



If calling please ask for:  
**Leisel Malcolmson**  
Direct Dial: 01595 744599  
E-mail: leisel.malcolmson@shetland.gov.uk

Date: 17 September 2018

Dear Sir/Madam

You are invited to the following meeting:

**Special Zetland Transport Partnership (ZetTrans)  
Council Chamber, Town Hall, Lerwick  
Friday 21 September 2018 at 3pm**

Apologies for absence should be notified to Leisel Malcolmson at the above number.

Yours faithfully

J R Riise  
Secretary to ZetTrans

## **AGENDA**

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest.

Item	
1.	Annual Audit Report on the 2017/18 Audit for ZetTrans <i>ZTP-24</i>
2.	Zetland Transport Partnership – Management Accounts 2018/19 – Projected Outturn at Quarter 1 <i>ZTP-25</i>
3.	ZetTrans DRAFT Response to the <i>Call for Views</i> on the Transport (Scotland) Bill <i>ZTP-26</i>



 <b>Zetland Transport Partnership</b>	Agenda Item <h1>1</h1>
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<b>Meeting(s):</b>	Zetland Transport Partnership	21 September 2018
<b>Report Title:</b>	Annual Audit Report on the 2017/18 Audit for ZetTrans	
<b>Reference Number:</b>	ZTP-24-18-F	
<b>Author / Job Title:</b>	Proper Officer for Finance	

<b>1.0 Decisions / Action required:</b>	
<p>1.1 That the Partnership:</p> <ul style="list-style-type: none"> <li>a) NOTES the findings of the 2017/18 audit as contained in the external auditor's annual report at Appendix 1;</li> <li>b) NOTES the agreed Action Plan as outlined in the Annual Report;</li> <li>c) CONSIDERS a verbal report by the external auditor; and</li> <li>d) CONSIDERS the audited Annual Accounts for 2017/18 (Appendix 2) for Zetland Transport Partnership for signature.</li> </ul>	
<b>2.0 High Level Summary:</b>	
<p>2.1 The Local Authority Accounts (Scotland) Regulations 2014 (“the Regulations”) require the Partnership to prepare and publish annual accounts that are subject to external audit. The appointed external auditor is Deloitte LLP.</p> <p>2.2 Section 10 of the Regulations requires the Partnership to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.</p> <p>2.3 International Standard on Auditing 260 (ISA 260) requires the external auditors to communicate significant findings from the audit, including:</p> <ul style="list-style-type: none"> <li>• results of work on key audit judgements;</li> <li>• the auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• the auditor’s internal control observations; and</li> <li>• other matters which in the auditor's professional judgement, are significant to the oversight of the financial reporting process.</li> </ul> <p>2.4 Deloitte LLP’s ISA260 findings are included in the Annual Audit Report at Appendix 1 and confirms their unmodified opinion, which means that the annual accounts are free from material misstatement and present a true and fair view of the Partnership’s financial position at 31 March 2018.</p>	

<p>2.5 The unaudited accounts for the year to 31 March 2018 were approved by the Partnership on 26 June 2018 and there is no change to the accounting deficit or net assets in the audited annual accounts.</p> <p>2.6 Deloitte LLP's Annual Audit Report (Appendix 1) includes an Action Plan relating to high and moderate level risks identified during the course of the audit; these are noted in paragraph 4.4 below.</p>
<p><b>3.0 Corporate Priorities and Joint Working:</b></p>
<p>3.1 The preparation and presentation of the annual accounts is a key element of the Partnership's overall governance and reporting arrangements.</p>
<p><b>4.0 Key Issues:</b></p>
<p>4.1 The Partnership's accounts for the year to 31 March 2018 were submitted to Deloitte LLP by the statutory deadline of 30 June 2018. The external auditor was required to complete the audit by 30 September 2018 and to report on certain matters arising to those charged with governance.</p> <p>4.2 The Audit Report (Appendix 1) highlights significant risk areas that auditors reviewed, as follows:</p> <ul style="list-style-type: none"> <li>a) Completeness and accuracy of income; and</li> <li>b) Management override of controls.</li> </ul> <p>4.3 Pages 8 to 10 of the report at Appendix 1 presents how, in each of these areas, the result of the audit control testing was satisfactory.</p> <p>4.4 Deloitte LLP present an agreed Action Plan at page 24 of Appendix 1, showing recommended improvements in two areas, as follows:</p> <ul style="list-style-type: none"> <li>• <b>Accounting best practice:</b> We recommend that ZetTrans review the best practice guidelines and update their accounts moving forward to ensure they reflect these.</li> <li>• <b>Financial sustainability:</b> We recommend that ZetTrans develop and implement a medium term financial plan, specifically tailored to their needs.</li> </ul> <p>Only the first item is considered by the auditors to be a high priority.</p> <p>4.5 As well as reviewing the annual accounts, the scope of the audit includes wider issues, as follows:</p> <ul style="list-style-type: none"> <li>• <b>Governance statement:</b> The governance statement meets the requirements of the good governance framework and no inconsistencies have been noted between the disclosures and our knowledge gained during the audit. Having reviewed the processes in place and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.</li> <li>• <b>Financial sustainability:</b> Effective short-term planning is in place with management accounts being prepared on a monthly basis and quarterly accounts being presented to the Partnership for review and feedback. In the current year it was noted that there were increasing discussions around a medium-term financial</li> </ul>

plan. We recommend that these discussions continue, as a medium-term financial plan would increase the focus for ZetTrans and allow them to have a plan tailored to their needs.

## **5.0 Exempt and/or confidential information:**

5.1 None.

## **6.0 Implications :**

<b>6.1 Service Users, Patients and Communities:</b>	None arising from this report.
<b>6.2 Human Resources and Organisational Development:</b>	None arising from this report.
<b>6.3 Equality, Diversity and Human Rights:</b>	None arising from this report.
<b>6.4 Legal:</b>	The Local Authority Accounts (Scotland) Regulations 2014 require the Partnership to approve the audited Annual Accounts for signature no later than 30 September each year. Other than as specifically identified or referred to elsewhere in this report there are no legal implications directly arising.
<b>6.5 Finance:</b>	None arising from this report.
<b>6.6 Assets and Property:</b>	None arising from this report.
<b>6.7 ICT and new technologies:</b>	None arising from this report.
<b>6.8 Environmental:</b>	None arising from this report.
<b>6.9 Risk Management:</b>	The Annual Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.
<b>6.10 Policy and Delegated Authority:</b>	The Partnership's remit includes consideration of all reports from the external auditors, including the Annual Audit Report and to review the financial performance as outlined.

**6.11**

**Previously considered  
by:**

This report has not been considered at any other meeting.

**Contact Details:**

*Christine McCourt, Financial Accountant, 01595 744601*

[christine.mccourt@shetland.gov.uk](mailto:christine.mccourt@shetland.gov.uk)

*19 September 2018*

**Appendices:**

*Appendix 1: Annual Audit Report 2017/18 for Zetland Transport Partnership (ZetTrans)*

*Appendix 2: Audited Annual Accounts 2017/18 for Zetland Transport Partnership (ZetTrans)*

**Background Documents:** [The Local Authority Accounts \(Scotland\) Regulations 2014](#)



**ZetTrans**

Report to the Partnership and the Controller of Audit on the 2017/18  
audit

21<sup>st</sup> September 2018

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# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Partnership for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Committee on 22 February 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Partnership's duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by the Partnership, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:
  - The appropriateness of the disclosures in **the governance statement**; and
  - The **financial sustainability** of the Partnership and the services that it delivers over the medium to longer term.

# Introduction (continued)

## The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

### Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - recognition of grant income; and
  - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 8.
- We have identified a no audit adjustments from our procedures to date.
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Partnership.
- Based on our audit work, we expect to issue an unmodified audit opinion.

