

Audited Annual Accounts **2021/22**



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Management Commentary

Introduction

The Shetland Transport Partnership 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 (ZetTrans minute ref 02/07).

Following the local elections in May 2022, the current Zetland Transport Partnership membership is:

Shetland Islands Council (SIC) Members:

Moraig Lyall (Chairperson)
 Robbie MacGregor (Vice-Chairperson)
 Duncan Anderson
 Liz Peterson

Other Members:

Colin Marsland (NHS Shetland)
 Andrew Gear (Highlands and Islands Enterprise (HIE), appointed 24 June 2021)

Substitute Members:

Alex Armitage (SIC Member)
 Arwed Wenger (SIC Member)

Observer / Advisers:

Callum Grains (Lerwick Port Authority)
 Steve Mathieson (Visit Shetland)
 John Smith (SIC, Director of Infrastructure)

Prior to the local elections in May 2022, the Zetland Transport partnership consisted of:

Shetland Islands Council (SIC) Members:

Ryan Thomson (Chairperson)
 Robbie MacGregor (Vice-Chairperson)
 Alec Priest
 David Sandison

Other Members:

Colin Marsland (NHS Shetland)
 Andrew Gear (HIE, appointed 24 June 2021)

Substitute Members:

Steven Coutts (SIC Member)
 Duncan Anderson (SIC Member)

Observer / Advisers:

Callum Grains (Lerwick Port Authority)
 Steve Mathieson (Visit Shetland)
 John Smith (SIC, Director of Infrastructure)

Executive Officers:

Lead Officer: Michael Craigie, Executive Manager – Transport Planning, SIC.

Proper Officer for Finance: Jamie Manson CPFA

Secretary and Proper Officer for Legal Proceedings: Jan Robert Riise LLB (Hons) LEG-Dip

The purpose of the Management Commentary is to present an overview of ZetTrans' financial performance during the year 2021/22 and to help readers understand its financial position as at 31 March 2022. In addition, it outlines the main risks and uncertainties that ZetTrans is likely to face in the future.

Background

Zetland Transport Partnership is one of seven Regional Transport Partnerships (RTPs) in Scotland, established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005. Under the Transfer of Functions to the Shetland Transport Partnership Order 2006, certain duties and powers relating to public transport were transferred from Shetland Islands Council to ZetTrans.

ZetTrans is required to develop a transport strategy for Shetland that supports economic well-being, safety, social inclusion, equal opportunities, planning for a sustainable transport system, and integration across boundaries with other partnerships.

ZetTrans works together with a number of key stakeholders and interested bodies. These include Shetland Islands Council, NHS Shetland, HIE, Transport Scotland, bus operators, airlines, ferry companies and industry bodies in Shetland. These bodies cover tourism, hauliers, fishing and aquaculture sectors. ZetTrans' role continues to evolve and develop, as do other RTPs, to ensure that both regional and national objectives are sustainable and delivered efficiently.

The Annual Governance Statement summarises the arrangements that ZetTrans has put in place to manage its affairs, and includes a review of how effective those arrangements have been during the year.

ZetTrans has a duty, under the Community Empowerment (Scotland) Act 2015, to participate as a Community Planning Partner in the Shetland Partnership. The Shetland Partnership is made up of wide range of partners and community bodies who work together to deliver our collective ambitions for the future. It is the Community Planning Partnership for Shetland 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.”

Shetland Islands Council, as the primary funder for ZetTrans, continues to face a significant challenge in achieving long-term financial sustainability with an expected cumulative funding gap of £102.8m by 2026/27, as outlined in the latest iteration of the Council’s Medium Term Financial Plan (MTFP). ZetTrans will need to work with the Council to meet future demand for transport with limited financial resources over the next five years.

The Impact of COVID-19

COVID-19 continued to impact many Council activities during 2021/22, including activities relating to ZetTrans. At all times, activity has been managed in accordance with the Scottish Government’s *COVID-19: Scotland’s Strategic Framework* document, which summarised the restrictions and guidance in place through the year.

ZetTrans meetings continued to take place during the year, but hybrid arrangements were used to facilitate attendance in line with the restrictions and public health guidance at the time of the meeting. Limited numbers of members and officers have been able to attend meetings in person at the Town Hall along with members and officers attending remotely. These

arrangements enabled a quorum to be maintained at all meetings and routine business to be conducted throughout the year without any significant or adverse impact on the governance of the Partnership’s activities.

Strategy and Performance Management

National Transport Strategy 2 (NTS2)

ZetTrans continued to embed the NTS2 priorities in the policy development of the Partnership:

- improve our health and wellbeing;
- take climate action;
- reduce inequalities; and
- help deliver inclusive economic growth.

The detail of the NTS2 can be found here:-

<https://www.transport.gov.scot/media/47052/national-transport-strategy.pdf>

COVID-19 continued to have a significant impact on progressing the planning and policy development functions, as the team predominately remained focused on operationally responding to the pandemic. ZetTrans continued to focus on the delivery of the Active Travel Strategy.

Active Travel Strategy

The Shetland Active Travel Strategy was approved by ZetTrans in March 2021 and can be found here: -

