

# Audited Annual Accounts **2020/21**



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# Management Commentary

## Introduction

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

The Scottish Government agreed the change of name to Zetland Transport Partnership with the working name 'ZetTrans' on 20 September 2007 (ZetTrans minute ref 02/07).

The Partnership is primarily comprised of members established in the May 2017 local elections, as well as a small number of changes made since that time. The membership currently consists of:

### Shetland Islands Council (SIC) Members:

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

### Other Members:

Colin Marsland (NHS Shetland)  
 Rachel Hunter (Highland and Islands Enterprise (HIE), resigned 4 March 2021)  
 Andrew Gear (HIE, appointed 24 June 2021)

### Substitute Members:

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

### Observer / Advisers:

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

### Executive Officers:

**Lead Officer:** Michael Craigie, Executive Manager – Transport Planning, SIC.  
**Proper Officer for Finance:** Jamie Manson CPFA  
**Secretary and Proper Officer for Legal Proceedings:** Jan Robert Riise LLB (Hons) LEG-Dip

The purpose of the Management Commentary is to present an overview of ZetTrans' financial performance during the year 2020/21 and to help readers understand its financial position as at 31 March 2021. In addition, it outlines the main risks and uncertainties that ZetTrans is likely to face in the future.

## Background

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

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

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

ZetTrans has a duty, under the Community Empowerment (Scotland) Act 2015, to participate as a Community Planning Partner in the Shetland Partnership and shares its vision that:

“Shetland is a place where everyone is able to thrive; living well in strong, resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges.”

Shetland Islands Council, as the primary funder for ZetTrans, continues to face a significant challenge in achieving long-term financial sustainability with an expected cumulative funding gap of £104m by 2025/26, as outlined in the latest iteration of the Council's Medium Term Financial Plan (MTFP). ZetTrans will need to work with the Council to meet future demand for transport with limited financial resources over the next five years.

## The Impact of COVID-19

COVID-19 has dominated much of 2020/21 as the Partnership responded to the emerging pandemic. The impact of COVID-19 on ZetTrans specifically has been limited to a narrower range of services than in other Council services, but nonetheless ZetTrans has needed to embrace changes to the way services have been delivered and how its business has been conducted over the last year. The impacts can be summarised in three broad areas, as follows:

- impact on operations and finances;
- impact on governance arrangements; and
- impact on the financial statements.

### Impact on operations and finances:

The Council activated business continuity arrangements and put a range of measures in place to facilitate the continuity of services and to protect the wellbeing of staff and customers. The Council identified business-critical services, which enabled the delivery of essential services despite widespread remote working with reduced numbers of staff physically present in workplaces and settings across the Council. These arrangements have continued beyond 31 March 2021, in line with the restrictions in force.

The restrictions imposed by the UK and Scottish Governments has had a direct impact on the demand for services, as well as influencing both the ability and capacity of the Partnership to provide some services. The initial 'stay at home' instruction and subsequent iterations of guidance has led to a reduction of passenger fares collected from public transport services. The loss of income has been offset by additional grant funding from the Council (which has ultimately been provided by the Scottish Government to help local authorities meet additional financial pressures arising from the COVID-19 pandemic). There is therefore no adverse impact on the Partnership's financial position in 2020/21 and financial balance has been achieved.

COVID-19 has also resulted in the reprioritisation of workloads throughout the year, as staff have focused on the initial emergency response and the subsequent recovery and renewal efforts. Regular changes to guidance issued by the Scottish Government required the Partnership to work with stakeholders and suppliers to ensure service delivery obligations were met while also complying with the relevant guidance. The pandemic has also caused delays with some other routine work. Where specific activities or work streams have been delayed, this has been disclosed in the remainder of this management commentary.

### Impact on governance arrangements:

In April 2020, the Council introduced temporary measures to help staff and members adhere to national guidance on social and physical distancing, while enabling core business to be conducted safely. These arrangements applied equally to ZetTrans. ZetTrans meetings took place virtually between April and July. Since July, a hybrid arrangement has been adopted, with limited numbers of Elected Members being able to attend Council and committee meetings in person at the Town Hall, with other Elected Members, officers and external advisors attending via remote means. The arrangements in place enabled routine business to be conducted through the year without any adverse impact on governance of the Partnership's activities. Further information on the governance arrangements adopted by the Council can be found in the Council's Annual Accounts

### Impact on the financial statements:

COVID-19 has the potential to impact the Partnership's financial statements in two ways:

- additional COVID-19 expenditure (or loss of income) that creates an unfunded deficit that cannot be met from other sources; and
- whether the Partnership is still considered a going concern.

These matters have been considered by management during the preparation of the Partnership's financial statements, and are explored further in the Annual Governance Statement. The Partnership does not expect COVID-19 to have a material impact on the financial statements nor does it expect COVID-19 to impact on the Partnership's ability to continue as a going concern. The financial statements have therefore been prepared on a going concern basis.