### Insights

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to mitigate the risks of fraudulent activity.
- From review of the draft 2017/18 annual accounts, we have made various recommendations for improvement to management, discussed further on page 14.
- We have raised an insight in relation to accounting best practice. Debtors and creditors are to be netted off for the presentation of the balance sheet, as the amounts both wholly relate to the Shetland Islands Council. See page 11.
- Other insights obtained through our audit work have been collated into an action plan for improvement on page 24.

### Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
  - finalisation of our internal quality control procedures;
  - receipt of signed management representation letter; and
  - our review of events since 31 March 2018.

# Introduction (continued)

## The key messages in this report – wider scope

The following sets out the key messages of this paper in relation to the wider scope work:

### Financial sustainability

The Partnership met all of its financial targets in 2017/18 as summarised below. Moreover, the Partnership's draft budget for 2018/19 is projecting income and expenditure of £3,986k, which is a £1,176k increase from the prior year. This is predominantly linked to the Partnership assuming responsibility for air services and some ferry services, which were not included in 2017/18. The assumption of these responsibilities by the Partnership is to bring the budget in line with the Transfer of functions to the Shetland Transport Partnership Order 2006.

The total outturn for <b>2017/18</b> was <b>£2,083k</b> , which matched exactly the funding received from the Scottish Government and SIC. ZetTrans reported an underspend in the year of <b>£14k</b> compared to budget, which was linked to an overspend in policy, strategy and projects, offset by a greater underspend in bus operations.	A balanced budget for <b>2018/19</b> was approved in February 2018. This included an increase in both income and expenditure of <b>£1,176k</b> to <b>£3,986k</b> . This is to encompass both air and ferry services in line with the 2006 Order.	Effective short term budgeting is in place to assess ongoing risk of under/overspend.  The SIC are statutorily obliged to fund the Partnership under Section 3 of the Transport (Scotland) Act 2005, therefore the main financial objective of ZetTrans is to deliver against its annual approved budget.	Management accounts are prepared and reviewed monthly, and discussed at Partnership meetings quarterly, where any outturn variances against budgets are investigated.  An approved 2018/19 budget is in place, which now includes both air and ferry services. As the financial position for the SIC becomes more challenging, it is important the ZetTrans also looks to the medium-longer term to identify any funding gaps and efficiency savings required.
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### Governance statement

We have confirmed that the Partnership's governance statement is in compliance with the required guidance (Regulation 5 of the Accounts Regulation) and is consistent with our knowledge gained during the audit. We are not aware of any significant events between 31 March 2018 and date of authorisation which have not been included in the governance statement. We have confirmed that appropriate disclosure has been made in relation to the ongoing governance review which is expected to clarify and fully describe ZetTrans' functional responsibilities regarding the Shetland Islands Council. The outcome of this work will be followed up as part of our 2018/19 audit work.

**Pat Kenny**  
**Audit Director**

# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

## Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

## Key developments in your business

As noted in our planning report, the Partnership continues to face significant financial challenges and without sufficient funding, the delivery of priorities would be impeded. Focus should be made on the medium term financial sustainability.

## Materiality

The materiality of £44k and performance materiality of £33k has been based on the benchmark of gross expenditure and is a slight increase from what we reported in our planning paper due to updated final figures.

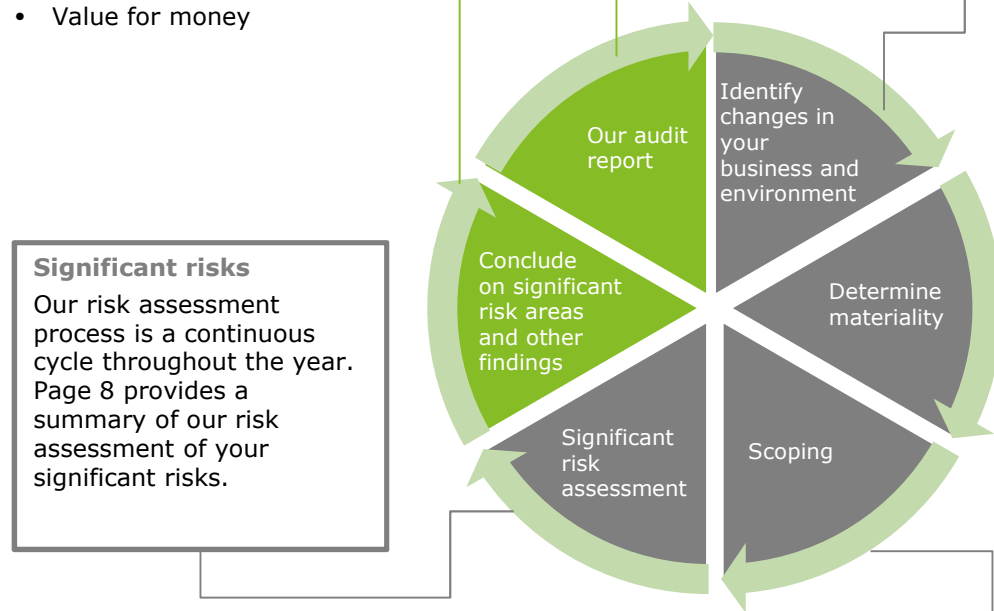
We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £2.2k.

## Scope of the audit

We will audit the financial statements for the year ended 31 March 2018 of Zetland Transport Partnership.

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.



## Quality and Independence

We confirm we are independent of Zetland Transport Partnership. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

## Timeline 2017/18

**November 2017 – February 2018**

Meetings with management and other staff to update understanding of the processes and controls.

**22 February 2018**

Presented planning paper to the Partnership.

**June – August 2018**

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

**March 2018**

Year end

**21 September 2018**

Partnership meeting

**21 September 2018**







Accounts sign off

# Financial statements audit



# Significant risks

## Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Completeness and accuracy of income			D+I	Satisfactory		No issues noted with the design or implementation of this control	9
Management override of controls			D+I	Satisfactory		No issues noted with the design or implementation of this control.	10

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Risk 1 - Recognition of grant income

### Risk identified

International Standards on Auditing (ISA) 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the Partnership are grants received from SIC and the Scottish Government. The SIC income is a deficit funding arrangement, with the main variable affecting the ZetTrans financial shortfall being fare income. The significant risk is pinpointed to the completeness and accuracy of this income given the reliance of the Partnership on it and the high volume of transactions involved. In the current year, we have completed our design and implementation over controls around income, and have not identified any issues.



### Key judgements and our challenge of them

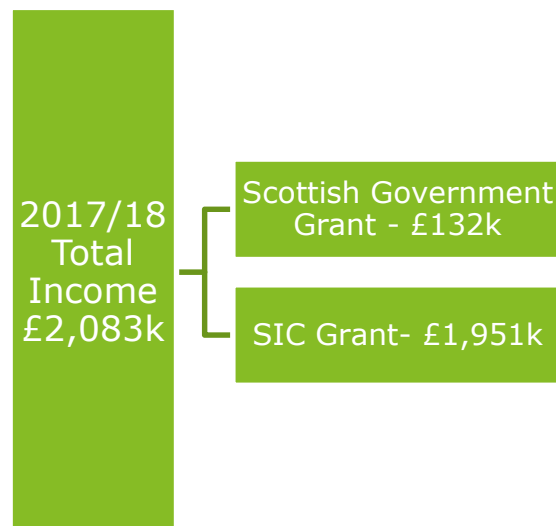
There is significant management judgement around determining if there are any conditions attached to a grant and if so whether the conditions have been met. The complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.