<https://www.zettrans.org.uk/about/shetland-active-travel-strategy-2021-2026>

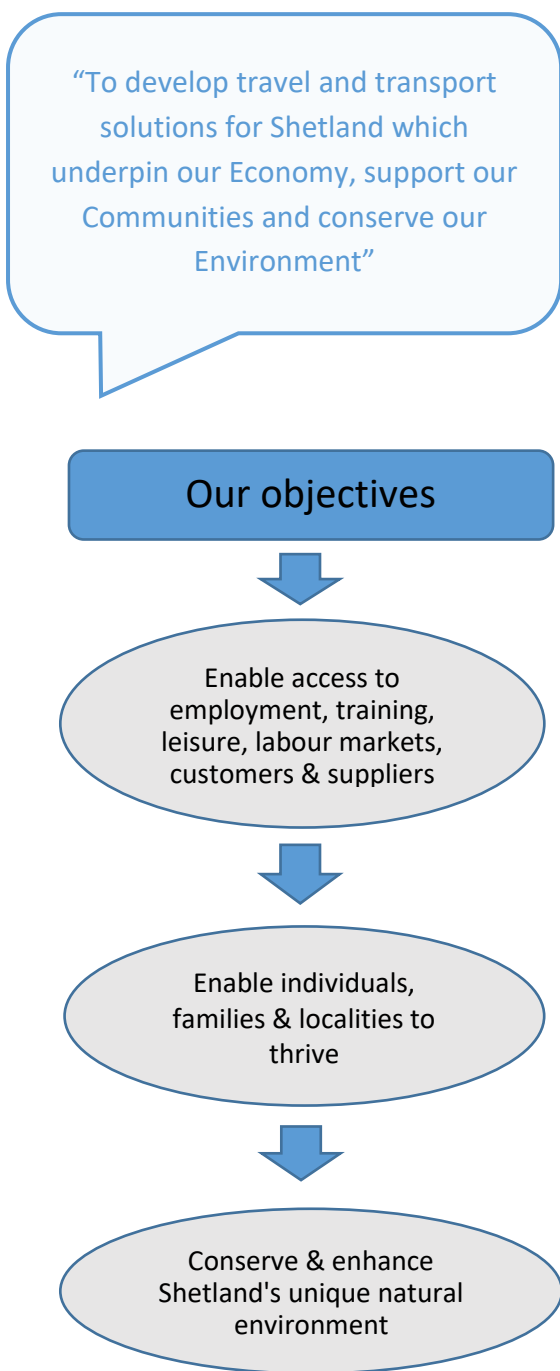
Over the course of 2021/22, work was undertaken to carry out Settlement Audits throughout Shetland with the purpose of identifying candidate projects and interventions to develop a Strategic Outline Programme for investment.

Shetland Regional Transport Strategy (RTS)

The Shetland Regional Transport Strategy Refresh 2018-2028 is presented on the Partnerships website:

<https://www.zettrans.org.uk/about/strategy>

For the duration of 2021/22 the refreshed 2018-2028 RTS has remained the strategic policy context for ZetTrans business. For ease of reference, the objectives of the RTS are set out below:



Resources to support the preparation of the RTS were approved in March 2021 as part of the 2021/22 budget.

Preparation of the next generation Regional Transport Strategy began in June 2021 with the draft Case for Change published for consultation in late March 2022.

The draft Strategy will be presented to ZetTrans for approval to go to statutory consultation in November

2022. The final Strategy will be submitted to the Scottish Ministers for approval in February 2023.

A positive impact of delaying the start of the new RTS is that the changes in society arising from the COVID-19 pandemic can be recognised and provides opportunities for new strategies and policy development in ways that were not necessarily apparent a year ago. Furthermore, the significance of Climate Change and the direction of policy at both UK and Scottish Government level is much clearer and the development of the RTS can benefit from increased understanding in this area. In addition, the ongoing development of Net Zero routes maps by Shetland Islands Council will be highly developed at the time the draft RTS is being prepared.

ZetTrans Annual Report

COVID-19 has continued to have an impact on resources available to carry out key work streams and staff were not able to prioritise work on a 2020/21 Annual Report. It is the intention to submit a three-year report covering 2019/20, 2020/21 and 2021/22 by October 2022.

A copy of the Annual Report that covered the period 2017-19 can be found here:

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

Key Performance Indicators (KPIs)

ZetTrans adopted a range of 40 KPIs in September 2016. These KPIs relate to transport functions in place in Shetland, both within the scope of ZetTrans operations and those managed by others. Further details can be found here:

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24967>

The KPI information, as adopted by the Partnership, has not been updated since 2018/19. Due to the COVID-19 pandemic, it was not possible to update the KPI information for 2021/22, as the team has prioritised the delivery of other services. In addition, the disruption posed by the COVID-19 pandemic and the prolonged principle of ‘stay at home’ as well as a range of other frequently changing COVID-19 control measures impacted on demand and capacity of public transport providers meaning data comparisons across years was not possible. ZetTrans is committed to

publishing KPI information on a regular basis as the service shifts towards recovery and renewal. In this regard, a refreshed set of KPIs will be developed to reflect the new RTS.

The continuing lack of KPI information is reported as a Prior Year Significant Governance issue within the Annual Governance Statement (page 12).

Activities in year

Inter-island Transport – Business Cases

Building on the Shetland Inter-island Transport Study, work continued throughout 2021/22 to complete the Outline Business Cases (OBCs) for the Fair Isle Ferry and the Whalsay Transport Link.

The ongoing impacts of COVID-19 constrained the engagement with communities and progress was much slower than would otherwise have been the case. The Fair Isle Ferry OBC was presented to ZetTrans on 31 May 2021 and Shetland Islands Council on 16 June 2021. The Whalsay Transport Link OBC will now be reported in November 2022.

The Fair Isle Ferry project was the subject to a funding bid to the UK Government Levelling Up Fund in July 2021. However, the bid was unsuccessful. Feedback from the Scotland Office was very positive and a refined bid was submitted in August 2022.

Depending on the conclusions of funding cases presented to the Scottish Government, ZetTrans will have to consider how its obligations in securing public transport under the Transport Act 1985 are fulfilled.

In addition to this ZetTrans continued to work with Shetland Islands Council in engaging in Transport Scotland's Strategic Transport Projects Review 2 (STPR2).

Although, the approach adopted to the definition of what is within the scope of STPR2 led to fixed links and inter-island ferry services in Shetland being scoped out of STPR2, there are some meaningful interventions proposed that will support the economy and wellbeing of Shetland.

The detail of STPR2 can be found here: -

[https://experience.arcgis.com/experience/925294035a8f4ad39248fd0ff47249f6/page/Home/?views=Key-
Stages](https://experience.arcgis.com/experience/925294035a8f4ad39248fd0ff47249f6/page/Home/?views=Key-
Stages)

STPR2 will help deliver the vision, priorities and outcomes as set out in the NTS2 and will align with other national plans, such as the Infrastructure Investment Plan, National Planning Framework (NPF4) and Climate Change Plan. The first phase of STPR2 will identify and make recommendations on transport interventions in the short term, as Scotland deals with the COVID-19 pandemic. The second phase will identify a programme of potential transport investment opportunities for the period 2022-2042.

Public Bus Services

Public bus services continued to see significantly suppressed passenger demand in 2021/22.

The challenge over the course of the year was to maintain sufficient services to meet the passenger demand whilst recognising reduced fares and accommodating passengers on vehicles with substantially reduced capacity due to social distancing regulations.

These conditions were successfully managed with relatively minor impacts on services and costs.

Inter-island Air Services

Air Services continued to operate to Fair Isle and Foula having returned to the contracted schedule of services.