## Strategy and Performance Management

### National Transport Strategy 2 (NTS2)

ZetTrans engaged with the Scottish Government to inform its second generation National Transport Strategy (NTS2), which was published on 5 February 2020. The strategy identified the following four priorities, to be embedded in all planning and policy development throughout 2020/21:

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

COVID-19 has had a significant impact on progressing the planning and policy development functions as the team was predominately focused on operationally responding to the emerging pandemic. ZetTrans has delivered an Active Travel Strategy, which has been developed and consulted upon during the year.

### Active Travel Strategy

The Shetland Active Travel Strategy was approved by the Partnership in March 2021. The Strategy was developed over the course of the year with input from a comprehensive group of partners:

- Shetland Islands Council;
- NHS Shetland (Public Health and Estates);
- Shetland Recreational Trust;
- Visit Scotland;
- Scottish Natural Heritage;
- Police Scotland; and
- Shetland Association of Community Councils

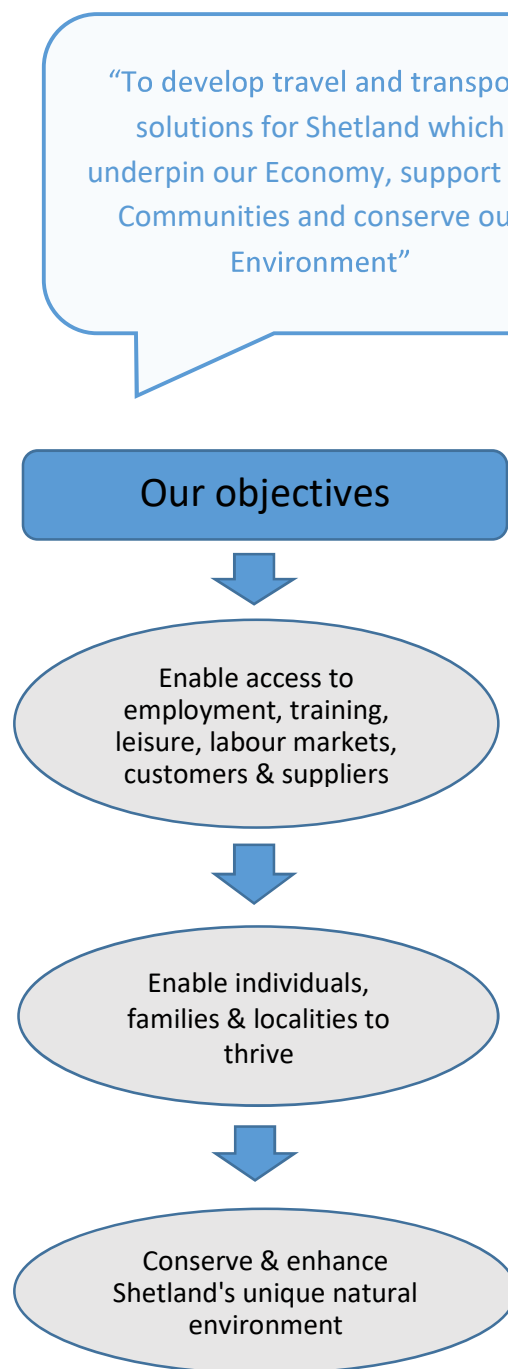
The Active Travel Strategy has been published on the ZetTrans website:

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

### Shetland Regional Transport Strategy

It had been the intention to undertake a new Regional Transport Strategy (RTS) over the course of 2020/21. However, the constraints arising out of COVID-19 impacts and the limitations it placed on consultation and engagement led to an operational decision to postpone the preparation of a new RTS.

For the duration of 2020/21 the refreshed 2018-2028 RTS has remained the strategic policy context for ZetTrans business. For ease of reference, the objectives of the RTS are set out below.



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

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

A serendipitous impact of delaying the preparation of a new RTS is that the changes in society arising from the COVID-19 pandemic and the experience from that is much clearer and provides opportunities for new strategies and policy development in ways that were not necessarily apparent a year ago.

Furthermore, the significance of Climate Change and the direction of policy at both UK and Scottish Government level is much clearer and the development of the RTS can benefit from increased understanding in this area.

Resources to support the preparation of the RTS were approved in March 2021 as part of the 2021/22 budget. The Case for Change will be developed by September 2021 with the Consultation Draft due in early 2022. It is expected that the final Regional Transport Strategy will be submitted to the Scottish Ministers in the second quarter of 2022.

## ZetTrans Annual Report

COVID-19 has had an impact on resources available to carry out key work streams and staff have not been able to prioritise work on a 2019/20 Annual Report. It is the intention to submit a two-year report covering 2019/20 and 2020/21 by September 2021.