### Deloitte response

We have performed the following:

- Tested income to ensure that the correct contributions have been input and received in accordance with that agreed as part of the budget process, as well as the income matching the expenditure incurred in accordance with the Act; and
- Confirmed the management accounts have been reviewed on a regular basis monitoring expenditure and matched income



### Deloitte view

We have concluded that income has been recognised correctly in accordance of the requirements of the Local Authority Code of Audit Practice

# Significant risks (continued)

## Risk 2 - Management override of controls

### Risk identified

In accordance with ISA 240 management override is a significant risk. This is a presumed risk which cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present transactions inaccurately, or even fraudulent financial reports.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Budgeted against actual income and expenditure was monitored closely throughout the year.
- Remuneration of senior management is not linked to performance of the Partnership.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Partnership.

### Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

### Accounting estimates

Due to the nature of ZetTrans' operations and interaction with SIC who are required to fund all expenditure incurred, there are very few accounting estimates processed by ZetTrans and therefore the risk of management override is low.

### Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

# Other significant findings

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### **Qualitative aspects of your accounting practices:**

There has been a change in accounting policy during the year. Previously, ZetTrans would report an identical debtor and creditor owing from and to Shetland Islands Council, equating to the financial shortfall as at the year end.

This was highlighted as being an accounting policy which did not comply with good practice following review. We recommended that the accounting policy should be updated in the current year and we highlighted this to management prior to the year end.

In light of this, management have reviewed and amended the accounting policy so that amounts owing to/from the Council which are by design and practice settled on a net basis are not disclosed separately as debtors and creditors in the accounts. Only amounts which are owing to/from the Council or other bodies and for which there is no right of offset are included as debtors/creditors as at the year end. We are satisfied that the updated accounting policy is in line with best practice.

We will obtain written representations from the Partnership on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.



# Our audit report

## Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



### **Our opinion on the financial statements**

Our opinion on the financial statements is unmodified.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 13.



# Your annual accounts

We welcome this opportunity to set out for the Partnership our observations on the annual accounts. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. No exceptions noted. We would, however, highlight that greater use could be made of graphs and charts to make the report more user friendly.</p> <p>We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading</p> <p>We have made a number of recommendations for changes to the annual accounts in line with good practice. We have included elements of good practice for your consideration at page 14.</p>
Remuneration Report	No remuneration report has been prepared as ZetTrans has no employees and 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.	We have confirmed that this is in accordance with the statutory guidance and our understanding of the Partnership. We have also confirmed that these facts have been disclosed in the Management Commentary.
Annual Governance Statement	The Annual Governance Statement reports that Shetland Islands Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

# Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. Although not specific to transport partnerships, we would encourage ZetTrans to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts.

We have provided below some extracts which should be considered by the Partnership in drafting future annual reports.

## **Management commentary**

The following areas for improvement were identified when reviewing the Partnership's annual report:

- Explain the Partnership's objectives, the strategy for achieving these (including current performance, position and future prospects);
- Set out how the Partnership generates and preserves value over the longer term;
- Include KPIs and explain performance against these in the year and whether they have been achieved or not;
- The key risks facing the Partnership should be specific and tailored to the Partnership and genuinely be the principal risks/uncertainties that the Partnership is concerned about;
- The annual report should be reviewed in its entirety to identify areas where tabular, graphical or pictorial information (supported by narrative) may improve the accessibility of the document;
- Consider whether the Partnership should provide details of the new responsibilities assumed for ferry and air travel.
- The Partnership should consider if the use of case studies would enhance the general public's understanding of the work carried out by the Partnership.

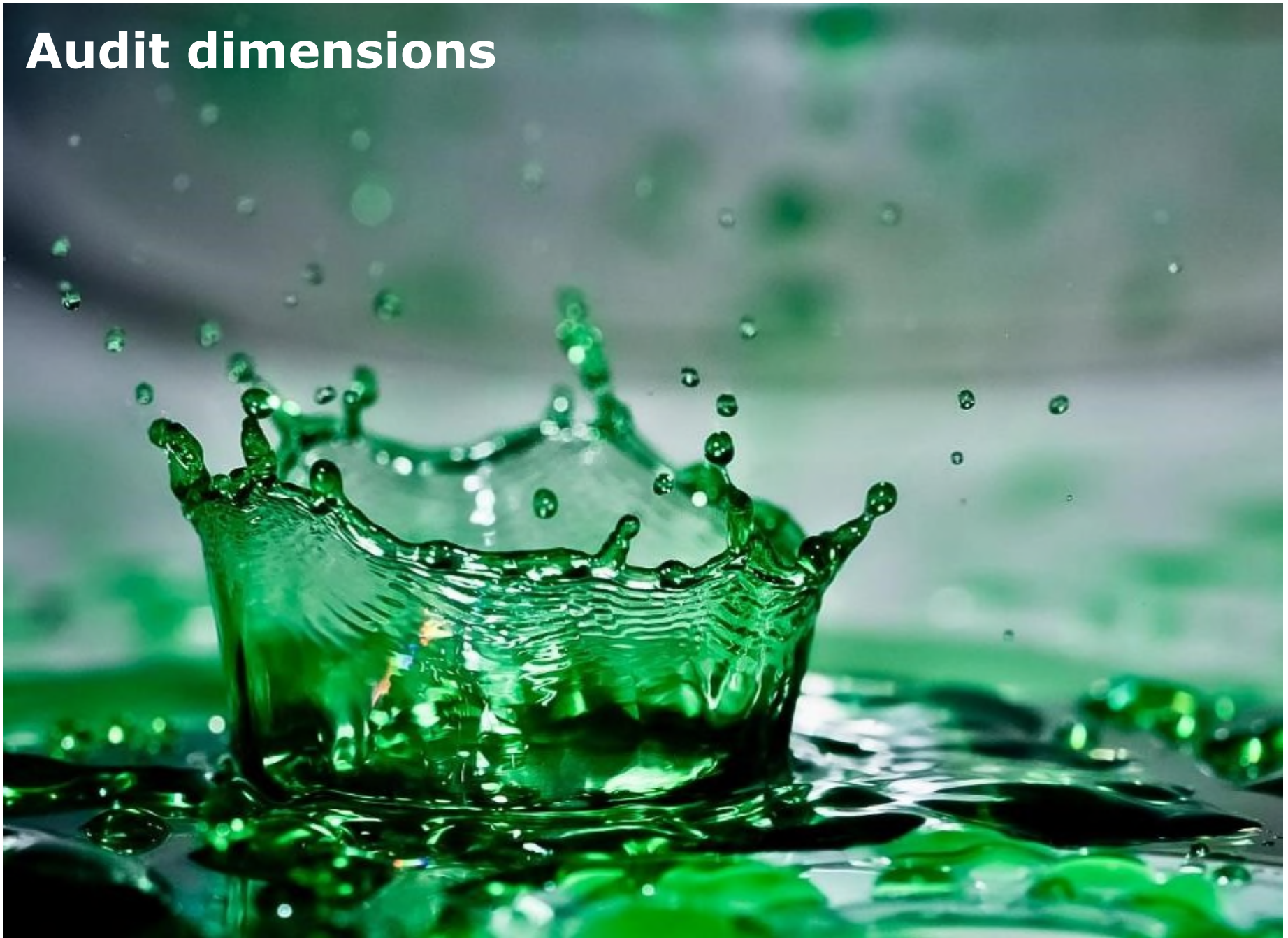
## **Governance statement**

The following areas for improvement were identified when reviewing the Partnership's annual report:

- An action plan should be included which outlines key issues arising in the year, what is to be done, by whom, and timescale for completion;
- Consider whether reporting under two operating segments is sufficient to allow the Partnership to meet its objectives and confirm that this is really how results are communicated to the Partnership;
- The annual governance statement should follow up on any issues from previous years;
- Critical judgements and major sources of estimation uncertainty should be reviewed to ensure they are tailored to the Partnership and further explained in the commentary (rather than just disclosed in the notes);
- Significant governance issues should be given sufficient weight in the governance statement, with their impact explained and any mitigating actions outlined.

A list of comments for improvement, including the above, have been provided to management at the Partnership with a recommendation that these be amended in the annual accounts. The majority of these have been actioned in the current year, with a minority carried forward for consideration in 2018/19. We are satisfied that the annual accounts are CIPFA Code compliant and fair, balanced and understandable.