Passenger numbers have recovered steadily across the year seeing a return in the numbers of visitors to the islands. Numbers in Fair Isle are still some way off peak levels prior to COVID-19, which is possibly related to having lost the Fair Isle Bird Observatory (the main source of accommodation) to a fire. It is anticipated that numbers will continue to grow as tourism returns, with early indication of good recovery and even growth.

Northern Isles Ferry Services

ZetTrans has been contributing to work undertaken by Transport Scotland and Caledonian Assets Ltd, exploring options for the replacement of freight vessels on the Northern Isles route. Capacity constraints on current freight and passenger vessels is causing disruption to local stakeholders, particularly as demand continues to increase. ZetTrans continues to provide feedback into the options appraisal process to ensure the needs of the community are adequately reflected in any future service specifications, contracts and investment decisions.


Key Risks

ZetTrans key risks and uncertainties, and associated mitigating actions can be summarised as follows:


 **COVID-19** – The COVID-19 pandemic has required ZetTrans to work closely with Shetland Islands Council in making changes to the delivery of transport services. As the situation evolves, ZetTrans will continue to ensure that services are delivered safely, in line with Scottish Government advice.


In 2021/22, £9k in additional financial support has been passed on by the Council to offset any adverse impact on ZetTrans' income and expenditure, which has ensured that ZetTrans has achieved financial balance in 2021/22.

The Partnership will continue to monitor the impact on operations so it can take remedial action if required to manage any future financial pressures, as specific Scottish Government funding to meet COVID-19 pressures has been discontinued from 2022/23.

 **Financial Pressures** – ZetTrans receives its primary funding from Shetland Islands Council. The Council is not in a financially sustainable position over the medium term, facing an anticipated cumulative budget deficit of £102.8m by 2026/27, with the level of core funding from the Scottish Government expected to reduce in real terms, whilst demand for services increases.

The development of a Medium-Term Financial Plan for ZetTrans has not progressed as anticipated because of delays to key ZetTrans strategies, such as the review of public transport fares and other resourcing pressures. The MTFP will consider the impact of reviews into public transport fares, expected demand for travel in a post-COVID-19 environment, as well as estimating the likely resource requirements over a 5-year period and seeking to set a spending envelope over the period to address wider issues of financial sustainability.

 **Withdrawal from the European Union** – The practicalities of leaving the European Union are still being identified, despite the UK and EU reaching agreement on the Trade and Co-operation Agreement on 24 December 2020 and new arrangements coming into force from 1 January 2021.



Although no specific risks to ZetTrans have been identified, uncertainties remain which may affect ZetTrans in the future. ZetTrans, through the Council, will continue to monitor this, regularly reviewing the position and reporting to members.



Bus Fare Income Security – The two main components of income for ZetTrans are Council funding and bus fare income. Due to the high level of daily transactions, completeness and accuracy of income received from passengers is considered a key risk.

ZetTrans introduced SMART ticketing infrastructure on all its public bus services in March 2019. The introduction of these ticketing machines improved reporting capability, and together with reconciliation and compliance checks, minimises this risk. Monitoring and Finance Officers complete reconciliations regularly to ensure that all reporting information balances.

In addition, the Partnership commenced a review of public transport fares in November 2020. The findings of the review has not yet been published. The outcome of this review may impact on the level of income generated from passenger fares and therefore the level of subsidy provided by the Council.

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, settled on a net basis between the entities, reflecting the level of resources required to deliver ZetTrans' functions.

Looking Ahead

COVID-19: An element of uncertainty remains with regard to COVID-19. Although all legal restrictions were lifted on 21 March 2022, COVID-19 continues to create disruption, as infection levels remain persistent. There is potential for further costs, which ZetTrans will need to manage within its existing 2022/23 budget, as the Scottish Government has allocated no additional funding to Local Authorities from 1 April 2022.

Attempting to predict the likely short and medium-term impact of COVID-19 on ZetTrans' activity and finances is difficult in the face of this uncertainty.

However, the Partnership is monitoring developments and is well-placed to respond to any substantial changes in public health guidance or reintroduction of legal restrictions.

Climate Change: ZetTrans' performance in relation to climate change is incorporated with that of Shetland Islands Council. In January 2020, the Council approved its first Strategic Outline Programme (SOP) detailing activities to facilitate a wider Shetland response to climate change, as well as contributing to the Scottish, UK and international efforts. An [update on the Council's climate change SOP](#) was presented in November 2021 and contains further information about the progress made in achieving the objectives set out in the initial Strategic Outline Programme.

Five Year Outlook - In addition to COVID-19 and climate change, ZetTrans faces a number of significant challenges and uncertainties, many of which were mentioned earlier in this commentary.

Work to develop a MTFP has been delayed, but will recommence once a key review into future public transport fares has been considered in 2022/23. The MTFP will provide the financial framework for the delivery of sustainable transport services across Shetland over a five-year period. The plan will recognise that the primary funder, Shetland Islands Council, anticipates a continued real-terms reduction in core revenue funding following publication of the Scottish Government's Resource Spending Review in May 2022. In addition, the cost of delivering services is increasing, with rising inflation, increased volatility in energy costs and wider supply chain issues, (including availability of raw materials, goods and contracted labour). This creates an acute risk to ZetTrans of being able to maintain service delivery at current levels within the confines of the 2022/23 budget. The financial position is subject to regular monitoring, enabling remedial action to be taken.

The ongoing development of a RTS during 2021/22 should conclude in 2022/23, and will provide a framework that will enable ZetTrans to identify challenges and opportunities arising from COVID-19 and climate change, which can be incorporated into the Partnership's strategic planning over the next twenty-five years. ZetTrans will need to balance competing stakeholder demands, such as from the Shetland Partnership (the outcomes of which ZetTrans is statutorily committed to), any emerging Scottish Government policies and priorities and those of the Shetland Islands Council in the final RTS.

Primary Financial Statements

The Financial Statements for 2021/22 summarise ZetTrans transactions and cash flows for the year and its year-end position as at 31 March 2022. The Financial Statements 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 Financial Statements 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 (CIES), Movement in Reserves Statement (MIRS), Balance Sheet and Cash Flow Statement. These statements are accompanied by notes to the financial statements, which set out the accounting policies adopted and provide a more detailed analysis of the figures disclosed within them. These statements and notes form the relevant Financial Statements for the purpose of the auditor's certificate and opinion.