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

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

## Key Performance Indicators (KPIs)

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

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

The KPI information, as adopted by the Partnership, has not been updated since 2018/19. Due to the COVID-19 pandemic, it has not been possible to update the KPI information for 2020/21 as the team has prioritised the delivery of other services. In addition, the disruption posed by the COVID-19 pandemic and impact of the 'stay at home' instruction issued by the UK Government on 23 March 2020 and the subsequent impact on passenger demand and capacity of public transport providers, it is likely that KPI information for 2020/21 would be skewed and preclude any meaningful comparison between years. ZetTrans is committed to publishing KPI information on a regular basis as the service shifts towards recovery and renewal. Updated KPIs will be reflected in the 2021/22 Annual Accounts.

## Activities in year

### Inter-island Transport – Business Cases

Building on the Shetland Inter-island Transport Study, work continued throughout 2020/21 to complete the Outline Business Cases (OBCs) for the Fair Isle Ferry and the Whalsay Transport Link.

The impacts of COVID-19 constrained the engagement with communities and therefore the progress of the OBCs and they were not complete by the end of 2020/21. The Fair Isle Ferry OBC was presented to ZetTrans on 31 May 2021 and Shetland Islands Council on 16 June 2021. The Whalsay Transport Link OBC will be reported in the first cycle after the summer 2021 recess. These OBCs will be the basis for external capital funding sought from the Scottish Government and/or the UK Government.

In addition to this ZetTrans continued to work with Shetland Islands Council to promote the inclusion of fixed links as inter-island transport solutions within the Strategic Transport Projects Review 2 (STPR2).

However, the approach adopted to the definition of what is within the scope of STPR2 has led to fixed links and inter-island ferry services in Shetland being scoped out of STPR2. The reporting of STPR2 has highlighted that there will be a specific Islands Connectivity Plan (ICP) commenced in summer 2021 which may take account of such matters although the scope and remit of the ICP is yet to be defined.

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

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

## Fair Funding for Ferries

ZetTrans continued to work in partnership with Shetland Islands Council, to engage with Transport Scotland to secure a fair and full funding agreement to cover the revenue operating costs of inter-island ferry services. The Scottish Government settlement for 2020/21 was £5.223m, being £4.786m lower than the £10.009m required to fully fund the service. The case presented to Scottish Government for 2020/21 was successful and the Council secured a grant of £10.784m which means entire annual revenue costs are met through a combination of general revenue and specific ring-fenced revenue funding.

## Public Bus Services

ZetTrans worked in partnership with Shetland Islands Council to develop a Public Bus, School and Adult Social Care Transport Business Case with implementation of contracts tendered in August 2020. A six-month lead in time was included in the contract award process to enable operators to secure any necessary assets and resources ahead of contracts 'going live'.

The ambition to optimise service levels as far as possible recognising the contribution each area makes to inclusive economic growth as well as societal sustainability and well-being, was achieved at a lower cost, with an annual saving of £0.145m per annum on Public Buses. However, some services were later required to be re-tendered, increasing costs by £0.1m per annum, with updated annual savings on Public Bus contracts of £0.045m anticipated.

## Inter-island Air Services

A full business case for delivery of inter-island air services was approved by ZetTrans, and Shetland Islands Council on 13 February 2020. The four-year contract for delivery to the remote isles was awarded, achieving savings of £0.014m on the anticipated budget.

Air Services continued to operate to Fair Isle and Foula, in order to facilitate essential travel to and from the outer islands. This meant that schedules for the carriage of passengers and freight had to be carefully managed to ensure the islands continued to access and receive essential services and resources whilst minimising risks associated with COVID-19.

In practice, this meant that regular services, as specified in the contract, were suspended in favour of a more responsive, flexible approach to ensure the

wellbeing of each community was maintained. A return to the regular schedule of air services was reinstated in March 2021, with the agreement of the island communities of Fair Isle and Foula. ZetTrans is committed to a regular review of schedules depending on the circumstances relating to COVID-19.

## Northern Isles Ferry Services

The next generation contract for the Northern Isles Ferry Services (connection to mainland Scotland) should have commenced on 31 October 2019. However, due to challenges surrounding State Aid and the tender process the award of contract was delayed, coming into effect on 30 June 2020.

As a consequence of the above, the opportunity to engage with the Scottish Government and Transport Scotland in respect of flexibility within the contract has also been delayed. Only some aspects of the Northern Isles Ferry Service have been included the STPR2 process. It is the upcoming ICP where the opportunity now lies to continue to pursue the issues relating to the Northern Isles Ferry Services. In this connection, ZetTrans will continue to work with local stakeholders, Transport Scotland and the Scottish Government to make the case for service improvements necessary to meet the short, medium and long-term socio-economic needs of Shetland.

## Key Risks

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



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

ZetTrans is working with the Council, the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to implement nationally agreed policy decisions and continues to monitor the additional financial pressures associated with responding to the COVID-19 pandemic. In 2020/21, additional financial support has been passed on by the Council to offset any adverse impact on ZetTrans' income and expenditure, which has ensured that ZetTrans has achieved financial balance in 2020/21.