# Audit dimensions



# Wider scope audit work

## Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. As set out in our plan, due to the relative size and scale of the functions delivered by ZetTrans, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement**; and
- The **financial sustainability** of the Partnership and the services that it delivers over the medium to longer term.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks as summarised below.

### Best Value (BV)

It is the duty of the Partnership to secure BV as prescribed in the Local Government (Scotland) Act 1973.

We have considered the Partnership's duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

### Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the wider audit dimensions.

**SR 1** – EU Withdrawal

**SR 2** – New Financial Powers

**SR 3** – Ending public sector pay cap

**SR 4** – Cyber security risk

**SR 5** – Openness and transparency

# Wider scope audit work (continued)

## Governance statement

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the disclosures in the governance statement.

### Areas considered



- The completeness of the disclosures in meeting requirements of the essential features, as specified in the good governance framework.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.
- Accountable officers' duty to secure Best Value

### Deloitte response



In the year, there were no notable changes in either Partnership members or in the senior leadership team of ZetTrans.

We have confirmed that appropriate disclosure has been made in relation to the governance review, which has the main purpose of clarifying and fully describing the close working relationship with the Shetland Islands Council. An early outcome of the review was better understanding of the functional responsibility for the delivery of public transport services, and the responsibility of the air services and certain ferry services also lay with ZetTrans. The overall conclusions of this work are expected in autumn 2018. This will be followed up as part of our 2018/19 audit work.

No inconsistencies have been noted in relation to the disclosures or between the disclosures and our audit work.

### Deloitte view

The governance statement meets the requirements of the good governance framework and no inconsistencies have been noted between the disclosures and our knowledge gained during the audit.

Having reviewed the processes in place at ZetTrans, and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.

# Audit dimensions (continued)

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.

### Deloitte view

Effective short-term planning is in place with management accounts being prepared on a monthly basis and quarterly accounts being presented to the Partnership for review and feedback. This identifies any expenditure variances which are then discussed at Partnership meetings. The budget for the following financial year has been approved and funding has been allocated by the SIC.

There is no immediate requirement for a financial recovery plan as all the expenditure in the year is covered by the Council, with any financial challenges arising being applicable to the SIC.

As SIC is statutorily obliged to fund the Partnership under Section 3 of the Transport (Scotland) Act 2005, the main financial objective of ZetTrans is to deliver against its annual approved budget and no longer term plans are in place.

However, in the current year it was noted that there were increasing discussions around a medium term financial plan. We recommend that these discussions continue, as a medium term financial plan would increase the focus for ZetTrans and allow them to have a plan tailored to their needs.

### Deloitte response



We have monitored the Partnership's actions in respect of its short, medium and longer term financial plans to assess whether financial balance can be achieved.

#### Short-term

The approved funding budget for 2018/19 is £3,986k, which is comprised of £230k for core funding and the implementation of Regional Transport Strategy, and £3,756k is scheduled Passenger Transport Services in Shetland. The budget for Public Bus Service expenditure has decreased by £72k in line with decrease in the RPI for 2017/18, and savings achieved on the previously contracted out Westside Mainline until September 2017. Contracted out services are more expensive, so savings have been made from September 2017 to present.

The increased budget in the current year is in relating to including both Air and Ferry services. This is to bring the budget in line with the Transfer of Functions to the Shetland Transport Partnership Order 2006.

Deloitte are satisfied that the overall budget spend is unlikely to be exceeded in the year, given the proposed budget and historical results. As well as this, any funding gaps will be funded by SIC in accordance with the Transport (Scotland) Act 2005.

#### Medium-term

Management have confirmed that due to the size and nature of ZetTrans and its operation, there is currently no medium to long term financial plan in place.

# Wider scope audit work (continued)

## Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
<b>EU Withdrawal</b>	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p><b>Workforce:</b> the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p><b>Funding:</b> the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p><b>Regulation:</b> the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>ZetTrans do not directly employ any staff, as SIC source staff on their behalf. However, they will remain alert of this issue.</p>
<b>New financial powers</b>	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. ZetTrans should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
<b>Ending public sector pay cap</b>	<p>ZetTrans do not employ any staff directly – as such, this is not expected to have an impact.</p>

# Wider scope audit work (continued)

## Specific risks (specific risks)

Risk identified	Response
<b>Cyber security risk</b>	<p>ZetTrans' ICT and cyber security are actioned by the Council on the Partnership's behalf. We have noted from our work on the Council that the processes in place are appropriately robust.</p> <p>There is no specific cyber policy/strategy in place, but there is an ICT Security Policy which all staff agree to abide by. This is regularly updated and covers areas such as password security and other good practice measures.</p> <p>Cyber attack is recorded as a risk at Chief Executive level. Fortnightly, Security Review Teams consider security issues as they arise, and the IT Management Board decides on issues which cannot be resolved at Executive Manager level.</p> <p>There is no specific person in the leadership team assigned to cyber security, but the Partnership have recently adopted the Scottish Government plan for recovery and are due to test it before the end of the year.</p> <p>ZetTrans have considered, to some extent, the cyber security within its supply chain partners, as they have data processing agreements with suppliers where appropriate, and ask for software to run on supported versions of hardware and software.</p>
<b>Openness and transparency</b>	<p>From our audit work, we are satisfied that ZetTrans is appropriately open and transparent in its operations and decision making. All agendas, meetings and management accounts are published online.</p>

# Appendices



# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Partnership discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Partnership.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the Partnership, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



for and on behalf of Deloitte LLP  
Glasgow

30 August 2018

# Audit adjustments

## Corrected misstatements

- No corrected misstatements have been identified from our audit work performed

## Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed

## Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Partnership if anything arises from any outstanding work before the financial statements are signed.

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Accounting Best Practice	We recommend that ZetTrans review the best practice guidelines and update their accounts moving forward to ensure they reflect these.	<p>Changes in accounting policies have been made as required.</p> <p>Comments surrounding best practice with regards to presentation of the annual accounts has been considered in the current year and will be considered further going forward.</p>	Proper Officer for Finance	Dec 18	High
Financial Sustainability	We recommend that ZetTrans develop and implement a medium term financial plan, specifically tailored to their needs.	<p>Due to the size and nature of ZetTrans and its operations, there is currently no requirement for a medium/long term financial strategy.</p> <p>However, it is possible that certain events such as failure to review bus contracts, or an inability of local bus operators to fulfil routes due to bankruptcy, could raise challenges to ZetTrans.</p> <p>Given this, there are current discussions around creating a MTFP specifically for ZetTrans.</p>	Proper Officer for Finance	Dec 18	Medium

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Partnership to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Partnership to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in complying with recognition of grant income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management, internal audit and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Partnership on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No concerns have been identified regarding fraud.



# Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2017/18 is £9,913 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



# Events and publications

## Our publications and insights to support the Partnership

### Publications

#### **The State of the State 2017-18**

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



#### **Sharing our informed perspective**

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

#### **Perspectives: Do you have a digital mindset?**

##### **Accelerating health and care integration**

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

#### **Article: Public sector transformation**

##### **Five lessons from the private sector**

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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# Annual Accounts **2017/18**



**Ze Trans**  
SHETLAND'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.

.....  
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>

.....  
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 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>

## 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,

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.



<b>Meeting(s):</b>	Zetland Transport Partnership	21 September 2018
<b>Report Title:</b>	Zetland Transport Partnership – Management Accounts 2018/19 – Projected Outturn at Quarter 1.	
<b>Reference Number:</b>	ZTP–25–18-F	
<b>Author / Job Title:</b>	Hazel Tait – Acting Proper Officer for Finance	

### 1.0 Decisions / Action required:

- 1.1 The Zetland Transport Partnership NOTES the Management Accounts showing the draft outturn position for 2017/18.