No Remuneration Report is included, as ZetTrans has no employees, and pays no remuneration. The remuneration of the Chair and Vice-Chair of the Partnership is disclosed in the annual accounts of Shetland Islands Council, which can be found [here](#).

Financial Performance in 2021/22

The CIES presents the full economic cost of providing ZetTrans services in 2021/22. This differs from the outturn position as the CIES includes accounting adjustments required to comply with proper accounting practice. Note 1: Expenditure and Funding Analysis (page 22), reconciles the Surplus on Provision of Services of £0.040m, disclosed in the CIES, to the outturn, used for management decision-making.

The majority of this expenditure was met through grant income from the Scottish Government, Shetland Islands Council, and Sustrans - a charity making it easier for people to walk and cycle. The final revenue outturn position compared to the revised budget for 2021/22 is summarised as follows:

| 2020/21 Actual £ | | 2021/22 Budget £ | 2021/22 Actual £ | 2021/22 Variance £ |
|------------------------|---------------------------------------|------------------------|------------------------|--------------------------|
| 300,916 | Policy, Strategy & Projects | 427,006 | 343,748 | 83,258 |
| 2,185,523 | Transport Services - Bus | 2,141,503 | 2,222,919 | (81,416) |
| 1,053,035 | Transport Services - Air | 973,467 | 947,614 | 25,853 |
| 315,000 | Transport Services - Ferry | 324,966 | 315,000 | 9,966 |
| 3,854,474 | Total Expenditure | 3,866,942 | 3,829,281 | 37,661 |
| (131,750) | Scottish Government Grant | (131,750) | (131,750) | 0 |
| (3,722,718) | SIC Grant | (3,734,727) | (3,697,468) | (37,259) |
| (6) | Bank Interest | (465) | (63) | (402) |
| (3,854,474) | Total Income | (3,866,942) | (3,829,281) | (37,661) |
| | | | | |
| 0 | Net (Surplus)/Deficit for Year | 0 | 0 | 0 |

In 2021/22, ZetTrans spent £0.083m less in Policy, Strategy & Projects and £0.045m more in Transport Services when compared to the revised budget. The favourable outturn variance within Policy Strategy & Projects is mainly due to budgeted for consultancy costs work which only commenced later in the year resulting in lower than expected costs incurred in 2021/22. Within Transport Services, the unfavourable outturn variance is mainly due to reduced bus fare income as compared to budget, an ongoing impact of COVID-19 pandemic. The overall result is an underspend of £0.038m against the revised budget. During the year, the original budget was restructured to help identify the financial impact of COVID-19 therefore £0.163m was re-allocated to a COVID-19 budget line. However as this is a presentational adjustment the overall approved ZetTrans budget is not affected.

Comparison of Current Year Outturn v Prior Year Outturn

Net expenditure is categorised into two main areas:

1. Policy, Strategy & Projects (£0.344m), which is a £0.043m (14.2%), increase when compared to 2020/21 (£0.301m). This is due to increase in transport network redesign project costs of £0.038m and a reduction in external funding to support these projects by £0.020m. Support costs incurred in the year was £0.015m less than in 2020/21.

Sustrans provided £0.054m revenue funding to support the development of the Active Travel Strategy and Spaces for People project with the Transport Scotland providing £0.015m to support development of Demand Responsive Transport.

2. Transport Services (£3.486m), which is a £0.068m (1.9%) decrease when compared to 2020/21 (£3.554m). This is primarily due to no contractual repair charge incurred within Air Services as compared to a £0.105m charge incurred in 2020/21. Bus fare income increased by £0.082m however additional bus contract costs of £0.119m, in part due to the application of contractual indexation, offset this.

2022/23 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.

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.

On 17 February 2022, the Partnership approved the 2022/23 budget. The gross revenue budget is £4.398m, of which £0.304m is for core activities and the implementation of the Regional Transport Strategy and £4.094m is for public transport services in Shetland.

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 £0.172m from Shetland Islands Council. Transport operations are budgeted to cost £4.094m and are funded by anticipated bus fare income of £0.621m and a contribution from Shetland Islands Council of £3.473m. During the budget development and with two years' experience of COVID-19 impacts on operations, in particular bus fare income, it has been estimated that an additional contribution in excess of £0.153m may be required from Shetland Islands Council in 2022/23.

DocuSigned by:

Jamie Manson

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Jamie Manson CPFA
Proper Officer for Finance
Zetland Transport Partnership

29 September 2022

DocuSigned by:

Jan Robert Riise

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

29 September 2022

Statement of Responsibilities


Zetland Transport Partnership's Responsibilities

ZetTrans is required to:

- make arrangements for the proper administration of its financial affairs, and to secure that one of its officers has 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, 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 29 September 2022.

Signed on behalf of Zetland Transport Partnership.

DocuSigned by:

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Moraig Lyall
Chairperson
Zetland Transport Partnership

29 September 2022

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).

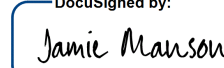
In preparing the annual accounts, the Proper Officer for Finance has:

- 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 2022.

DocuSigned by:

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Jamie Manson CPFA
Proper Officer for Finance
Zetland Transport Partnership

29 September 2022

Annual Governance Statement

Introduction

This Annual Governance Statement explains how the Zetland Transport Partnership, has complied with the principles of the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government*' for the year ended 31 March 2022. The Partnership relies upon the same internal controls, procedures, policies and systems as the Shetland Islands Council in order to deliver its stated functions. The arrangements put in place by the Council apply equally to the activities of the Partnership. This Annual Governance Statement therefore reflects the fact that the Partnership's governance arrangements and systems of internal control mirror the arrangements put in place by the Shetland Islands Council, and concludes on their effectiveness.

Scope of Responsibility

The Partnership is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Partnership has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging these overall responsibilities, the Partnership is responsible for establishing proper arrangements for the governance of its affairs, including the stewardship of resources at its disposal and arrangements for the management of risk.

In practice, as the Council is the sole constituent authority participating in the Partnership, the arrangements put in place by the Partnership mirror the Council's governance arrangements. The Council has a system of internal controls in place designed to manage risk to a reasonable level. Internal controls cannot completely eliminate the risk of failure to achieve strategic priorities and outcomes, but they can provide a reasonable level of assurance.

The system of internal controls is regularly reviewed to identify and prioritise the risks to the achievement of the Council's strategic priorities and outcomes, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Purpose of the Governance Framework

The governance framework consists of the systems, processes, culture and values by which the Council, and therefore the Partnership, is directed and controlled, and the activities used to engage with and lead the community. It enables the Partnership, to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate, cost-effective services.

