

# Annual Accounts **2017/18**



**Ze Trans**  
SHEPHERD'S TRANSPORT PARTNERSHIP



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# Management Commentary

## Introduction

The Shetland Transport Partnership (STP) was established by, and exists in accordance with, the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005 made under the Transport (Scotland) Act 2005.

The Scottish Government agreed the change of name to Zetland Transport Partnership with the working name 'ZetTrans' on 20 September 2007.

Following the local elections in May 2017, the current Zetland Transport Partnership membership is:

### Shetland Islands Council Members:

Mr R Thomson (Chair)  
Mr R MacGregor (Vice-Chair)  
Mr A Priest  
Mr D Sandison

### Other Members:

Mr R Roberts (NHS Shetland)  
Mrs R Hunter (HIE Shetland)

### Substitute Members:

Mr S Coutts (Council Member)  
Mr D Simpson (Council Member)

### Observer / Advisers:

Ms S Laurenson (Lerwick Port Authority)  
Mr S Mathieson (Visit Shetland)  
Mr J Smith (Sumburgh Airport Consultative Committee)

### Executive Officers:

**Lead Officer:** Michael Craigie, Executive Manager – Transport Planning, Shetland Islands Council.

**Proper Officer for Finance:** Executive Manager – Finance, Shetland Islands Council (see page 5).

**Secretary and Proper Officer for Legal Proceedings:** Jan Robert Riise, Executive Manager – Governance & Law, Shetland Islands Council.

Prior to the local elections in May 2017, the Zetland Transport Partnership membership consisted of:

### Shetland Islands Council Members:

Mr M Stout (Chair)  
Mr S Coutts (Vice-Chair)  
Mr B Fox  
Mr D Sandison

### Other Members:

Mr I Kinniburgh (NHS Shetland)  
Mrs R Hunter (HIE Shetland)

### Substitute Members:

Mr D Ratter (Council Member)  
Mr G Smith (Council Member)

### Observer / Advisers:

Mr A Steven (Promote Shetland)  
Ms S Laurenson (Lerwick Port Authority)  
Mr S Mathieson (Visit Shetland)  
Mr J Smith (Sumburgh Airport Consultative Committee)

### Executive Officers:

**Lead Officer:** Michael Craigie, Executive Manager – Transport Planning, Shetland Islands Council.

**Proper Officer for Finance:** Jonathan Belford, Executive Manager – Finance, Shetland Islands Council.

**Secretary and Proper Officer for Legal Proceedings:** Jan Robert Riise, Executive Manager – Governance & Law, Shetland Islands Council.

The purpose of the Management Commentary is to present an overview of ZetTrans' financial performance during the year 2017/18 and to help readers understand its financial position at 31 March 2018. In addition, it outlines the main risks and uncertainties facing ZetTrans for the financial year 2018/19 and beyond.

## Background

Zetland Transport Partnership ('ZetTrans' or 'the Partnership') is one of seven Regional Transport Partnerships (RTPs) in Scotland, established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005. ZetTrans is required to develop a transport strategy for Shetland that supports economic well-being, promotes safety, social inclusion, equal opportunity and plans for a sustainable transport system, integrating across boundaries with other partnerships.

It does this by working together with a number of key stakeholders and interested bodies, including Shetland Islands Council, NHS Shetland, Highlands and Islands Enterprise, Transport Scotland, bus operators, airlines and ferry companies. Its role continues to evolve and develop, as do other RTPs, to ensure that both regional and national objectives are sustainable and can be delivered efficiently.

ZetTrans has a duty, under the Community Empowerment (Scotland) Act 2015, to participate, as a Community Planning Partner, in the Shetland Partnership and shares its vision that "Shetland is a place where everyone is able to thrive; living well in strong, resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges." ZetTrans is fully committed to delivering this vision in collaboration with the other Community Partners.

Shetland Islands Council, as the primary funder for ZetTrans, has been working to address an expected funding gap by reducing costs and improving efficiency. To deliver on its obligations as an RTP and address this key financial challenge, ZetTrans is refreshing its Shetland Transport Strategy (STS). Further information on the STS is provided in the next section.

## Strategy and Performance Management

### Revision of the Shetland Transport Strategy

After a decade of operation and in line with many other RTPs, ZetTrans is revisiting and refreshing its Shetland Transport Strategy, to bring it up to date. This incorporates the findings of other studies such as the Shetland Inter-island Transport Study and the Northern Isles Ferry Services STAG study, which aligns it with Shetland's Partnership Plan 2018-2028, currently in progress.