Restrictions on economic and social activity have varied in scale and severity through the year. In the

latest iteration of *Scotland's route map through and out of the crisis*, Shetland was placed in level 3 of the COVID-19 protection level system on 26 December 2020 until the 17 May 2021, when it was moved down to level 1, and down again to level 0 on 4 June 2021. Restrictions are still imposed in level 0 which may have an impact on ZetTrans operations for the remainder of 2021/22. The Partnership will continue to monitor the impact on operations so it can take remedial action if required.



**Financial Pressures** – ZetTrans receives its primary funding from Shetland Islands Council. The Council is not in a financially sustainable position over the medium term, facing an anticipated cumulative budget deficit of £104m by 2025/26, with the level of core funding from the Scottish Government expected to reduce in real terms, whilst demand for services increases.

ZetTrans works with the Council on appropriate service redesign projects e.g. Fair Funding for Ferries; Public, School and Adult Social Care Transport Services; and Inter-island Air Services, which aim to transform service delivery and ensure that services are delivered as cost effectively as possible.

ZetTrans will develop its own MTFP in 2021/22, which has been delayed as a result of other pressures. The MTFP will consider the impact of reviews into public transport fares, expected demand for travel in a post-COVID-19 environment, as well as estimating the likely resource requirements over a 5-year period and seeking to set a spending envelope over the period to address wider issues of financial sustainability.



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



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



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

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

In addition, the Partnership commenced a review of public transport fares in November 2020. The findings of the review is expected to be published in the last quarter of 2021, including recommendations for a future fare policy. The outcome of this review may impact on the level of income generated from passenger fares and therefore the level of subsidy provided by the Council.

## Workforce Management

ZetTrans does not employ staff directly but instead has a minute of agreement with Shetland Islands Council who provides services, including staffing resources to ZetTrans, settled on a net basis between the entities, reflecting the level of resources required to deliver ZetTrans' functions.

## Looking Ahead

**COVID-19** is a new strain of coronavirus that has quickly spread across the world and created a public health emergency in almost every corner of the globe. Shetland has not been protected, despite an element of geographic isolation. The COVID-19 pandemic has significantly impacted ZetTrans and the residents of Shetland, resulting in changes to the way services are delivered across the Isles.

Attempting to predict the likely short and medium-term impact of COVID-19 on ZetTrans' finances is difficult, especially as the world is at a relatively early stage of understanding of the pandemic. There is no historical precedent to use as the basis of any forecasting models. In the absence of any observed data, ZetTrans works with the Council to make assumptions to establish the likely financial impacts, summarised as:

- increased costs of responding to the pandemic;
- reduced income streams as a result of services being scaled back/closed due to restrictions on daily life and activity;
- potential savings, as a result of services being scaled back; and
- delays to planned change/transformation projects, which may result in savings not being achieved.



**Climate Change** – ZetTrans’ performance in relation to climate change is incorporated with that of Shetland Islands Council. In January 2020, the Council approved its first Strategic Outline Programme (SOP) detailing activities that will in turn facilitate a wider Shetland response, as well as contributing to the Scottish, UK and international efforts. The SOP initially recommended:

- the creation of a Climate Change Programme team, in addition to existing resources, to coordinate, facilitate and catalyse internal Council activity;
- a review into the feasibility of the Council’s Change Fund to fund climate change activity; and
- providing clarity and guidance to Council staff so that climate change implications are clearly set out in the Council’s standard report format, under the heading of ‘Environmental Implications’.

An update on the Council’s climate change SOP was presented in November 2020, and further information is available here:

<https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=25919>

It is apparent that everyone across the world is likely to face significant environmental challenges arising from climate change. There is also a clear risk that systematic and structural problems, such as widespread fuel poverty and the very high transport costs, already experienced in Shetland, could be made worse as changes in energy sources and systems happen. Solutions that clearly recognise these existing inequalities, are actively designed to reduce them, and the aim to deliver a ‘just transition’ will be our most effective climate change response.

**Five Year Outlook** - In addition to COVID-19 and climate change, ZetTrans faces a number of significant challenges and uncertainties, many of which were mentioned earlier in this commentary. Work to develop a MTFP has been delayed, but commenced in 2020/21, and will provide the financial framework for the delivery of sustainable transport services across Shetland over a five-year period. The plan will recognise that the primary funder, Shetland Islands Council, anticipates a continued real-terms reduction in core revenue funding from the Scottish Government, while both the cost of delivering services and the demand for services across Shetland increases. This creates an ever-widening gap between the resources available and the resources required in order to maintain service delivery at current levels.

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

## Primary Financial Statements

The Financial Statements for 2020/21 summarise ZetTrans transactions and cash flows for the year and its year-end position as at 31 March 2021. The Financial Statements are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on International Financial Reporting Standards (IFRS), with interpretation appropriate to the public sector and the overriding requirement of the Code is that the Financial Statements provide a true and fair view of the financial position and the financial transactions of the Partnership.