The Governance Framework

The governance framework adopted by the Council is consistent with the seven core principles of the CIPFA/SOLACE framework illustrated below:

| | |
|----------|---|
| A | <i>Behaving with integrity, demonstrating a strong commitment to ethical values and respecting the rule of law.</i> |
| B | <i>Ensuring openness and comprehensive stakeholder engagement.</i> |
| C | <i>Defining outcomes in terms of sustainable economic, social and environmental benefits.</i> |
| D | <i>Defining the interventions necessary to optimise achievement of intended outcomes.</i> |
| E | <i>Developing the entity's capacity, including the capability of its leadership and the individuals within it.</i> |
| F | <i>Managing risks and performance through robust internal control and strong public financial management.</i> |
| G | <i>Implementing good practices in transparency, reporting and audit to deliver effective accountability.</i> |

The governance framework has been in place for the year ended 31 March 2022 and up to the date of approval of the annual accounts.

The key elements of the governance framework include:

- the legal powers, duties and functions of the Partnership, and roles and responsibilities of the people who take decisions on behalf of the community;
- **Scheme of Administration and Delegations** and the **Minute of Agreement** between the Council and the Partnership, which detail the functions that the Partnership has asked officers to carry out on its behalf, and the conditions they must comply with in doing so;
- **Standing Orders**, which set out the rules around how Partnership meetings are run and decisions are made;
- **Financial Regulations**, setting out how the Partnership manages its financial affairs in accordance with good practice and statute;
- **Contract Standing Orders**, which set out the principles and rules about contracting with other parties;
- the Council's **Performance Management Framework**, which sets out how the Partnership sets its objectives, monitors and reports on its performance against those objectives and identifies areas for improvement;
- **Compliance** with CIPFA codes of practice and the CIPFA Statement on *the Role of the CFO in the Local Government*; and
- A **comprehensive programme of internal audit reviews** across different Council service areas, which provides assurance about the effectiveness of the system of internal controls and identifies areas of improvement.

The Council's suite of governance documents, including the Scheme of Administration and Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance can be found on the Council's [website](#).

A previously planned governance review for Zetland Transport Partnership had been due to conclude by February 2021. This review has been further delayed due to the COVID-19 pandemic. It is intended that the review will now take place in parallel with a wider review of the Council's governance arrangements, which is due to be completed by March 2023.

Review of Effectiveness

The Partnership is responsible for reviewing the effectiveness of the governance framework on an annual basis, and for ensuring the continued effectiveness and 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 functions and on activities which occur across the Council; and
- External Audit 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.

As noted in the Management Commentary, staff providing services to ZetTrans are covered by all relevant Shetland Islands Council internal controls, policies and procedures. Although no specific internal audit opinion has been expressed by internal audit for ZetTrans, the Partnership is satisfied that the internal audit opinion provided to the Council applies equally to the activities of ZetTrans and therefore takes assurance from that audit opinion. The Chief Internal Auditor's opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment, except for some specific issues regarding information security and procurement.

Impact of COVID-19

COVID-19 continued to impact many of the Partnership's activities during 2021/22. At all times, activity has been managed in accordance with the Scottish Government's COVID-19: Scotland's Strategic Framework document, which summarised the restrictions and guidance in place through the year.

Partnership meetings continued to take place during the year, but hybrid arrangements were used to facilitate attendance in line with the restrictions and public health guidance at the time of the meeting. Limited numbers of members and officers have been

able to attend meeting in person at the Town Hall along with members and officers attending remotely. These arrangements enabled a quorum to be maintained at all meetings and routine business to be conducted throughout the year without any significant or adverse impact on the governance of the Partnership's activities.

Significant Governance Issue

A significant governance issue has been identified by the Council's Internal Audit function, which highlighted serious deficiencies in the Councils procurement and commissioning arrangements. There may be potential operational, financial and reputational risks to the Partnership as a result of these weaknesses.

The Council has developed an action plan to address the serious deficiencies identified by Internal Audit. The proposed actions include:

- introduction of supplementary procedures regarding the use of consultants;
- review of the Council's commissioning and procurement framework and Contract standing orders; and
- review and revision of IR35 guidance.

The Council expects to implement the action plan actions by January 2023. This will resolve the potential risks for the Partnership because it relies on the same policies, procedures and systems, and Council staff fulfil the functions of ZetTrans.

Update on Significant Governance issues previously reported

The following table details actions taken to address the significant governance issues reported in the 2020/21 Annual Governance Statement.

| Prior Year Significant Governance Issue | Responsible Officer | Action taken | Current Status and further action required |
|--|---------------------|---|---|
| The lack of KPI information significantly limits the ability of the Partnership to demonstrate accountability through open and transparent reporting. | Lead Officer | Draft KPIs are being developed alongside the Regional Transport Strategy 2022 to 2024 development process. | Ongoing Draft KPIs will be published in November 2022. |
| The Partnership has not published its Annual Report on an annual basis since 2016/17. Instead, an 'Annual Report' covering both 2017/18 and 2018/19 was published in September 2019. | Lead Officer | Now that the impacts and challenges of COVID are relatively less demanding, available resources will be prioritised to prepare and report a three-year annual report. | Ongoing The Partnership intends to publish a three-year report covering financial years 2019/20, 2020/21 and 2021/22 by October 2022. |

Conclusion

Overall, we consider that the governance and internal control environment operating in 2021/22 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.

DocuSigned by:

Jan Robert Riise

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

29 September 2022

DocuSigned by:

Moraig Lyall

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Moraig Lyall
Chairperson
Zetland Transport Partnership

29 September 2022

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

Reporting 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 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, and any other disclosures presented as financial statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of affairs of the body as at 31 March 2022 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 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)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is 6 years. We are independent of the body 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. Non-audit services prohibited by the Ethical Standard were not provided to the body. 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, we report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

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 body'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 there is an intention to discontinue the body's operations.