The refresh has comprised of three stages:

**Stage 1 – Review:** An external audit and evaluation was undertaken in 2015 with a view to highlighting the elements that needed to be revisited. This review was overseen by a short-life working group comprising all key stakeholders.

**Stage 2 – Main Issues Report:** The Main Issues Report was approved in June 2017. This identifies items to be addressed in the refreshed STS.

**Stage 3 – Refreshed STS:** The final draft Shetland Transport Strategy Refresh was approved by the Board on 26 June 2018.

The Shetland Transport Strategy and its refresh are presented more comprehensively as a part of the ZetTrans Annual Report 2016-17, which can be viewed here:

<http://www.zettrans.org.uk/aboutus/AnnualReportandAccounts.asp>

### Key Performance Indicators

ZetTrans adopted an agreed range of 40 key performance indicators (KPIs) in September 2016. These statistics relate to a range of transport functions in place in the Shetland Islands, both within the scope of ZetTrans operations and those provided externally. As these continue to be measured and compiled, performance trends over time can be gauged as well as comparisons to similar functions outwith the isles.

The KPIs have been refined to reflect the final version of the refreshed Transport Strategy and of those that relate to ZetTrans activities, there are two financial indicators, as follows:

- **Gross cost of public bus service:**  
The total gross cost of public bus services was £2.560m (first year of reporting).
- **Fare income from public bus service:**  
Total fares income from public bus services was £0.696m (first year of reporting).

For further information on KPIs, please see the ZetTrans Annual Report 2016/17.

## Key Risks and Uncertainties

Key risks associated with the operation of the partnership during the year have been:

- **Westside Mainline maintenance costs:**  
Part of 2017/18 saw ZetTrans operate a single bus service that attracted ongoing and increasingly critical maintenance issues, leading to reduced reliability and frequent periods out of service, requiring the additional cost of providing appropriate cover. This service was contracted out to an external operator from September 2017 and so removing this particular risk.
- **Security of public bus fare income:**  
The contractual agreement with all bus operators' states that passenger fare income is due to pass to ZetTrans. There is a level of uncertainty and a risk of financial exposure associated with not being able to generate a sustainable level of passenger turnover. This will continue at least until the new contracts are due to be in effect as of August 2019.

## ZetTrans Annual Report

Under the Transport (Scotland) Act 2005, ZetTrans is required to produce an annual operational report detailing its overall performance and how this compares to its regional transport strategy and delivery programme. ZetTrans submitted its 2016/17 Annual Report to Transport Scotland in April 2018. A copy can be found at: <http://www.zettrans.org.uk/aboutus/AnnualReportandAccounts.asp>

## Inter-island Transport Study

During 2015/16 and 2016/17 ZetTrans worked in partnership with Shetland Islands Council, the Highlands and Islands Transport Partnership

(HITRANS), Orkney Islands Council and Transport Scotland to undertake a network wide study of inter-island transportation in each of the archipelagos. This has established the Strategic Outline Case to support a "Fair Funding" position in relation to inter-island transport provision.

The Scottish Government provided a one-off settlement of £5m in its 2018/19 budget to Shetland Islands Council to support the provision of inter-island ferry services in Shetland.

Work will continue through 2018/19 to establish continued funding of inter-island ferry services as well as undertaking Outline Business Cases for inter-island air services, the Fair Isle Ferry Service, Whalsay Transport Link and revenue options for the inter-island ferry services network.

This work will contribute to establishing with Scottish Government the short, medium and longer term funding requirements and will cover options for responsibility for inter-island transport services and infrastructure.

## 2018 Northern Isles Ferry Service Contract

On 13 August 2015, the Minister for Transport and Islands announced that the Scottish Government intended to undertake a Scottish Transport Appraisal Guidance (STAG) study into the Northern Isles Ferry Services. The original timescale was to have the study complete by September 2016 to feed into the procurement process for the next Northern Isles Ferry Services contract. However, the Scottish Government extended the study to take into account a ferry fares review and a procurement review. An options appraisal report was published in April 2018 and the Scottish Government have extended the Northern Isles Ferry Services Contract to 31 October 2019. ZetTrans is continuing to engage with Transport Scotland in the finalisation of the STAG Study and the preparation of the Northern Isles Ferry Services Specification and procurement process for the next contract.