A description of the purpose of the primary statements has been included immediately prior to each of the financial statements: the Comprehensive Income and Expenditure Statement (CIES), Movement in Reserves Statement (MIRS), Balance Sheet and Cash Flow Statement. These statements are accompanied by notes to the financial statements, which set out the accounting policies adopted and provide a more detailed analysis of the figures disclosed within them. These statements and notes form the relevant Financial Statements for the purpose of the auditor’s certificate and opinion.

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

## Financial Performance in 2020/21

The CIES presents the full economic cost of providing ZetTrans services in 2020/21. This differs from the outturn position as the CIES includes accounting adjustments required to comply with proper accounting practice. Note 1: Expenditure and Funding Analysis (page 24), reconciles the Surplus on Provision of Services of £0.040m, disclosed in the CIES, to the outturn, used for management decision-making.

The majority of this expenditure was met through grant income from the Scottish Government, Shetland Islands Council, and Sustrans. The final outturn position compared to the revised budget for 2020/21 is summarised as follows:

2019/20 Actual £		2020/21 Budget £	2020/21 Actual £	2020/21 Variance £
450,981	Policy, Strategy & Projects	269,618	340,756	(71,138)
1,961,076	Transport Services - Bus	1,945,239	2,185,523	(240,284)
935,004	Transport Services - Air	1,021,796	1,053,035	(31,239)
315,000	Transport Services - Ferry	324,700	315,000	9,700
<b>3,662,061</b>	<b>Total Expenditure</b>	<b>3,561,353</b>	<b>3,894,314</b>	<b>(332,961)</b>
(131,750)	Scottish Government Grant	(131,750)	(131,750)	0
(3,504,686)	SIC Grant	(3,429,138)	(3,722,718)	293,580
(25,175)	Other Grant	0	(39,840)	39,840
(450)	Bank Interest	(465)	(6)	(459)
<b>(3,662,061)</b>	<b>Total Income</b>	<b>(3,561,353)</b>	<b>(3,894,314)</b>	<b>332,961</b>
<b>0</b>	<b>Net (Surplus)/Deficit for Year</b>	<b>0</b>	<b>0</b>	<b>0</b>

*The figures in this table relate to the Revenue Monitoring and Capital Management Accounts.*

In 2020/21, ZetTrans spent £0.071m more in Policy, Strategy & Projects and £0.262m more in Transport Services when compared to the revised budget. The unfavourable outturn variance within Policy Strategy & Projects is mainly due to unbudgeted consultancy costs whilst within Transport Services mainly due to loss of bus fare income. The overall result is an overspend of £0.333m against the revised budget. During the year, the original budget was restructured to help identify the financial impact of COVID-19 therefore £0.278m was re-allocated. However as this is a presentational adjustment the overall approved ZetTrans budget is not affected.

Shetland Islands Council are required under legislation, to meet the net expenses of ZetTrans each financial year. The increased contribution required will be largely mitigated by funding the Scottish Government have provided Councils to support the additional costs of responding to COVID-19 impacts.

## Comparison of Current Year Outturn v Prior Year Outturn

Net expenditure is categorised into two main areas:

- 1. Policy, Strategy & Projects (£0.341m)**, which is a £0.110m (24.4%), decrease when compared to 2019/20 (£0.451m). This is primarily due to reduced consultancy on the transport network redesign projects and receipt of external funding to support these projects, of £0.021m and £0.089m respectively. Sustrans provided £0.059m revenue funding to support the development of the Active Travel Strategy and Spaces for People project. Highlands and Islands Enterprise provided £0.030m to support the OBC's development works.
- 2. Transport Services (£3.554m)**, which is a £0.343m (10.7%) increase when compared to 2019/20 (£3.211m). This is primarily due to reduced bus fare income of £0.230m and marginal decrease in bus contract costs of £0.006m (negating the anticipated £0.045m saving following the re-tendering of bus contracts) as a response to the COVID-19 pandemic. The remaining increase is within Air Services - a one-off aeroplane repair £0.105m; Inter-Island air services contract £0.012m and contract audit fee £0.002m.

## 2021/22 Budget Outlook

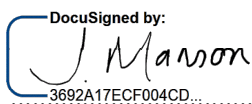
The provision of suitable transport arrangements is vital to the people and communities of Shetland and as such, the delivery of reliable and affordable transport solutions is a key priority of ZetTrans.

The Partnership continues to pursue a new long-term funding arrangement for the Inter-island Ferry Services in conjunction with Shetland Islands Council, Highland and Islands Transport Partnership, 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 2021/22 is £4.478m, of which £0.427m is for core activities and the implementation of the Regional Transport Strategy and £4.051m is for public transport services in Shetland.

The core running costs and implementation of the Regional Transport Strategy work, including the work to access better information on the services being delivered and implementing processes for better performance management, is funded by a grant of £0.132m from Scottish Government and additional funding of £0.295m from Shetland Islands Council. Transport operations are budgeted to cost £3.959m and are funded by anticipated bus fare income of £0.611m and a contribution from Shetland Islands Council of £3.440m. During the budget development and with part year experience of COVID-19 impacts on operations, in particular bus fare income, it has been estimated that an additional contribution in excess of £0.157m may be required from Shetland Islands Council in 2021/22.