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 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 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 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. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- considering the nature of the body's control environment and reviewing the body's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired with management, internal audit and those charged with governance about their own identification and assessment of the risks of irregularities;
- obtaining an understanding of the applicable legal and regulatory framework and how the body is complying with that framework;
- identifying which laws and regulations are significant in the context of the body;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the body operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. This included the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005 made under the Transport (Scotland) Act 2005.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the body's ability to operate or to avoid a material penalty. These included the Data Protection Act 2018 and relevant employment legislation.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of the performing the above, we identified the greatest potential for fraud was in relation to the requirement to operate within the approved budget. The risk is that the expenditure in relation to year-end transactions may be subject to potential manipulation in an attempt to align with its tolerance target or achieve a breakeven position. In response to this risk, we obtained independent confirmation of the agreed contributions from Shetland Islands Council and, tested a sample of accruals, prepayments and invoices received around the year-end to assess whether they have been recorded in the correct period.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and internal legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

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

Other information

The Proper Officer for Finance is responsible for other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

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;
- there has been a failure to achieve a prescribed financial objective.

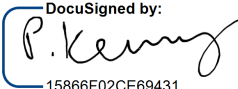
We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

DocuSigned by:

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

29 September 2022

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2022

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by grants or other income. The Partnership receives funding to cover expenditure in accordance with regulations; this may be different from the accounting cost.

| 2020/21 Net Expenditure £ | Notes | 2021/22 Gross Expenditure £ | 2021/22 Gross Income £ | 2021/22 Net Expenditure £ |
|------------------------------------|--|--------------------------------------|---------------------------------|------------------------------------|
| 300,916 | Policy, Strategy & Projects | 416,717 | (68,985) | 347,732 |
| 2,185,523 | Transport Services - Bus | 2,746,392 | (523,473) | 2,222,919 |
| 1,053,035 | Transport Services - Air | 947,614 | 0 | 947,614 |
| 315,000 | Transport Services - Ferry | 315,000 | 0 | 315,000 |
| 3,854,474 | Cost of Services | 4,425,723 | (592,458) | 3,833,265 |
| (6) | Financing & Investment Income | 1 | (64) | (63) |
| (3,894,308) | Taxation & Non-specific Grant Income 6 | 0 | (3,873,660) | (3,873,660) |
| (39,840) | (Surplus) or Deficit on Provision of Services | 4,425,724 | (4,466,182) | (40,458) |
| 0 | Other Comprehensive (Income) and Expenditure | | | 0 |
| (39,840) | Total Comprehensive (Income) and Expenditure | | | (40,458) |

Movement in Reserves Statement

This statement shows the movement in the year on different reserves held by the Partnership, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other 'unusable reserves'. The statement shows how the movements in year of the Partnership's reserves are broken down between gains and losses incurred in accordance with generally accepted practices and the statutory adjustments required to return to the amounts chargeable to the General Fund. The net decrease line shows the statutory General Fund balance in the year following those adjustments.

| 2021/22 | Usable Reserves £ | Unusable Reserves £ | Total Reserves £ |
|---|----------------------|------------------------|---------------------|
| Balance at 1 April 2021 | 0 | (39,840) | (39,840) |
| Movement in reserves during the year: | | | |
| Total comprehensive income and expenditure | (40,458) | 0 | (40,458) |
| Adjustments between accounting basis and funding basis per regulations (Note 5) | 40,458 | (40,458) | 0 |
| Decrease in year | 0 | (40,458) | (40,458) |
| | | | |
| Balance at 31 March 2022 | 0 | (80,298) | (80,298) |

| 2020/21 | Usable Reserves £ | Unusable Reserves £ | Total Reserves £ |
|---|----------------------|------------------------|---------------------|
| Balance at 1 April 2020 | 0 | 0 | 0 |
| Movement in reserves during the year: | | | |
| Total comprehensive income and expenditure | (39,840) | 0 | (39,840) |
| Adjustments between accounting basis and funding basis per regulations (Note 5) | 39,840 | (39,840) | 0 |
| Decrease in year | 0 | (39,840) | (39,840) |
| | | | |
| Balance at 31 March 2021 | 0 | (39,840) | (39,840) |

Balance Sheet as at 31 March 2022


This statement shows the value as at 31 March 2022 of the assets and liabilities recognised by the Partnership. The net assets of the partnership (assets less liabilities) are matched by reserves held by the Partnership.

Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Partnership may use to provide services, subject to any statutory limitation on their use. The second category of reserves is those that the partnership is not able to use to provide services. This category of reserves includes those that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provided services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

| As at 31 March 2021 | | Notes | As at 31 March 2022 |
|------------------------|--------------------------------------|-------|------------------------|
| £ | | | £ |
| 39,840 | Property, Plant and Equipment | 8 | 80,298 |
| 39,840 | Long-Term Assets | | 80,298 |
| 149,347 | Short-term debtors | 10 | 138,145 |
| 0 | Cash & cash equivalents | 9 | 0 |
| 149,347 | Current Assets | | 138,145 |
| (149,347) | Short-term creditors | 11 | (111,955) |
| 0 | Grants received in Advance - Revenue | 6 | (26,190) |
| (149,347) | Current Liabilities | | (138,145) |
| 39,840 | Net Assets | | 80,298 |
| 39,840 | Unusable Reserves | 7 | 80,298 |
| 39,840 | Total Reserves | | 80,298 |

The unaudited financial statements were issued on 23 June 2022 and the audited financial statements were authorised for issue by the Partnership on 29 September 2022.

Whilst ZetTrans is responsible for delivering its functions, and all costs are accounted for by the Partnership, the day-to-day operations are managed and administered by Shetland Islands Council's staff, using its systems and infrastructure.

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Jamie Manson CPFA
 Proper Officer for Finance
 Zetland Transport Partnership

29 September 2022

Cash Flow Statement for the year ended 31 March 2022

This statement shows the changes in cash and cash equivalents during the financial year, however the vast majority of transactions processed, are through Shetland Islands Council's bank account, and therefore are not included here.

| 2020/21 £ | Notes | 2021/22 £ |
|------------------|--|------------------|
| | Operating Activities | |
| (6) | Interest received | (64) |
| (131,750) | Grants | (120,771) |
| (131,756) | Cash inflows generated from operating activities | (120,835) |
| 263,956 | Cash paid to suppliers of goods and services | 120,834 |
| 0 | Interest paid | 1 |
| 263,956 | Cash outflows generated from operating activities | 120,835 |
| 132,200 | Net cash flows from Operating Activities | 0 |
| 0 | Investing Activities | 0 |
| 0 | Financing Activities | 0 |
| 132,200 | Net increase or (decrease) in cash & cash equivalents | 0 |
| (132,000) | Cash & cash equivalents at 1 April | 0 |
| 132,000 | Net movement in cash & cash equivalents during the year | 0 |
| 0 | Closing cash & cash equivalents | 0 |