## Workforce Management

ZetTrans does not employ staff directly, but instead has a minute of agreement with Shetland Islands Council, who provides services, including staffing resources to ZetTrans.

## Primary Financial Statements

The Annual Accounts for 2017/18 summarise ZetTrans transactions and cash flows for the year and its year-end position as at 31 March 2018. The accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on International Financial Reporting Standards (IFRS), with interpretation appropriate to the public sector and the overriding requirement of the Code is that the annual accounts provide a true and fair view of the financial position and the financial transactions of the Partnership.

A description of the purpose of the primary statements has been included immediately prior to each of the financial statements: the Comprehensive Income and Expenditure Statement (page 12), Balance Sheet (page 13) and Cashflow Statement (page 14).

These three statements are accompanied by notes to the accounts, which set out the accounting policies adopted by the Partnership

The final outturn position compared to the budget for 2017/18 is summarised as follows:

2016/17 Actual £000	Revenue	2017/18 Budget £000	2017/18 Actual £000	2017/18 Variance £000
168	Policy Strategy & Projects	177	185	(8)
1,863	Bus Operations	1,920	1,898	22
<b>2,031</b>	<b>Total Expenditure</b>	<b>2,097</b>	<b>2,083</b>	<b>14</b>
(132)	Scottish Government Grant	(132)	(132)	0
(1,899)	SIC Grant	(1,965)	(1,951)	(14)
<b>(2,031)</b>	<b>Total Income</b>	<b>(2,097)</b>	<b>(2,083)</b>	<b>(14)</b>
<b>0</b>	<b>Net (Surplus)/Deficit for Year</b>	<b>0</b>	<b>0</b>	<b>0</b>

Expenditure is categorised into two main areas:

**Policy, Strategy & Projects (£0.185m)**, which is a £0.017m (10%) increase when compared to 2016/17 (£0.168m).

**Transport Services (£1.898m)**, which is a £0.035m (2%) increase when compared to 2016/17 (£1.863m).

and provide a more detailed analysis of the figures disclosed within them. These statements and notes form the relevant annual accounts for the purpose of the audit report.

No Movement in Reserves Statement has been included because ZetTrans does not hold any reserves.

There is no Remuneration Report included in the accounts, as ZetTrans has no employees. The remuneration of the Chair and Vice-Chair of the Partnership is disclosed in the annual accounts of Shetland Islands Council. No additional remuneration is paid to officers or members for acting on behalf of the Partnership.

## Financial Performance in 2017/18

The Comprehensive Income and Expenditure Statement (CIES, page 12) show that the full economic cost of providing ZetTrans services in 2017/18 was £2.083m. This expenditure was met through grant income from the Scottish Government and Shetland Islands Council, as well as a small amount of interest received on bank balances.

## Comparison of Outturn v Budget

In 2017/18, there was a budget overspend of £0.008m in Policy Strategy & Projects and an underspend of £0.022m in Bus Operations.

Overall, this has resulted in a lower grant requirement than that budgeted at the start of the year from Shetland Islands Council, who are ultimately responsible for providing ZetTrans funding.

## 2018/19 Budget Outlook

The provision of suitable transport arrangements is vital to the people and communities of Shetland and as such, the delivery of reliable and affordable transport solutions is a key priority of ZetTrans. Therefore, the Partnership will continue to pursue a new long-term funding arrangement for the Inter Islands Ferry Services in conjunction with Shetland Islands Council, HITRANS Scottish Government, Transport Scotland and Orkney Islands Council.

The financial climate for the delivery of this is challenging, due to the nature of services, revenue and capital costs associated with funding of operations and replacement costs of the required infrastructure.

The approved gross revenue budget for ZetTrans for 2018/19 is £3.986m, of which £0.230m is for core activities and the implementation of the Regional Transport Strategy and £3.756m is for public transport services in Shetland. It is important to note that ZetTrans has assumed operational responsibility for a larger range of transport functions for the year 2018/19 onwards, including the Inter-Island Air contract and the Foula ferry service. Additional budget of £1.195m is included for 2018/19 in respect of these new services.