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Jamie Manson CPFA  
Proper Officer for Finance  
Zetland Transport Partnership

30 September 2021

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

30 September 2021

## Statement of Responsibilities


### Zetland Transport Partnership's Responsibilities

ZetTrans is required to:

- make arrangements for the proper administration of its financial affairs, and to secure that one of its officers has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For Zetland Transport Partnership, that officer is the Executive Manager – Finance, Shetland Islands Council;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure that the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as it is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003), and the Coronavirus (Scotland) Act 2020; and
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Partnership at its meeting on 30 September 2021.

Signed on behalf of Zetland Transport Partnership.

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E9B1AED0A19F409.....

Ryan Thomson  
Chairperson  
Zetland Transport Partnership

30 September 2021

### 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 2021.

DocuSigned by:  
  
3692A17ECF004CD.....

Jamie Manson CPFA  
Proper Officer for Finance  
Zetland Transport Partnership

30 September 2021

# Annual Governance Statement

## Scope of Responsibility

The Partnership 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. The Partnership also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities, Elected Members and senior officers are responsible for implementing proper arrangements for the governance of the Partnership's affairs, including the stewardship of the resources at its disposal and the management of risk.

In practice, the Council is the sole constituent authority participating in the Partnership, so the arrangements put in place by the Partnership mirror the Council's arrangements in this regard. In summary, these are:

- a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'; and
- the Council's financial and management arrangements comply with the CIPFA Statement on the role of the Chief Financial Officer in local government. These arrangements apply equally to the Partnership because the Proper Officer for Finance fulfils the equivalent Proper Officer/Section 95 Officer role for the Partnership.

## The Governance Framework

The Zetland Transport Partnership (known as 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 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 modelled on that of Shetland Islands Council, details of which are

included in the Annual Accounts of Shetland Islands Council, which can be found here:

<https://www.shetland.gov.uk/downloads/download/260/constitution-governance-downloads>

The Council's Local Code of Corporate Governance demonstrates the Council's commitment to achieving good governance and provides examples of how it complies with the governance standards recommended by CIPFA and SOLACE. The document is reviewed regularly and was last updated in June 2019. Due to the COVID-19 pandemic, the annual review of the Local Code of Corporate Governance did not take place during the year as had been planned. Elected Members approved the introduction of temporary governance arrangements in April 2020 to ensure key Council and Pension Fund business was transacted despite the restrictions governing public meetings. A further report presented to Elected Members provided a comprehensive summary of decisions taken by officers using delegated authority. The temporary governance arrangements came to an end in September 2020 when Elected Members approved the reinstatement of regular committee cycles, as the Council moved from an emergency response to focus on the recovery and renewal effort.

A previously planned governance review for Zetland Transport Partnership had been due to conclude by February 2021. This review has been further delayed due to the COVID-19 pandemic. It is intended that the review will now take place in parallel with the review of the Council's governance arrangements, which has also been delayed due to the COVID-19 pandemic. Boundaries Scotland recently finalised its 2019 Review of Electoral Arrangements for the Na h-Eileanan an Iar, Orkney Islands and Shetland Islands Council areas to Scottish Ministers. Should the proposals be accepted by the Scottish Ministers and enacted, the Partnership will need to reflect any changes in ward membership in the governance arrangements put in place. The outcome of the Boundaries Scotland review should be known in advance of the 2022 local government elections. The Council's review of governance arrangements will seek to incorporate any changes brought about by changes in electoral boundaries.

## Purpose of the governance framework

The governance framework consists of the systems, processes, culture and values by which the Partnership is directed and controlled, and the activities used to engage with and lead the community. It enables the Partnership to monitor the achievement of its strategic