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the Partnership for the year has been used in providing services in comparison with those resources consumed or earned in accordance with accounting practices.

| 2021/22 | Net Expenditure Chargeable to ZetTrans £ | Adjustments for capital purposes £ | Net Expenditure in the CIES £ |
|------------------------------|---|---------------------------------------|----------------------------------|
| Policy, Strategy & Projects | 343,748 | 3,984 | 347,732 |
| Transport Services - Bus | 2,222,919 | 0 | 2,222,919 |
| Transport Services - Air | 947,614 | 0 | 947,614 |
| Transport Services - Ferry | 315,000 | 0 | 315,000 |
| Net Cost of Services | 3,829,281 | 3,984 | 3,833,265 |
| Other income and expenditure | (3,829,281) | (44,442) | (3,873,723) |
| (Surplus) or Deficit | 0 | (40,458) | (40,458) |

| 2020/21 | Net Expenditure Chargeable to ZetTrans £ | Adjustments for capital purposes £ | Net Expenditure in the CIES £ |
|------------------------------|---|---------------------------------------|----------------------------------|
| Policy, Strategy & Projects | 300,916 | 0 | 300,916 |
| Transport Services - Bus | 2,185,523 | 0 | 2,185,523 |
| Transport Services - Air | 1,053,035 | 0 | 1,053,035 |
| Transport Services - Ferry | 315,000 | 0 | 315,000 |
| Net Cost of Services | 3,854,474 | 0 | 3,854,474 |
| Other income and expenditure | (3,854,474) | (39,840) | (3,894,314) |
| (Surplus) or Deficit | 0 | (39,840) | (39,840) |

Note 2: Accounting Standards Issued and Adopted in Year

Adoption of new and revised standards.

a) Standards, amendments and interpretations effective in the current year

In the current year, the Partnership has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Amendment to IFRS 3: Definition of a Business;
- Amendments to IFRS 9, IAS 39, IFRS7: Interest Rate Benchmark Reform; and
- Amendments to IFRS 9, IAS39, IFRS7 IFRS4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2.

b) Standards, amendments and interpretations early adopted this year

There are no new standards, amendments or interpretations early adopted this year.

Note 3: Accounting Standards Issued but not yet Adopted

Standards, amendments and interpretations issued but not adopted this year.

At the date of authorisation of these financial statements, the Partnership has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 16: Leases. HM Treasury have agreed to defer implementation until 1 April 2024;
- Annual improvements to IFRS Standards 2018-2020 – applicable for period beginning on or after 1 April 2022:
 - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS;
 - IAS 37 (Onerous contracts) – clarifies the intention of the standard;
 - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material;
 - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.
 - Amendments to IAS 16 (Property, Plant and Equipment) – applicable for periods beginning on or after 1 April 2022.

The Partnership does not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods, except as noted below.

IFRS 16 Leases supersedes IAS 17 and is being applied by the Code from 1 April 2024. Local Authorities can adopt the standard early from 1 April 2022 or 1 April 2023 should they wish to. The Partnership intends to adopt the standard from 1 April 2023.

IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee's assets and liabilities, and provides enhanced disclosure to improve transparency of reporting on capital employed.

Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. While no standard definition of 'low value' has been

mandated, the Partnership has elected to utilise the capitalisation threshold of £10,000 to determine the assets to be disclosed. The Partnership expects that its existing finance leases will continue to be classified as leases. All existing operating leases will fall within the scope of IFRS 16 under the 'grandfathering' rules mandated in the Code for the initial transition to IFRS 16. In future years new contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Balance Sheet as (i) right-of-use assets which represent the partnerships' right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

The bringing of leased assets onto the Balance Sheet will require depreciation and interest to be charged on the right-of-use asset and lease liability, respectively. Cash repayments will also be recognised in the Statement of Cash Flows, as required by IAS 7.

Due to the need to reassess lease calculations, together with uncertainty on expected leasing activity from April 2023 and beyond, a quantification of the expected impact of applying the standard in 2023/24 is currently impracticable. However, the Partnership does not expect the implementation of this standard to have a material impact on the financial statements.

Note 4: Critical Judgements in applying accounting policies

In applying the accounting policies set out in note 16, the Partnership has had to make certain judgements about complex transactions or those involving uncertainty about future events. A critical judgement made in the statement of accounts is that there is a high degree of uncertainty about future levels of funding for local government. However, the Partnership has determined that this uncertainty is not yet sufficient to provide an indication that the level of service provision within the Partnership will require to be materially changed.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the CIES, recognised by the Partnership in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Partnership to meet future capital and revenue expenditure.

| 2021/22 | Usable reserves £ | Unusable reserves £ |
|--|----------------------|------------------------|
| Adjustments primarily involving the Capital Adjustment Account: | | |
| Reversal of items charged to the CIES: | | |
| Charges for depreciation of non-current assets | (3,984) | 3,984 |
| Capital grants and contributions applied | 44,442 | (44,442) |
| Total Adjustments | 40,458 | (40,458) |

| 2020/21 | Usable reserves £ | Unusable reserves £ |
|--|----------------------|------------------------|
| Adjustments primarily involving the Capital Adjustment Account: | | |
| Reversal of items charged to the CIES: | | |
| Capital grants and contributions applied | 39,840 | (39,840) |
| Total Adjustments | 39,840 | (39,840) |

Note 6: Taxation and Non-specific Grant Income

The Partnership credited the following grants, contributions and donations to the CIES in 2021/22:

| 2020/21 £ | | 2021/22 £ |
|--------------------|---|--------------------|
| | Credited to Taxation and Non-specific Grant Income | |
| (3,722,718) | Shetland Islands Council Grant | (3,697,468) |
| (131,750) | Scottish Government Revenue Expenditure Grant | (131,750) |
| (39,840) | Capital Grants and Contributions | (13,086) |
| 0 | Donated Asset | (31,356) |
| (3,894,308) | Total | (3,873,660) |
| | Credited to Services | |
| (59,017) | Sustrans | (53,985) |
| 0 | Scottish Government | (15,000) |
| (30,000) | Highlands and Islands Enterprise | 0 |
| (89,017) | Total | (68,985) |

The Partnership has received a grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require monies or property to be returned to the giver. The balances at year-end are as follows:

| 2020/21 £ | | 2021/22 £ |
|--------------|---|-----------------|
| 0 | Revenue Grants - Receipts in Advance | |
| | Highlands and Islands Enterprise | (26,190) |
| 0 | Total | (26,190) |