The core running costs and implementation of the Regional Transport Strategy work, including the work to access better information on the services being delivered and implementing processes for better performance management, is funded by a grant of £0.132m from Scottish Government and additional funding of £0.097m from Shetland Islands Council.

Transport operations are budgeted to cost £3.756m and are funded by anticipated fare income of £0.712m and a contribution from Shetland Islands Council of £3.044m.

.....  
Hazel Tait CPFA  
Acting Proper Officer for Finance  
Zetland Transport Partnership

21 September 2018

## Proper Officer for Finance

The unaudited annual accounts were signed by the then Proper Officer for Finance, Jonathan Belford, who took up a new post at Aberdeen City Council on 1 September 2018. Jamie Manson has been appointed as the new Proper Officer for Finance and will start on 24 September 2018. In the interim Hazel Tait, as Acting Proper Officer for Finance, has been given delegated authority to sign the audited accounts.

## Acknowledgements

Finally, we would like to acknowledge all the hard work of the officers who have had a role in the preparation of the annual accounts and those who have worked diligently throughout the year in the delivery of ZetTrans objectives.

.....  
Jan Robert Riise LLB (Hons) LEG-Dip  
Secretary & Proper Officer for Legal  
Proceedings  
Zetland Transport Partnership

21 September 2018

# Statement of Responsibilities

## Zetland Transport Partnership's Responsibilities

ZetTrans is required to:

- Make arrangements for the proper administration of its financial affairs, and to ensure that the Proper Officer for Finance has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For Zetland Transport Partnership, that officer is the Executive Manager - Finance of Shetland Islands Council;
- Manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- Ensure that the annual accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as it is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- Approve the annual accounts for signature.

I confirm that these annual accounts were approved for signature by the Partnership at its meeting on 21 September 2018.

Signed on behalf of Zetland Transport Partnership.

.....  
Ryan Thomson  
Chairperson  
Zetland Transport Partnership

21 September 2018

## The Proper Officer for Finance's Responsibilities

The Proper Officer for Finance is responsible for the preparation of the Zetland Transport Partnership's annual accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Proper Officer for Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the legislation; and
- Complied with the local authority Accounting Code (as far as it is compatible with legislation).

The Proper Officer for Finance has also:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Zetland Transport Partnership at the reporting date and the transactions for the year ended 31 March 2018.

.....  
Hazel Tait CPFA  
Acting Proper Officer for Finance  
Zetland Transport Partnership

21 September 2018



# Annual Governance Statement

## Scope of Responsibility

ZetTrans is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this accountability, ZetTrans is responsible for putting in place proper arrangements for the governance of the organisation's affairs, the stewardship of the resources at its disposal and the management of risk. Risk of failure of policies, aims and objectives cannot wholly be eliminated and proper governance arrangements can therefore only provide reasonable, rather than absolute assurance of effectiveness.

## The Governance Framework

ZetTrans is a statutory body established under the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005. ZetTrans' functional responsibilities are defined in The Transfer of Functions to the Shetland Transport Partnership Order 2006. The functions covered and arrangements in place to assess the adequacy of provision of services are matters being considered in conjunction with the review of governance arrangements, referred to below. The overall strategic direction, in terms of setting the priorities for ZetTrans and allocating its resources, rests with the Zetland Transport Partnership.

The governance framework in place is built upon that of Shetland Islands Council, details of which can be found here:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22650>.

The Code of Governance was adopted by the Council on 20 September 2012 and is consistent with the principles of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'. This underpinned the governance framework for the majority of the year, however at its meeting of 22 March 2017, the Council approved a revised Code of Corporate Governance.

The Zetland Transport Partnership is currently undergoing its own governance review with the main purpose to clarify and fully describe its close working relationship with the Shetland Islands

Council. An early outcome of this review was a better understanding of the functional responsibility for the delivery of the public transport services and that functional responsibility for the provision of the air services and certain ferry services lay with ZetTrans. That issue was formally addressed by both ZetTrans and the Council in November 2017. It is expected that any financial changes arising from this will be addressed in financial year 2018/19.

The review will also establish a Planning and Performance Management Framework to underpin the governance arrangements, including a focus on service prioritisation, resource allocation, performance management and securing efficiencies.

The ZetTrans governance review will also consider whether its decision-making process is appropriately supported and challenged and ensure that the audit and scrutiny arrangements and standards within ZetTrans are robust.

It is anticipated that the conclusions and recommendations from this work will be reported to ZetTrans in autumn of 2018.

The financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

## Review of Effectiveness

ZetTrans has a responsibility on an annual basis for reviewing the effectiveness of the governance framework and for ensuring its continued effectiveness and the adequacy of the systems of internal control. The review of effectiveness is informed by:

- progress towards key strategic and service objectives;
- financial and budget monitoring;
- Internal Audit reviews on specific services and on activities which occur across the Council; and
- External Audit and the Accounts Commission observations, comments and recommendations for improvement.

The governance framework can provide only reasonable and not absolute assurance that assets and public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

## Significant issues from 2016/17

As noted in the Management Commentary, staff working for ZetTrans are covered by a number of Shetland Islands Council internal controls, policies and procedures. In 2016/17 it was found by the Council's Internal Audit team that there were weaknesses in the application of some of these policies. The Audit team are satisfied these have been addressed as no evidence was presented to the Council's Audit Committee in February 2018.

As a result of a previous investigation, a number of queries were raised in relation to the recording key performance indicator (KPI) information. In order to address this, ZetTrans have produced their 2016/17 Annual Report, within which a new range of 40 performance indicators have been established and presented in order to measure the organisation's performance now and in the future.

A complete list of all KPI's can be reviewed in the 2016/17 annual report here:  
<http://www.zettrans.org.uk/aboutus/AnnualReportandAccounts.asp>

## Conclusion

Overall, we consider that the governance and internal control environment operating in 2017/18 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

There are no significant issues that are require to be disclosed.

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Jan Robert Riise LLB (Hons) LEG-Dip  
Secretary & Proper Officer for Legal Proceedings  
Zetland Transport Partnership

21 September 2018

.....  
Ryan Thomson  
Chairperson  
Zetland Transport Partnership

21 September 2018

# Independent auditor's report to the members of Zetland Transport Partnership and the Accounts Commission

## Report on the audit of the financial statements

### Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Zetland Transport Partnership for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Balance Sheet, Cashflow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the Zetland Transport Partnership as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Zetland Transport Partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Proper Officer for Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Zetland Transport Partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Responsibilities of the Proper Officer for Finance and Zetland Transport Partnership for the financial statements

As explained more fully in the Statement of Responsibilities, the Proper Officer for Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Proper Officer for Finance determines is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Proper Officer for Finance is responsible for assessing the Zetland Transport Partnership'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 deemed inappropriate.

The Zetland Transport Partnership is responsible for overseeing the financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Other information in the annual accounts

The Proper Officer for Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Report on other requirements

### Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

## Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

.....  
Pat Kenny, CPFA (for and on behalf of Deloitte LLP)  
110 Queen Street,  
Glasgow,  
G1 3BX,  
United Kingdom

21 September 2018

## Primary Financial Statements

### Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

This statement shows the accounting costs of providing services in accordance with generally accepted accounting practices.

These costs are recovered through Scottish Government and Shetland Islands Council grant funding to reach a break-even position.

This funding must be used to meet the running costs of ZetTrans and the implementation of the Regional Transport Strategy in accordance with grant conditions and local authority governance arrangements.

2016/17 Net Expenditure £	Notes	2017/18 Gross Expenditure £	2017/18 Gross Income £	2017/18 Net Expenditure £
167,697	Policy, Strategy & Projects	185,395	0	185,395
1,863,639	Bus Operations	2,573,943	(676,371)	1,897,572
<b>2,031,336</b>	<b>Net Cost of Services</b>	<b>2,759,338</b>	<b>(676,371)</b>	<b>2,082,967</b>
(251)	Financing and Investment Income	0	(300)	(300)
(2,031,085)	Taxation and non-specific grant income 7	0	(2,082,667)	(2,082,667)
<b>0</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>2,759,338</b>	<b>(2,759,338)</b>	<b>0</b>
0	Other Comprehensive Income and Expenditure			0
<b>0</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>0</b>

There are no statutory adjustments affecting the ZetTrans results for the year. The movement in the year is therefore solely due to the transactions shown in the Comprehensive Income and Expenditure Statement. Consequently, an Expenditure and Funding Analysis is not provided in these annual accounts.

## Balance Sheet as at 31 March 2018

This statement shows the value as at 31 March 2018 of the assets and liabilities recognised by ZetTrans.