### 2.0 High Level Summary:

- 2.1 The purpose of this report is to enable the Zetland Transport Partnership to note the financial performance of ZetTrans for the 2017/18 financial year. This report shows the projected financial consequence of the service performance for the year.
- 2.2 On 14 February 2018, (ZTP Min Ref: 3/18) the Zetland Transport Partnership approved its 2018/19 revenue budgets. It is vital to the economic wellbeing of the Partnership and its stakeholders that the financial resources are managed effectively and expenditure and income is delivered in line with the approved budget.
- 2.4 This report forms part of the financial governance and stewardship framework, which ensures that the financial position of the Partnership is acknowledged, understood and quantified on a regular basis. It provides assurance to the members that resources are being managed effectively and allows corrective action to be taken where necessary.
- 2.5 It is essential that budgets are delivered by the year-end, as any overspend is required to be met by an increased contribution from Shetland Islands Council.

### 3.0 Key Issues:

- 3.1 This report presents the projected outturn position for 2018/19 as at the end of the first quarter. The forecasts have been determined by Shetland Islands Council Financial Services after consultation with the Lead Officer – ZetTrans.
- 3.2 The projected outturn position for ZetTrans is that of a minor underspend in the Policy Strategy and Projects function of £1k; and an overspend in Public Transport Services of £17k. The overall impact is that there is a projected increased contribution required from the Shetland Islands Council of £16k.
- 3.3 See appendix 1 for detailed information on the outturn position.

<b>4.0 Exempt and/or confidential information:</b>	
4.1 None.	
<b>5.0 Implications :</b>	
<b>5.1 Service Users, Patients and Communities:</b>	None.
<b>5.2 Human Resources and Organisational Development:</b>	None.
<b>5.3 Equality, Diversity and Human Rights:</b>	None.
<b>5.4 Legal:</b>	<p>The Zetland Transport Partnership was established by and exists in accordance with legislation made under the Transport (Scotland) Act 2005. Under The Transfer of Functions to the Shetland Transport Partnership Order 2006 certain functions relating to public transport were transferred from the Council to ZetTrans. These include the duties of the Council under section 63 of the Transport Act 1985 namely:</p> <ul style="list-style-type: none"> <li>• to secure the provision of such public passenger transport services as the Council consider it appropriate to secure to meet any public transport requirements within their area which would not in their view be met apart from any action taken by them for that purpose; and</li> <li>• to formulate from time to time general policies as to the descriptions of services they propose to secure. ZetTrans are, specifically, not responsible for the Council's transport functions insofar as they refer to educational or social work purposes.</li> </ul> <p>By Minute of Agreement between the Council and ZetTrans the parties agreed that certain administrative and, where requested, professional services be provided to ZetTrans. In the provision of such services the Council acts as agent of ZetTrans and Council officers have the authority to enter into contracts on behalf of ZetTrans.</p>

<b>5.5 Finance:</b>	<p>In accordance with Section 3 of the Transport (Scotland) Act 2005, the net expenses of ZetTrans for each financial year shall be paid by the Council, however the main financial objective for ZetTrans shall be to ensure that the financial outturn achieved in 2017/18 is within the approved resource budget, and in line with that allocated by Scottish Ministers.</p> <p>The projected revenue outturn position for ZetTrans is an underspend in the Policy, Strategy and Projects function of £1k and an overspend on the Public Transport Service of £17k. Overall, there is projected £16k additional funding required from the Shetland Islands Council, than that budgeted for in 2018/19.</p>	
<b>5.6 Assets and Property:</b>	None.	
<b>5.7 ICT and new technologies:</b>	None.	
<b>5.8 Environmental:</b>	None.	
<b>5.9 Risk Management:</b>	<p>There are numerous risks involved in the delivery of services and the awareness of these risks is critical to successful financial management.</p> <p>From a financial perspective, risks are an integral part of planning for the future, as assumptions are required to be made. These assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact.</p> <ul style="list-style-type: none"> <li>• The main financial risk for ZetTrans is security of public transport fare income.</li> </ul>	
<b>5.10 Policy and Delegated Authority:</b>	<p>The Partnership has authority to take decisions and monitor performance in terms of its statutory obligations in relation to its delegated functions. This report provides information and assurance, to the Partnership, in respect of service provision in relation to approved budgets.</p>	
<b>5.11 Previously considered by:</b>	Not Applicable.	

#### **Contact Details:**

Ivor Johnson, Senior Assistant Accountant: [ivor.johnson@shetland.gov.uk](mailto:ivor.johnson@shetland.gov.uk),

#### **Appendices:**

Appendix 1 – Zetland Transport Partnership – Projected Revenue Outturn Position 2017/18 as at Quarter 1.



## Zetland Transport Partnership

## 1.0 - Projected Revenue Outturn Position 2018/19 as at Quarter 1.

ZetTrans - 2018/19	Annual Budget 2018/19 £000	Projected Outturn 2018/19 £000	Projected Outturn Variance (Adv) / Pos £000
<b><u>POLICY, STRATEGY &amp; PROJECTS (PSP)</u></b>			
Support Services	212	213	(1)
Consultants	2	0	2
External Audit Fees	11	11	0
Grants to Organisations	5	5	0
<b>Total PSP Expenditure</b>	<b>230</b>	<b>229</b>	<b>1</b>
Regional Transport Funding	(132)	(132)	0
SIC Match Funding	(98)	(97)	(1)
Bank Interest	(0)	(0)	(0)
<b>Total PSP Funding Income</b>	<b>(230)</b>	<b>(229)</b>	<b>(1)</b>
<b>PSP Services Variance</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
<b><u>PUBLIC TRANSPORT SERVICES</u></b>			
Contracts	3,904	3,920	(16)
<b>Total Public Transport Service Expenditure</b>	<b>3,904</b>	<b>3,920</b>	<b>(16)</b>
Public Transport Income	(712)	(712)	0
Public Transport Contribution (SIC)	(3,192)	(3,208)	16
<b>Total Public Transport Service Income</b>	<b>(3,904)</b>	<b>(3,920)</b>	<b>16</b>
<b>Public Transport Services Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>ZetTrans Surplus/(deficit)</b>	<b>0</b>	<b>0</b>	<b>(0)</b>

There are no significant variances in the projected outturn at Quarter 1.





## Zetland Transport Partnership

Agenda Item

**3**

<b>Meeting(s):</b>	Zetland Transport Partnership	21 September 2018
<b>Report Title:</b>	ZetTrans DRAFT Response to the <i>Call for Views</i> on the Transport (Scotland) Bill	
<b>Reference Number:</b>	ZTP-26-18-F	
<b>Author / Job Title:</b>	Michael Craigie – Lead Officer	

### 1.0 Decisions / Action Required:

#### 1.1 That the Partnership:

- 1.1.1 APPROVES ZetTrans' draft response to the Scottish Government's Call for Views on the Transport (Scotland) Bill as contained in Appendix 1.

### 2.0 High Level Summary:

#### 2.1 The Transport (Scotland) Bill Call for Views invites opinions on 6 separate sets of proposals for legislation:

- 2.1.1 Low Emission Zones
- 2.1.2 Bus Services
- 2.1.3 Ticketing Arrangements and Schemes
- 2.1.4 Pavement and Double Parking
- 2.1.5 Roadworks
- 2.1.6 Miscellaneous, which includes proposals for Canals and Regional Transport Partnership Financing

#### 2.2 The deadline for submitting views to the Scottish Government is Friday 28 September 2018.

### 3.0 Corporate Priorities and Joint Working:

- 3.1 ZetTrans' policy is to seek to have in place transport arrangements that are affordable and meet people's needs. To achieve this policy ZetTrans works closely with Shetland Islands Council. Shetland Islands Council's "Our Plan 2016 to 2020" states: 'There will be transport arrangements in place that meet people's needs and that we can afford to maintain in the medium term'.