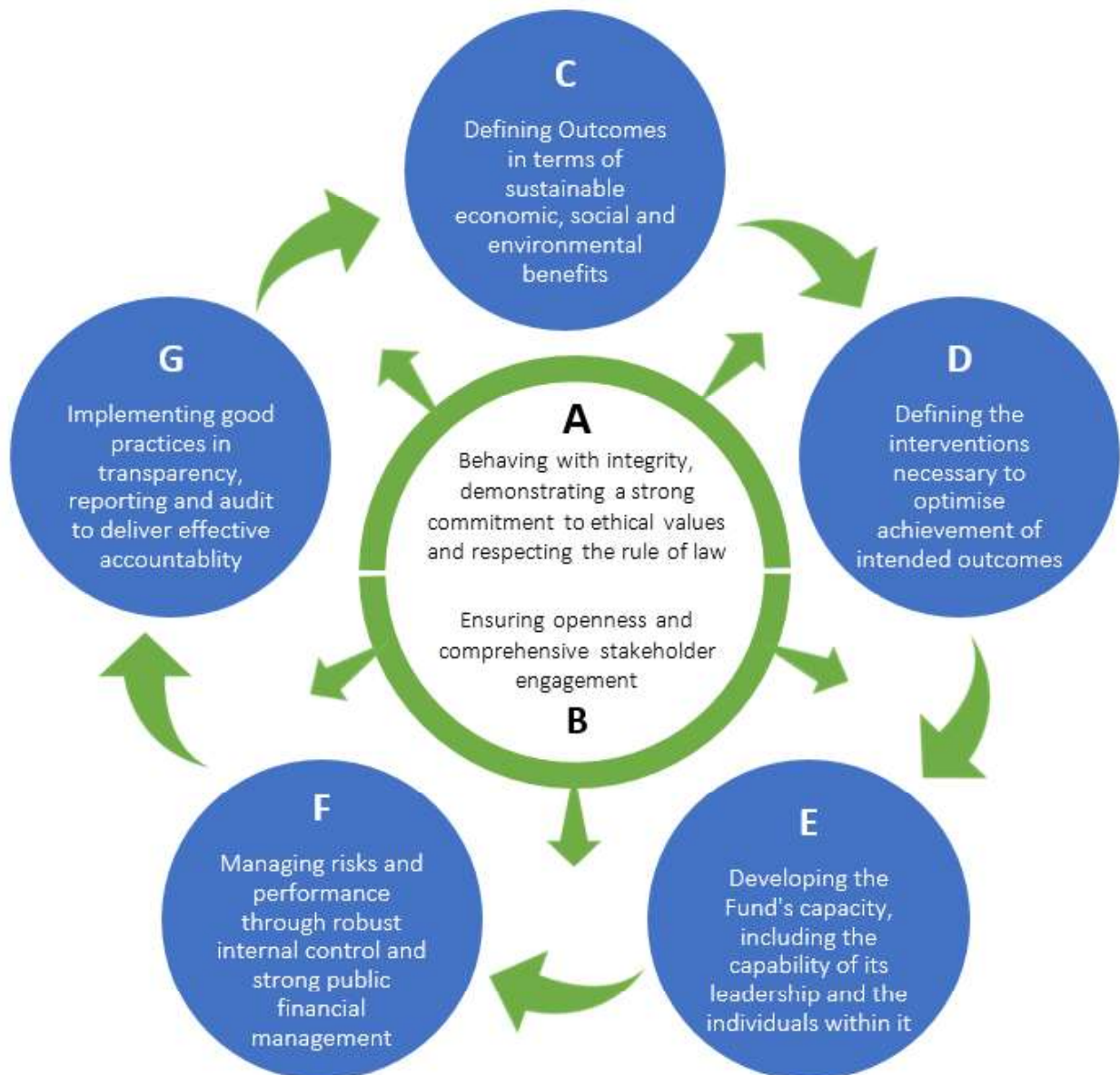
objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk at acceptable levels, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of control is based on an ongoing process designed to identify and prioritise risks, and their associated impacts should they crystallise, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2021 and up to the date of approval of the Annual Accounts.

The governance framework adopted by the Council is consistent with the with the seven core principles of the revised 2016 CIPFA/SOLACE framework and is pictured below, showing each of the seven principles and how they interact with one another.

Principles A and B contain the overarching principles of good governance which percolate down through the remaining principles.



## 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 functions and on activities which occur across the Council; and
- External Audit observations, comments and recommendations for improvement.

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

As noted in the Management Commentary, staff providing services to ZetTrans are covered by all relevant Shetland Islands Council internal controls, policies and procedures. Although no specific internal audit opinion has been expressed by internal audit for ZetTrans, the Partnership is satisfied that the internal audit opinion provided to the Council applies equally to the activities of ZetTrans and therefore takes assurance from that audit opinion, (which can be found within the Council's Annual Governance Statements in its annual accounts).

## Impact of COVID-19

COVID-19 dominated much of 2020/21 and continues to have a significant impact on the Partnership's activities and ability to deliver services.

The impact of the COVID-19 pandemic on the Partnership can be summarised under 4 areas:

- operations and service delivery;
- governance arrangements;
- financial statements; and
- longer-term consequences.

### Impact on operations and service delivery:

The Council activated business continuity arrangements and put a range of measures in place to facilitate the continuity of service and to protect the wellbeing of staff and customers. The Council identified business-critical services which enabled the Partnership to continue to deliver essential services despite widespread remote working with limited numbers of staff physically present in the office. These arrangements have continued beyond 31 March 2021, in line with the restrictions in force.

The restrictions imposed by the UK and Scottish Government have had a direct impact on the demand for public transport as well as influencing the capacity of public transport service operators as adaptations were made to accommodate physical distancing as required by COVID-19 restrictions. The initial 'stay at home' instruction and subsequent guidance encouraging everyone to work at home has led to a reduction in passenger fare income across all public

transport services. The loss of income has been offset by additional grant funding from the Council which itself has received financial support from the Scottish Government to help local authorities meet additional financial pressures arising from the COVID-19 pandemic. The impact on the Partnership has therefore been mitigated by the Council.