It should be noted that total assets equal total liabilities in the Balance Sheet. This is because Shetland Islands Council will only cover the net cost of provision of services by ZetTrans, resulting in the net assets of ZetTrans being nil at the year-end. Consequently, ZetTrans does not hold or carry forward any usable reserves as at 31 March 2018.

As at 31 March 2017 (restated) £		Notes	As at 31 March 2018 £
0	Short-term debtors		0
132,001	Cash and cash equivalents	4	191,812
<b>132,001</b>	<b>Current Assets</b>		<b>191,812</b>
(132,001)	Short-term creditors	2	(132,050)
0	Grants received in advance	7	(59,762)
<b>(132,001)</b>	<b>Current Liabilities</b>		<b>(191,812)</b>
<b>0</b>	<b>Net Assets</b>		<b>0</b>

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Hazel Tait CPFA  
Acting Proper Officer for Finance  
Zetland Transport Partnership

21 September 2018

## Cashflow Statement

This statement shows the changes in cash and cash equivalents of the Partnership during the reporting period and how ZetTrans generates and uses cash and cash equivalents.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations are funded by way of taxation and grant income, or from the recipients of services provided.

The Cashflow Statement for 2017/18 has been prepared using the direct method, resulting in presentational changes. This has resulted in the restatement of the 2016/17 figures.

2016/17 (restated) £		2017/18 £
	<b>Cash inflows from Operating Activities</b>	
(265)	Interest received	(300)
(131,750)	Grants	(191,512)
(83,715)	Taxation Due	(86,343)
	<b>Cash outflows from Operating Activities</b>	
132,215	Cash paid to suppliers of goods and services	132,001
83,715	Taxation	86,343
<b>200</b>	<b>Net cash flows from Operating Activities</b>	<b>(59,811)</b>
<b>200</b>	<b>Net movement in cash and cash equivalents</b>	<b>(59,811)</b>
132,201	Cash and cash equivalents at 1 April	132,001
(200)	Net movement in cash and cash equivalents during the year	59,811
<b>132,001</b>	<b>Cash and cash equivalents at 31 March</b>	<b>191,812</b>



## Notes to the Financial Statements

### Note 1: Change in Accounting policy

During the year, the Partnership changed its accounting policy in respect of the treatment of debtors and creditors. ZetTrans previously recorded all income and expenditure as a debtor and a creditor at the year-end. The accounting policy has been amended so that only those amounts that have been incurred by Shetland Islands Council on behalf of the Partnership and which have not been reimbursed at the end of the year are shown as creditors.

Effect on Balance Sheet as at 31 March 2017	As Originally Stated £	As Restated £	Restatement £
Short-term debtors	1,899,335	0	(1,899,335)
Short-term creditors	(2,031,336)	(132,001)	1,899,335

The impact of this voluntary change in accounting policy on the financial statements is to reduce the debtors and associated creditors with the net impact on the Balance Sheet (page 13) being nil.

In addition, the 2017/18 Annual Accounts includes a restated Cashflow Statement (page 14) for the year 2016/17. This reflects a voluntary change in accounting policy to present the Cashflow statement using the direct method for this and future years. In previous periods of the Annual Accounts, the Cashflow statement was prepared using the indirect method, whereby the net income position presented in the CIES is adjusted to demonstrate a cash position as opposed to an accrual position.

For 2017/18, ZetTrans has presented a Cashflow statement using the same method and restated the prior year using the same approach in order to be comparable. The direct method does not use an accruals-based starting position, rather it simply lists and summarises cashflows in order to demonstrate the cash position as at the year-end. This change was made in order to improve the presentation of ZetTrans' funding arrangements and the relationship with its primary funder: the Shetland Islands Council. The impact of this change is purely presentational.

### Note 2: Short-term Creditors

As at 31 March 2017 £		As at 31 March 2018 £
(132,001)	Shetland Islands Council	(191,812)
<b>(132,001)</b>	<b>Total</b>	<b>(191,812)</b>

- IFRS 15: Revenue from Contracts with Customers, including amendments and clarifications;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (not relevant to ZetTrans); and
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

### Note 3: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted.

This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- IFRS 9: Financial Instruments (not relevant to ZetTrans);

The Code requires implementation in the accounts from 1 April 2018 and there is therefore no impact on the 2017/18 financial statements, neither will there be retrospective restatement of the 2017/18 year in next year's accounts upon implementation of the two new relevant standards. Instead, opening balances at 1 April 2018 will be adjusted.

