281,958	195,547	251,375	188,351

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

	Group		Charity	
	2019 £000	2018 £000	2019 £000	2018 £000
Equity (below)	6,638	5,389	12,485	27,346
Loans (note 8)	24	132	24	132
	6,662	5,521	12,509	27,478

Notes (continued)

7 Programme-related investments (continued)

Equity – Group	Shares in subsidiary undertakings £000	Total £000
<i>Cost</i>		
At beginning of year	6,720	6,720
Effect of Consolidation	-	-
Additions	1,250	1,250
	<hr/>	<hr/>
Cost at end of year	7,970	7,970
	<hr/>	<hr/>
<i>Provisions</i>		
At beginning of year	(1,332)	(1,332)
Effect of Consolidation	-	-
Provided in year	-	-
	<hr/>	<hr/>
Provisions at end of year	(1,332)	(1,332)
	<hr/>	<hr/>
<i>Net book value</i>	6,638	6,638
At 31 March 2019	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2018	5,389	5,389
	<hr/> <hr/>	<hr/> <hr/>

Equity – Charity	Investments in subsidiary undertakings £000
<i>Cost</i>	
At beginning of year	29,841
Additions	675
Disposals	(15,500)
	<hr/>
Cost at end of year	15,016
	<hr/>
<i>Provisions</i>	
At beginning of year	2,495
Provided in year	36
	<hr/>
Provisions at end of year	2,531
	<hr/>
<i>Net book value</i>	12,485
At 31 March 2019	<hr/> <hr/>
At 31 March 2018	27,346
	<hr/> <hr/>

Notes (continued)

7 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:

	2019 SLAP* £000	2019 SHEAP £000	2019 SCT R £000	2019 VES £000	2019 Total £000	2018 Total £000
Turnover	1,170	2,427	-	199	3,796	4,938
Cost of sales	(86)	(1,300)	-	-	(1,386)	(1,593)
Gross profit	1,084	1,127	-	199	2,410	3,345
Administration expenses	(91)	(1,050)	(5)	(234)	(1,380)	(1,500)
Depreciation on investment properties	(260)	-	-	-	(260)	(564)
Provision made against equity investment	-	-	(31)	-	(31)	(105)
Operating profit/(loss)	733	77	(36)	(35)	739	1,176
Gain/(loss) on disposal of investment properties	4	-	-	-	4	-
Interest receivable and similar income	5	5	-	-	10	5
Profit/(loss) on ordinary activities before taxation	742	82	(36)	(35)	753	1,181
Tax on profit/(loss) on ordinary activities	-	(13)	-	-	(13)	2
Profit/(loss) on ordinary activities after taxation being profit/(loss) for the financial year	742	69	(36)	(35)	740	1,183
Gift aid payment to Shetland Charitable Trust	(3,354)	-	-	-	(3,354)	(2,083)
Retained (loss)/profit for the year after Gift Aid payment	(2,612)	69	(36)	(35)	(2,614)	(900)

*Part Year

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

Notes (continued)

7 Programme-related investments (continued)

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

	2019 Total £000	2018 Total £000
Cost of sales	1,386	1,593
Administration expenses	1,380	1,500
Revaluation of investment properties	-	-
Depreciation on investment properties	260	564
Tax (credit)/charge on profit on ordinary activities	13	(2)
Profit on disposal of investment properties	(4)	-
Interest receivable and similar income	(10)	(5)
	3,025	3,651

Included within the companies' profit/(loss) for the year is a total of £3,353,973 (2018: £2,072,838) payable to the Trust by way of gift aid from SLAP which has been eliminated within the consolidated statement of financial activities.

The assets and liabilities of the subsidiaries were:

	2019 SLAP £000	2019 SHEAP £000	2019 SCT R £000	2019 YES £000	2019 Total £000	2018 Total £000
Tangible fixed assets	-	4,610	-	-	4,610	21,860
Investments	-	-	7,490	6,651	14,141	12,247
Current assets	-	1,693	11	1,710	3,414	8,543
Current liabilities	-	(1,198)	(5)	(38)	(1,241)	(3,531)
Provisions for liabilities and charges	-	(13)	-	-	(13)	-
	-	5,092	7,496	8,323	20,911	39,119
Total net assets						
Called up share capital	-	1,000	10,027	8,323	19,350	33,459
Profit and loss account	-	483	(2,531)	-	(2,048)	1,506
Capital contribution reserve	-	3,609	-	-	3,609	3,743
Revaluation reserve	-	-	-	-	-	411
	-	5,092	7,496	8,323	20,911	39,119
Total reserves						

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

8 Programme-related investments – Loans

	2019 £000	2018 £000
Group and charity		
Agricultural Ten Year Loan Scheme	25	135
Provisions for doubtful debts	(1)	(3)
	24	132

Notes (continued)

9 Debtors

	Group		Charity	
	2019 £000	2018 £000	2019 £000	2018 £000
Trade debtors	513	890	-	2
Amounts owing from subsidiary undertakings	131	36	-	2,073
Prepayments and accrued income	311	253	246	191
Other debtor	-	97	-	-
Programme-related loans	164	629	164	629
	<u>1,119</u>	<u>1,905</u>	<u>410</u>	<u>2,895</u>

10 Cash and cash equivalents

Group	2019 £000	2018 £000
Cash at bank and in hand	<u>19,279</u>	<u>11,763</u>

11 Creditors: amounts falling due within one year

	Group		Charity	
	2019 £000	2018 £000	2019 £000	2018 £000
Trade creditors	298	1,228	57	53
Rents in advance	-	76	-	-
Other tax and social security	50	6	-	-
Other creditors and accruals	1,339	469	389	272
Amounts owing to subsidiary undertakings	-	2	-	-
	<u>1,687</u>	<u>1,781</u>	<u>446</u>	<u>325</u>