<b>4.0 Key Issues:</b>	
4.1	The document in Appendix 1 contains a draft response from officers for discussion and approval by the Partnership.
4.2	The response given is in line with ZetTrans' own Vision, Strategic Objectives and Main Issues. It also encompasses ZetTrans' dual strategic and operational roles.
<b>5.0 Exempt and/or Confidential Information</b>	
5.1	None.
<b>6.0 Implications :</b>	
<b>6.1 Service Users, Patients and Communities:</b>	ZetTrans is a signatory to Shetland's Partnership Plan. As such, ZetTrans' the draft response is in keeping with the targets and goals of the Partnership Plan.
<b>6.2 Human Resources and Organisational Development:</b>	There are no issues arising directly from this report.
<b>6.3 Equality, Diversity and Human Rights:</b>	ZetTrans is a signatory to Shetland's Equality Mainstreaming Progress Report. As such, ZetTrans' the draft response is in keeping with the targets and goals of this document.
<b>6.4 Legal:</b>	There are no issues arising directly from this report.
<b>6.5 Finance:</b>	There are no issues arising directly from this report.
<b>6.6 Assets and Property:</b>	There are no issues arising directly from this report.
<b>6.7 ICT and New Technologies:</b>	There are no issues arising directly from this report.
<b>6.8 Environmental:</b>	Transport, travel and access and the movement of goods have an important impact on the environment and climate change. As a stakeholder, ZetTrans has a statutory duty to submit an annual Climate Change Report.
<b>6.9 Risk Management:</b>	The Transport (Scotland) Bill will set the direction for legislation affecting Transport policy in Scotland. Failure to contribute to the consultation could result in legislation that does not sufficiently take account of Shetland's circumstances. This report mitigates that risk through ensuring the Bill is adequately informed on Shetland specific issues.
<b>6.10 Policy and Delegated</b>	ZetTrans has functional responsibility to secure transport services in Shetland under the Transfer of Functions to the

<b>Authority:</b>	Shetland Transport Partnership Order 2006. The Partnership is responsible for engaging with Government on issues relating to transport national policy and strategy.	
<b>6.11 Previously considered by:</b>	Not previously considered	

**Contact Details:**

Michael Craigie – Lead Officer

Phone: 01595 744160

E-mail: Michael.craigie@shetland.gov.uk

10 September 2018

**Appendices:**

Appendix 1 – ZetTrans DRAFT Response to the Call for Views on the Transport (Scotland) Bill

**Background Documents:**

The Call for Views:

<https://www.transport.gov.scot/our-approach/transport-scotland-bill/>



## ZETTRANS DRAFT RESPONSE TO THE CALL FOR VIEWS ON THE TRANSPORT (SCOTLAND) BILL

September 10<sup>th</sup> 2018

## BACKGROUND TO THE BILL

A Scottish Government Bill, the Transport (Scotland) Bill, was introduced by the then Cabinet Secretary for Finance and Constitution, Derek Mackay MSP, on 8 June 2018.

*“It is a Bill for an Act of the Scottish Parliament to make provision for low emission zones; to make provision for and in connection with the powers of local transport authorities in connection with the operation of local bus services in their areas; to make provision about arrangements under which persons may be entitled to travel on local bus and other transport services; to prohibit the parking of vehicles on pavements and prohibit double parking; to make provision in connection with the status of the office of the Scottish Road Works Commissioner, the Commissioner’s functions and the regulation of road works; to make provision in connection with regional Transport Partnerships and to adjust the number of members on the British Waterways Board; and for connected purposes.”*

Stage 1 of the Bill, for consideration by the Rural Economy and Connectivity Committee, is presented with a suite of accompanying documents. It and its accompanying documents can be found at:

<http://www.parliament.scot/parliamentarybusiness/Bills/108683.aspx>

- Transport (Scotland) Bill
- Transport (Scotland) Bill Policy Memorandum
- Transport (Scotland) Bill Explanatory Notes
- Transport (Scotland) Bill Financial Memorandum
- Transport (Scotland) Bill Statement of Legislative Competence
- Transport (Scotland) Bill Delegated Powers Memorandum

The Committee process consists of two parts:

1. The primary committee overseeing the Bill process is the Rural Economy and Connectivity Committee. The Bill is currently at the first of three stages where the Committee will provide comment to the Government. Government will then respond and a stage 2 consideration will be undertaken.
2. The Committee has launched a survey and call for views, the deadline is Friday 28 September 2018. Submissions received after the closing date will not be considered. The survey can be found at: [http://www.parliament.scot/S5\\_Rural/CFE - Transport Bill.pdf](http://www.parliament.scot/S5_Rural/CFE_-_Transport_Bill.pdf)

## SECTIONS OF THE BILL

The bill has 6 sections. Each section is summarised below and each summary is then followed by the proposed **DRAFT ZetTrans response - in blue**.

## PART 1 - LOW EMISSIONS ZONES

*“This section introduces the concept of low emission zones, which are set up under low emission zone schemes. A low emission zone scheme is a scheme under which individuals driving vehicles which fail to meet specified emission standards will be prohibited from driving those vehicles in contravention of the terms of the scheme within a designated geographical area. Where a person breaches this rule, a penalty charge will be payable unless the vehicle is exempt. Exemptions will be set out in regulations but are likely to include, for example, emergency service vehicles. The scheme itself may also make provision for the local authority operating the scheme to grant exemptions in certain circumstances.”*

*“It is for local authorities to put in place low emission zone schemes where they consider it appropriate to do so. Typically, the primary goal of a low emission zone scheme is to improve air quality. Local authorities will also be able to work with neighbouring local authorities to create a combined scheme if they wish. A local authority which wishes to put in place a low emission zone scheme will need to carry out local consultation and obtain Ministerial approval before doing so.”*

*“The Bill also makes provision about a number of other matters relating to the operation of low emission zone schemes: for example, the installation of signs and cameras, the potential creation of offences in connection with the enforcement of schemes, accounting requirements, and the ability to review the effectiveness of a scheme. In addition, it provides for a grace period in relation to a zone so that those wishing to drive within it have an opportunity to upgrade their vehicle to a less polluting model (either by replacing it or having it modified) before penalty charges begin to be applied.”*

#### **DRAFT ZetTrans Response**

As a primarily rural area, the Shetland Islands do not currently have significant congestion or air quality issues linked directly to road transport. In Shetland, it is emissions from electricity generation, ferry and air traffic which perhaps have the most significant relative environmental impacts.

Nevertheless, as an entirely self-contained unit, Shetland does represent a testbed opportunity for harnessing local green energy generation opportunities and linking them directly to more sustainable transport solutions – both private and public.

The creation of a Low Emission Zone based on the main town of Lerwick would affect the majority of road vehicles in Shetland. It is therefore only likely to make sense in a Shetland context, if Low Emission Zone measures were to apply to the whole archipelago. Having said that, any legislation must be mindful of the constraints on alternatives to the private car in Shetland where the geographical spread of communities and opportunities combined with the challenges of providing affordable public transport means use of the car is essential rather than discretionary.