## Note 4: Cash and Cash Equivalents

Cash and Cash Equivalents is comprised of:

As at 31 March 2017 £		As at 31 March 2018 £
132,001	Bank current accounts	191,812
<b>132,001</b>	<b>Total</b>	<b>191,812</b>

## Note 6: External Audit Costs

The Partnership has incurred the following costs in respect of external audit services provided in accordance with the Code of Audit Practice:

2016/17 £		2017/18 £
10,187	Fees payable in respect of external audit services carried out by the appointed auditor for the year	9,913
<b>10,187</b>	<b>Total</b>	<b>9,913</b>

## Note 7: Grant Income

The Partnership credited the following grants, contributions and donations to the CIES in 2017/18:

2016/17 £		2017/18 £
(131,750)	Scottish Government Revenue Expenditure Grant	(131,750)
(1,899,335)	Shetland Islands Council Grant	(1,950,917)
<b>(2,031,085)</b>	<b>Total</b>	<b>(2,082,667)</b>

In addition to this total, a grant of £59,762 was received for 2018/19 that has been carried forward as a grant received in advance.

## Note 8: Related Parties

The Partnership is required to disclose material transactions with related parties, i.e. bodies or individuals that have the potential to control or influence the Partnership or to be controlled or influenced by the Partnership. Disclosure of these transactions allows readers to assess the extent to which the Partnership may have been constrained in its ability to operate independently,

## Note 5: Members' Expenses

The Partnership members do not receive an attendance allowance; however, expenses incurred in the course of carrying out approved duties are reimbursed. ZetTrans paid the following amounts to members during the year:

2016/17 £		2017/18 £
5,073	Members' expenses	3,742
<b>5,073</b>	<b>Total</b>	<b>3,742</b>

or might have secured the ability to limit another party's ability to contract freely with them.

The Scottish Government is responsible for providing the statutory framework within which the Partnership operates. It provides some funding in the form of grants and prescribes the terms of many of the transactions that the Transport Partnership has with other parties.

In 2017/18, the Scottish Government provided £0.132m to fund running costs of the Partnership (£0.132m in 2016/17) as well as a one-off grant of £0.060m in advance of a specific project carried forward into 2018/19.

Shetland Islands Council is responsible for funding the net expenditure of the Partnership under the Transport (Scotland) Act 2005. In 2017/18 the Council provided £1.898m (£1.864m in 2016/17) to fund the delivery of bus service and a further £0.053m (£0.035m in 2016/17) of match funding for core running costs. ZetTrans does not employ its own staff and during 2017/18, Shetland Islands Council charged ZetTrans £0.164m (£0.145m in 2016/17) in respect of staff, supplies and other support services.

## Note 9: Accounting Policies

### A General Principles

The Code specifies the applicable accounting policies for:

- selecting measurement bases for recognising assets, liabilities, gains and losses in the Financial Statements;
- making changes to reserves; and
- the minimum disclosure requirements.

A valid estimation technique can be used to derive the monetary amount to be recognised in the financial statements in such circumstances when the basis of measurement for the monetary amount cannot be applied with certainty.

### B Accounting Conventions and Concepts

The accounting convention adopted in the Financial Statements is historical cost.

The concept of the Partnership as a going concern is based on the premise that sufficient funding will be available to ensure that its functions and services will continue in existence for the foreseeable future.

The concept of materiality derives from the premise that financial statements need not be precisely accurate to represent a true and fair view.

The accounting policies that have a significant effect on the amounts recognised in the financial statements of the Zetland Transport Partnership are summarised below.

### C Accruals of Income and Expenditure

Activity is accounted for in the year in which it takes place, not simply when cash payments are made or received. In particular, income and expenditure in relation to services provided or received is recorded as income or expenditure when the service has been provided, rather than when receipts or payments have been made.

### D Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Partnership and hence credited to the CIES when there is reasonable assurance that the Partnership will comply with any conditions attached to payment of the grants.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet (page 13) as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.

### E Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are made only when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Partnerships financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## F Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the annual accounts are authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period, whereby the Financial Statements are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period, whereby the annual accounts are not adjusted to reflect such events; where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the annual accounts.

## G Value Added Tax

VAT payable is included as an expense only where it is not recoverable from HM Revenue and Customs.