Note 7: Unusable Reserves

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charges to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis) and credited with the amounts set aside by the Partnership as finance for the costs of acquisition, construction and enhancement.

| 2020/21 £ | | 2021/22 £ |
|-----------------|---|-----------------|
| 0 | Balance at 1 April | (39,840) |
| | Reversal of items relating to capital expenditure debited or credited to the CIES: | |
| 0 | Charges for depreciation and impairment of non-current assets | 3,984 |
| | Capital financing in the year: | |
| (39,840) | Capital grants and contributions credited to the CIES that have been applied to capital financing | (44,442) |
| (39,840) | Balance at 31 March | (80,298) |

Note 8: Property, Plant and Equipment

| Movements in 2021/22 | Property, Plant & Equipment £ |
|---|----------------------------------|
| Cost or Valuation | |
| Opening Balance at 1 April 2021 | 39,840 |
| Additions | 13,086 |
| Donations | 31,356 |
| Closing Balance at 31 March 2022 | 84,282 |
| Depreciation and Impairment | |
| Opening Balance at 1 April 2021 | 0 |
| Depreciation charge | (3,984) |
| Closing Balance at 31 March 2022 | (3,984) |
| Net Book Value as at 31 March 2022 | 80,298 |
| Net Book Value as at 31 March 2021 | 39,840 |

| Movements in 2020/21 | Property, Plant & Equipment £ |
|---|----------------------------------|
| Cost or Valuation | |
| Opening Balance at 1 April 2020 | 0 |
| Additions | 39,840 |
| Closing Balance at 31 March 2021 | 39,840 |
| Net Book Value as at 31 March 2021 | 39,840 |
| Net Book Value as at 31 March 2020 | 0 |

Note 9: Cash and Cash Equivalents

All cash held is due to the Shetland Islands Council for the provision of service. As at 31 March 2022, the Cash and Cash Equivalents balance is nil, as settled before the end of the year (2020/21: Nil).

Note 10: Short-term Debtors

| As at 31 March 2021 £ | | As at 31 March 2022 £ |
|--------------------------|------------------------------|--------------------------|
| 17,972 | Central Government Bodies | 73,868 |
| 67,124 | Shetland Islands Council | 0 |
| 64,251 | Other Entities & Individuals | 64,277 |
| 149,347 | Total | 138,145 |

Note 11: Short-term Creditors

| As at 31 March 2021 £ | | As at 31 March 2022 £ |
|--------------------------|-------------------------------------|--------------------------|
| (48,242) | Central Government Bodies | 0 |
| (82,223) | Shetland Islands Council | (6,207) |
| (6,382) | Public Corporations & Trading Funds | (7,020) |
| (12,500) | Other Entities & Individuals | (98,728) |
| (149,347) | Total | (111,955) |

Note 12: 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.

| 2020/21 £ | | 2021/22 £ |
|--------------|-------------------|--------------|
| 163 | Members' expenses | 18 |
| 163 | Total | 18 |

Note 13: 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:

| 2020/21 £ | | 2021/22 £ |
|--------------|--|---------------|
| 9,795 | Fees payable in respect of external audit services carried out by the appointed auditor for the year | 10,530 |
| 9,795 | Total | 10,530 |

Note 14: Related Parties

The Partnership is required to disclose material transactions with related parties, 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, 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 2021/22, The Scottish Government provided £0.132m to fund running costs of the Partnership (£0.132m in 2020/21).

Shetland Islands Council is responsible for funding the net expenditure of the Partnership under the Transport (Scotland) Act 2005. In 2021/22 the Council provided £3.486m (£3.554m in 2020/21) to fund the delivery of the public transport service and a further £0.212m (£0.169m in 2020/21) of match funding for core running costs. ZetTrans does not employ its own staff and during 2021/22, Shetland Islands Council charged ZetTrans £0.234m (£0.240m in 2020/21¹) in respect of staff, supplies and other support services.

¹ The comparator is restated, the amount published in the 2020/21 annual accounts was £0.294m, an overstatement of £0.054m. This overstatement is not material.

Note 15: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 29 September 2022. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material aspects to reflect the impact of this information.

There were no events which took place after 31 March 2022 which would materially affect the 2021/22 annual accounts.

Note 16: Accounting Policies

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

A General Principles

The annual accounts summarise the Partnership's transactions for the 2021/22 financial year and its position at the year-end, 31 March 2022. ZetTrans' is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government Scotland Act 2003 requires to be prepared in accordance with proper accounting practices. These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the accounts is principally historical cost. The accounts have been prepared on a going concern basis. Management has considered a range of factors that may influence the ability of the Partnership to continue as a going concern, including:

- the Council's governance arrangements;
- the Council's current and medium-term financial position; and
- the impact of COVID-19.

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 www.zettrans.org.uk

continue in existence for the foreseeable future. Management's assessment of the above factors has determined that it is still appropriate to prepare the Partnership's financial statements on a going concern basis, as required by the Code of Practice on Local Authority Accounting 2021/22.

B 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.

C Charges to Revenue for Non-Current Assets

Depreciation attributable to the assets used by the Partnership is charged to record the cost of holding non-current assets during the year.

D Cash and Cash Equivalents

Cash is represented by deposits with financial institutions repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

E 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 financial year, whereby the annual accounts are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the financial year, 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.

F Government Grants and Contributions

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

Amounts recognised as due to the Partnership are not credited to the CIES until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet 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.

Where capital grants are credited to the CIES they are reversed out of the General Fund Balance in the Movement in Reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

G Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service

potential associated with the item will flow to the Partnership and the cost of the item can be measured reliably. Expenditure that maintains, but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any cost attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are carried in the Balance Sheet at current value, determined as the amount that would be paid for the asset in its existing use value.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Impairment

Assets are assessed at each year-end as to whether there is any indication that they may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- the carrying amount of the asset is written down against the relevant service lines in the CIES; and
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life and assets that are under construction.

Depreciation is calculated annually, using the straight-line method. There is no depreciation charged in the year of acquisition of an asset but a full year is charged in the year of disposal. The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Vehicles, plant, furniture and equipment: 1 - 10 years.

H Reserves

Reserves held on the Balance Sheet are classified as either usable (available to support services) or unusable (required to facilitate accounting requirements). The Partnership operates an unusable reserve the Capital Adjustment Account. This is explained in the relevant policies.

I Value Added Tax

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