12 Provisions for liabilities and charges

Group	Deferred taxation £000
At beginning of year	-
Credit for the year	13
Effect of increased tax rates	-
At end of year	<u>13</u>

The deferred tax liability arising within the Trust's subsidiary companies at the year-end of £13,011 (2018: Nil) is analysed as follows:

Notes (continued)

12 Provisions for liabilities and charges (continued)

Group	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Accelerated capital allowances	-	(2)	13	2	13	-
Net tax (assets) / liabilities	-	(2)	13	2	13	-

13 Expendable endowment

	Group Total £000	Charity Total £000
At beginning of year	303,434	303,434
Outgoing resources	(75)	(75)
Gain in the year	25,371	25,371
At end of year	328,730	328,730

14 Unrestricted income funds

Group	General funds	Trading funds	Pension reserve	Revaluation reserve	Total unrestricted income funds
	£000	£000	£000	£000	£000
At beginning of year	(17,354)	3,743	(1,661)	411	(14,861)
Net movement in funds	(80)	(3,653)	(76)	(411)	(4,220)
Actuarial losses	-	-	(235)	-	(235)
At end of year	(17,434)	90	(1,972)	-	(19,316)

Charity	General funds	Pension reserve	Total unrestricted income funds
	£000	£000	£000
At beginning of year	(17,354)	(1,661)	(19,015)
Net incoming resources before other recognised gains and losses	(80)	(76)	(156)
Actuarial losses	-	(235)	(235)
At end of year	(17,434)	(1,972)	(19,406)

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)*

15 Operating leases

Group

Non-cancellable operating lease rentals are payable as follows:

	2019	2018
	£000	£000
Less than one year	16	15
Between one and five years	59	58
More than five years	204	217
	279	290
	279	290

During the year £17,000 was recognised as an expense in the consolidated statement of financial activities in respect of operating leases (2018: £22,000).

16 Commitments

Capital commitments

SHEAP's contractual commitments to purchase tangible fixed assets at the year-end were £Nil (2018: £Nil).

17 Subsequent Events

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

18 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 2018 and was updated for FRS 102 purposes to 31 March 2019 by a qualified independent actuary.

	2019	2018
	£000	£000
Net pension liability defined benefit obligation	(5,036)	(4,557)
Fair value of plan assets	3,216	3,041
	(1,820)	(1,516)
Unfunded defined benefit obligations	(152)	(145)
	(1,972)	(1,661)
Net pension liability	(1,972)	(1,661)

Notes *(continued)*

18 Pension scheme *(continued)*

Movements in present value of defined benefit obligation:

	2019 £000	2018 £000
At 1 April	4,702	5,341
Current service cost	70	63
Interest cost	126	138
Actuarial losses/(gains)	397	(709)
Contributions by members	15	15
Benefits paid	(122)	(146)
	5,188	4,702
At 31 March	5,188	4,702

Movements in fair value of plan assets:

	2019 £000	2018 £000
At 1 April	3,041	3,402
Expected return on plan assets	81	87
Actuarial gains/(losses)	162	(355)
Contributions by employer	39	38
Contributions by members	15	15
Benefits paid	(122)	(146)
	3,216	3,041
At 31 March	3,216	3,041

Expenditure recognised in the statement of financial activities:

	2019 £000	2018 £000
Current service cost	(70)	(63)
Interest cost	(45)	(51)
	(115)	(114)
Total	(115)	(114)

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

	2019 £000	2018 £000
Charitable activities – support costs	(115)	(114)
	(115)	(114)

Notes *(continued)*

18 Pension scheme *(continued)*

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

	2019 £000	2018 £000
Actuarial (losses)/gains	(397)	709
Return on assets attributed to the Charity excluding interest income	162	(355)
	(235)	354
	(235)	354

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

	2019 Fair value £000	2018 Fair value £000
Equities	2,541	2,402
Corporate bonds	257	274
Property	386	365
Cash	32	-
	3,216	3,041
	3,216	3,041
 Actual return on plan assets	 243	 66

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:

	2019 %	2018 %
Discount rate	2.4	2.7
Future salary increases	3.1	3.02
Inflation / pension increase rate	2.4	2.4
	2.4	2.4
	2.4	2.4

In valuing the liabilities of the pension fund at 31 March 2019, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

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

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

The Trust expects to contribute approximately £33,000 (2018: £32,000) to its defined benefit plans in the next financial year to 31 March 2019.

Notes (continued)

19 Related parties

In the year to 31 March 2019 the SCT Renewables Limited invested £675,000 (2018: £ Nil) in Viking Energy Shetland LLP in which SCT Renewables Limited is a 90% partner.

In the year to 31 March 2019 Shetland Leasing and Property Developments Limited charged Viking Energy Shetland LLP £9,001 (2018: £9,001) in relation to office rental. The transactions were carried out at normal market rates. There was no balance due at 31 March 2019 (2018: £nil).

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

20 Accounting estimates and judgements

Key sources of estimated uncertainty

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

Critical accounting judgements in applying the Company's accounting policies

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

The Trust participates in the Shetland Islands Council Pension Fund which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Trust. In valuing the liabilities of the pension fund and the Trust's share of the scheme assets at 31 March 2019, assumptions have been made. The latest full actuarial valuation was carried out at 31 March 2018 and was updated for FRS 102 purposes to 31 March 2019 by a qualified independent actuary. The assumptions used are consistent with those prescribed for FRS 102.

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