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#### **PART 2 - BUS SERVICES**

This section of the Bill deals with local bus services and is broken down into four sub-topics:

##### **Provision of local services by local authorities**

*“Councils are under a duty to secure the provision of such public transport services as they consider appropriate in order to meet any public transport requirements which they don’t think would otherwise be met by the open commercial market. Councils have a variety of tools to try to achieve this, previous acts enable councils to enter into agreements to provide subsidies to operators in order to secure a service.”*

*“The Bill introduces a new exemption, which enables councils to decide to run local services themselves (or by means of a company formed by them) in those situations where they think action needs to be taken to meet a local services requirement. It is worth noting that this is narrower than section 63(2) as it is restricted to local services rather than all public passenger transport services. This therefore limits the situations where the new power might be used to the provision of local services.”*

*“Where the exemption applies, the Bill enables the council to provide local services themselves to meet the unmet requirements. It is important to note that the exemption does not enable the council to operate local services where there is no such unmet requirement: if commercially operated services are operating without subsidy, the council cannot compete with them.”*

*“The provision does not impose any obligation on the council to have tried to enter into a subsidised service before deciding to provide local services themselves. It is, instead, an alternative approach that is open to the council in order to secure provision of services in satisfaction of its duty.”*

#### **DRAFT ZetTrans Response**

Firstly, this component of the Bill seems to focus on giving Councils the powers to run services and it needs to be taken into account that some Regional Transport Partnerships are faced with the duty to secure services. Any future legislation needs to take proper account of this.

Whilst Councils are being given the option to run services themselves this is limited to situations where there is no commercial service running. In effect it appears that the Councils are only being given the power to run a service that will be loss making.

In Shetland, there are no commercial services in operation. ZetTrans therefore commissions and/or runs the entire public bus network in Shetland and, under current contracts, retains all the fares revenue.

Anomalies arise from such a position. It is in ZetTrans' and, as the principal funder, Shetland Islands Council's direct financial interests to maximise income and minimise costs. In the absence of any commercial provision in this and many other rural areas, it must make sense to facilitate the removal of all barriers which prevent the optimal and efficient provision of public transport at minimal cost to the public purse.

As a statutory community planning partner and signatory to Shetland's Partnership Plan (Shetland's LOIP), we are committed to supporting a robust transport sector which is capable of fulfilling home-to-school transport requirements as well as providing a vibrant commercial sector for the transport needs of other public sector bodies, the voluntary sector, private citizens, tourism and local industry.

For ZetTrans, a balance must be struck between enabling the public purse to support commercial transport operators while retaining the necessary powers to shape and deliver the public passenger transport network to be provided that enables social and economic wellbeing.

#### Bus services improvement partnerships

*"BSIPs involve local transport authorities formulating a plan (called a partnership plan in the Bill) with the operators in their area and then deciding on how best to implement it through supporting schemes (partnership schemes). BSIPs contain several distinguishing features from quality partnerships, namely:*

1. there is a requirement for the local transport authority to invest in some way (whether through new facilities or taking certain measures to assist the operators);
2. the range of available 'service standards' is more extensive;
3. operators are to be involved in the preparation of the partnership plans and schemes and have a say in whether the plans or schemes are to proceed;
4. reflecting that involvement, operators in the area of a scheme must provide a service which meets the operational service standards or risk losing the right to operate the service through deregistration;
5. the traffic commissioner can refuse an application for registration by an operator who, in the commissioner's opinion, cannot meet the operational service standards that are applicable in an area.

*"Partnership plans operate at the strategic level and are to have three core elements, namely:*

1. providing an analysis of the local services operating in an area;
2. determining policies relating to those services; and
3. setting objectives to be achieved within the life of the plan.

*"Partnership plans must also make provision for obtaining the views of those in the community using the local services about how well those services are working and make provision for when it is to be reviewed."*

*"The Bill provides that a partnership plan must be underpinned by one or more implementation schemes (referred to in the Bill as partnership schemes) which set out in detail how the desired improvements to services or standards required are to be achieved."*

#### DRAFT ZetTrans Response

This section of the Bill strengthens Bus Quality Partnerships. Given the nature of the passenger transport sector and passenger transport market in Shetland, it is unlikely that this element of the Bill will be of relevance to ZetTrans.

As all public passenger transport in Shetland is contracted by ZetTrans, standards are pre-determined by the local procurement framework to which all operators must apply in order to be eligible to bid for ZetTrans or Shetland Islands Council contracts. This

framework is revisited on a four-yearly basis and its operation is commensurate with the capacity of many small operators to engage in such issues.

Additional spend by operators arising from required improvements to quality and other standards are likely to be recovered via the contract price payable by ZetTrans. As such, investment by ZetTrans is covered by this mechanism, in partnership with Shetland Islands Council.

#### Local services franchising

There currently exists in legislation the ability for a Local Authority to introduce a quality contract. To date there have been no such contracts in Scotland. This appears to be because the circumstances for introducing such a scheme are limited and risks involved for Local Authorities are high.

The proposed franchise system is intended to ease the restrictions on how and when such a system can be applied giving Local Authorities more freedom to introduce such a scheme should they determine it necessary to achieve their local transport objectives.

To enter into a franchise agreement a Local Authority first has to create a franchise framework.

*“A franchising framework gives a local transport authority the power to determine what local services are required in the area of the framework, set standards for those services and make decisions about what facilities may be required to support them. The framework can also specify types of service which should not be affected by the making of the framework.”*

*“By making a franchising framework, the local transport authority disapplies several of the provisions relating to the registration and provision of local bus services under the Transport Act 1985. Those provisions generally allow persons who hold the relevant PSV operator licences to register and operate local services in any area that they choose. Under franchising, only those operators who have entered into a franchise agreement will be permitted to provide services in the area of the framework.”*

*“Operators who enter into franchise agreements may be paid for providing the services or indeed may pay for the opportunity to provide them. This reflects that in different prevailing market conditions it may be necessary to pay operators and in others that the profitability is such that operators will pay for the exclusive right to provide them.”*

*“A franchising framework may be made in respect of the whole or any part of the local transport authority’s area. Where two or more local transport authorities work together to make a franchising framework, the franchising framework can cover all of the combined areas or a part of the combined area. This reflects the fact that local services frequently cross between the areas of local transport authorities.”*

*“The key steps that a local transport authority must complete before it is able to make a franchising framework for its area are:*

1. prepare a proposed framework;
2. prepare an assessment of the proposed framework;
3. obtain a report from an independent auditor on the financial implications of the proposed framework;
4. consult on the proposed framework;
5. if necessary, modify the proposed framework and, where the modifications materially affect an aspect of the assessment, go through the process of assessment, audit and consultation again; and
6. obtain approval to make the proposed framework from a panel convened by the traffic commissioner for that purpose.”

*“The assessment (in the bullets above) provides a basis for an independent audit of the financial implications of the framework and the overall approval of the framework (after consultation) by a panel convened by the traffic commissioner. A report on the assessment is also to be made available as part of the consultation on the proposed framework that the local transport authority is required to carry out.”*

*“The Bill provides for a mechanism for a local transport authority to obtain approval for them to make their proposed franchising framework.”*

*“To do this, they must request that the traffic commissioner convene a panel for the purpose of approving the making of the proposed framework and provide the commissioner with a range of relevant information for passing to the panel.”*

*“The traffic commissioner must appoint a panel to consider the application.”*

*“It is open to the panel to approve the framework subject to the local transport authority making modifications to the approved framework before it is made (i.e. giving a conditional approval).”*

*“Once a local transport authority has made a franchising framework, they may start to enter into franchising agreements for the provision of local services under the framework. This process is governed by the procurement requirements set out in both EU legislation (EU Regulation 1370/2007) and domestic law.”*

*“While the majority of the provisions simply make reference to a local transport authority making a franchising framework or agreement, it is open to two or more such authorities to act jointly to make a franchising framework and the necessary agreements.”*

*“Once the authorities start acting jointly in respect of a franchising framework, they must continue to do so for the life of the framework. For example, it would not be open to one authority to revoke the framework or any agreement without the co-operation of the other authorities.”*

#### **DRAFT ZetTrans Response**

For ZetTrans, in the Shetland context, this measure is more useful than the Bus Service Improvement Partnerships. This said, the provision to allow the specification of types of service not to be covered by the franchise would be essential to protect the local transport sector, which includes many small-scale operators.

Although a franchise approach may be considered risky in larger areas, ZetTrans, as the *de facto* operator, is already in the position of taking the revenue and cost risks. The contracting of local services effectively makes ZetTrans a *hostage to fortune* as it is dependent on local operators to package contracts to achieve maximum operational efficiencies. A properly formed franchising power could enable ZetTrans to ‘pre-package’ operationally optimal contracts. Such an approach could enable ZetTrans to better manage its risks, while strengthening the local transport sector.

The need to have an independent panel approve the franchise in order to proceed is unnecessarily cumbersome in the Shetland environment. A requirement to seek Independent advice from a panel would undoubtedly be invaluable for the considerations of officers and elected members, but the final decision should rest with those elected members to ensure that democratic accountability is provided.

#### **Information relating to services**

*“The Bill inserts a series of three new sections into the 1985 Act. These provisions enable any affected authority to obtain specific service information from an operator who proposes to vary or cancel the registration of a local service and, in limited circumstances, share it with other people who may wish to bid to provide a similar service to the one being withdrawn or varied. Where an operator does not provide the information (or does not provide it timeously) the Scottish Traffic Commissioner will be able to impose a financial penalty on the operator.”*

*“These new powers to obtain and share information are designed to facilitate more effective competition in the bus market and follows recommendations made by the Competition Commission.”*

*“The information that the affected authority can request will be fully set out in regulations,*

*but it will be limited to two types of information, namely:*

- 1. information about passenger numbers, journeys and fares (which is sometimes referred to in the industry as —patronage information); and*
- 2. information about the revenue obtained by the service (the —revenue information).”*

*“The Bill also provides for Scottish Ministers to require operators to provide information about local services but limits the provision of such information to that required by users of buses.”*



### DRAFT ZetTrans Response

As ZetTrans is the *de facto* operator and already holds fare, revenue and patronage information, this measure is of limited relevance to ZetTrans – other than to ensure continued data availability in the event of a commercial service being started.

Further the provision of information to an information supplier such as TraveLine for useful dissemination to bus passengers is helpful. Here the Bill could be extended to allow for this same information to be passed to the Local Authorities for their use in similarly keeping the public advised on services.

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### PART 3 - TICKETING ARRANGEMENTS AND SCHEMES (SMART TICKETING)

*“This section of the Bill makes changes to the existing legislation in the 2001 Act about ticketing arrangements and ticketing schemes for bus travel. In particular it—*

- extends these arrangements and schemes to include certain connecting rail and ferry services;
- gives the Scottish Ministers the power to set a national technological standard for the implementation and operation of smart ticketing arrangements;
- sets up a National Smart Ticketing Advisory Board;
- makes changes to what a ticketing scheme can include and the process for making one;
- requires local transport authorities to produce annual reports on ticketing arrangements and schemes; and
- gives the Scottish Ministers the power to direct a local transport authority to make or vary a ticketing scheme.”

### DRAFT ZetTrans Response

ZetTrans supports this section of the bill.

Care needs to be taken to ensure inclusivity for all citizens as well as technological extensibility to adapt seamlessly to future changes.

With cash transactions becoming less common, and with an ageing population, fare schemes will need to take both account and advantage of all relevant payment methods.

The system used must be able to facilitate behaviour change – it must have the technological capacity to incentivise the uptake of greener and more sustainable travel.

It is not clear why an annual report by Local Authorities would be required. By the nature of ticketing schemes being available to the public they are all in the public domain and very visible. In addition, a previous measure in the Bill will require that key patronage and fares data will be public. Clarification is needed here – although ZetTrans sees the value in providing an annual summary of transport usage within its own annual report.

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### PART 4 - PAVEMENT PARKING AND DOUBLE PARKING

*“This Part of the Bill makes provision prohibiting parking on pavements (footways and footpaths) and — double parking (defined as parking more than 50 cm away from the edge of a carriageway).”*

*“The Bill provisions enable secondary legislation to be made placing a duty on all local authorities to keep accounts, as well as to prepare and publish statements relating to the income and expenditure local authorities have received in connection with the enforcement of the new restrictions.”*

*“Currently local authorities with DPE powers have a duty under section 55 of the Road Traffic Regulation Act 1984 to keep accounts of their income and expenditure in connection with decriminalised enforcement in their areas and to “ring-fence” the income. Any “surplus” may only be used to make good any amount charged to the general fund over the preceding four years or for certain transport-related purposes including:*

1. the provision and maintenance of off-street parking;
2. where the local authority considers that further provision of off-street parking is not necessary or desirable, the provision or operation of (or facilities for) public passenger transport services; and
3. road improvement projects in the local authority area.”

*“It is the Scottish Government’s intention that any surplus generated through the enforcement of the new prohibitions should remain within the local authority in whose area the penalty charges were levied and that it should be ring-fenced as is currently arranged for DPE.”*

*“As there will be considerable preparatory work needed in connection with the new prohibitions the Bill provisions allow the commencement of these prohibitions on a region by region basis across Scotland depending on the readiness of the local authority.”*

#### **DRAFT ZetTrans Response**

ZetTrans is not directly affected by this measure other than in relation to the improvement of opportunities to walk and cycle.

In this respect, ZetTrans supports all and any measures which will increase the uptake of greener and more sustainable travel choices.

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#### **PART 5 – ROADWORKS**

This part of the Bill has a number of sections. In general, these relate to powers granted to the Roadworks Commissioner to ensure compliance with the rules and regulations governing roadworks undertaken by, in general, statutory undertakers (public utilities).

#### **DRAFT ZetTrans Response**

ZetTrans supports this section of the Bill.

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#### **PART 6 – MISCELLANEOUS AND GENERAL**

##### **Regional Transport Partnerships Financing**

The Bill amends previous legislation to adjust the basis on which Transport Partnerships are funded. Legislation currently provides that the constituent councils (or council) that make up a Transport Partnership must fund the balance of the Partnership’s costs after grant and other income is taken into account.

The Bill changes this so that constituent councils must fund the balance of the Transport Partnership’s estimated costs rather than actual costs. In practice this means that a Partnership will be able to carry surplus funds from one year to the next where its actual costs for a year are less than its estimated costs. The Bill alters the calculation of a Partnership’s net expenses to take into account the possibility that the Partnership allocates surplus funds from a previous year to meet expenses in the current year. It adds a requirement on Transport Partnerships to prepare a forecast of its net expenses each year and provide it to constituent councils to aid them in meeting their duty under the act.

The Bill extends the provisions of schedule 3 of the Local Government (Scotland) Act 1975 to Transport Partnerships. The effect of this is that Transport Partnerships can hold and operate capital funds, renewal and repair funds and insurance funds in a similar way to councils. An additional provision prevents Transport Partnerships from using money held in these funds to meet the costs of any company set up by the Partnership.

The Bill extends the provisions of section 165 of the Local Government etc. (Scotland) Act 1994 to Transport Partnerships. The effect of this is that regulations under section 165 will be able to confer on Transport Partnerships the power to borrow and lend money and to operate a loan fund, subject to the terms of the regulations. (Borrowing by Transport Partnerships will also be subject to regulations made under paragraph 5 of schedule 3 of the 1975 Act by virtue of the change in section 69(2).)

#### **DRAFT ZetTrans Response**

This is a welcome development which allows Transport Partnerships to plan for projects over a longer timescale than a single year. However, as ZetTrans is coterminous with its only Council (Shetland Islands Council), consideration is needed as to the practicalities of such changes.

## Appendix 1

In its current form, ZetTrans is able to share staff resource with Shetland Islands Council. Careful thought will be needed to ensure no conflict of interest arises for elected members and ZetTrans' proper legal and finance officers, which are currently shared.

It is highly likely that such a measure, although eminently desirable, will require additional staff resource and incur additional running costs. Partnership members may also require additional voting powers on financial issues if such a measure is to be sustainable in the long term.

### Scottish Canals

The Bill alters the numbers of people that make up the governing body of Scottish Canals.

### DRAFT ZetTrans Response

No comment.