### Impact on Governance Arrangements:

As set out in the earlier commentary, the Council introduced temporary measures to help staff and members adhere to national guidance on social and physical distancing, while enabling core business to be conducted safely. Council meetings took place virtually between April and July. Since July, the Council adopted a hybrid arrangement with limited numbers of Elected Members being able to attend Council and committee meetings in person at the Town Hall, with other Elected Members, officers and external advisors attending via remote means. These arrangements were extended to cover Zetland Transport Partnership, and enabled routine business to be conducted through the year without any adverse impact on governance of the Partnership's activities.

### Impact on the Financial Statements:

COVID-19 has the potential to impact on the Partnership's financial statements in two ways:

- additional COVID-19 expenditure (or loss of income) that creates an unfunded deficit that cannot be met from other sources; and
- whether the Partnership is still considered a going concern.

As described above, the Partnership has generated less income during the year as a direct impact of the COVID-19 pandemic and the various social and economic restrictions in force through the majority of the year. The Scottish Government has provided additional financial support to local authorities to help meet the financial pressures experienced. The Council has utilised some of this financial support to offset the pressure experienced by the Partnership. The impact of COVID-19 on the Partnership's financial statements is not thought to be material.

COVID-19 has also created a going concern challenge for many organisations. The Partnership is primarily funded by grant funding from the Council and from other external organisations, and generates additional income from passenger fares from public transport services. As described in the preceding section, the loss of income has been offset by the Council and

Scottish Government. The Partnership is confident that financial support would be provided by the Scottish Government and/or the Council should the Partnership encounter similar circumstances in future accounting periods. COVID-19 is not considered to threaten the Partnership's ongoing operations and therefore the Partnership considers it is still appropriate to prepare financial statements on a going concern basis.

### Longer-term consequences:

It is becoming clearer that the world will be living with COVID-19 for the foreseeable future. The consequences arising from the pandemic, from both a

health and an economic perspective will be felt for years.

Long-term health and social implications arising from COVID-19 are not yet fully known, which may have consequences on the wider global economy and temper any efforts for societies across the world to resume 'normal' life. A variety of factors have the potential to impact society in both positive and negative ways (for example, people may not commute to workplaces as frequently as in pre-pandemic times, meaning less passenger demand). However it is too early to definitively determine what the longer-term implications are at this point.

## Significant Governance Issues

Two significant governance issues have been identified during the year:

1. Key Performance Indicators
The lack of KPI information significantly limits the ability of the Partnership to demonstrate accountability through open and transparent reporting.
<b>Responsible Officer</b>
Lead Officer
<b>Potential Impact</b>
A stakeholder's ability to draw meaningful comparison of ZetTrans' performance between reporting periods is impeded as no relevant information has been provided over two successive reporting periods, despite a range of KPI metrics being adopted by the Partnership a number of years ago. The Partnership acknowledges the limitation this deficiency has on the Partnership's ability to report in an open and transparent way.
<b>Mitigating actions currently in place</b>
The Partnership has already adopted a set of 40 KPIs which provides the framework for reporting. The Partnership will explore whether existing resource can be temporarily redeployed from elsewhere during 2021/22 to collate data and update KPIs.
<b>Proposed Action</b>
Reprioritisation of workload and redeployment of resources to ensure KPIs are reported regularly to stakeholders. The Partnership will review the existing 40 KPIs and consider whether a smaller set of KPIs would be beneficial and more manageable to enable regular reporting to stakeholders.
<b>Target Date</b>
March 2022

2. Annual Report
The Partnership has not published its Annual Report on an annual basis since 2016/17. Instead, an 'Annual Report' covering both 2017/18 and 2018/19 was published in September 2019.
<b>Responsible Officer</b>
Lead Officer
<b>Potential Impact</b>
This means information about the Partnership's activities and performance is not published as timely as it could be. The timeliness of reporting also affects the Partnership's ability demonstrate openness and transparency.
<b>Mitigating actions currently in place</b>
The Partnership intends to publish another 'Annual Report' covering 2019/20 and 2020/21 by the end of September 2021.
<b>Proposed Action</b>
In future accounting periods, early prioritisation of resource and workforce planning should allow for the timely delivery of an Annual Report.
<b>Target Date</b>
September 2021



## Conclusion

Overall, we consider that the governance and internal control environment operating in 2020/21 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

DocuSigned by:  
*Jan Riise*  
.....BE2290D7E274491.....

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

30 September 2021

DocuSigned by:  
*Ryan Thomson*  
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Ryan Thomson  
Chairperson  
Zetland Transport Partnership

30 September 2021

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

## Reporting on the audit of the financial statements

### Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Zetland Transport Partnership for the year ended 31 March 2021 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 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the body as at 31 March 2021 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 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is 5 years. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

### Risks of material misstatement

We report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our judgements thereon.

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

As explained more fully in the Statement of Responsibilities, the Proper Officer for Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Proper Officer for Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Proper Officer for Finance is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless 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 obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the 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.

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

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

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

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

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

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

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

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

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

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

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

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

## Reporting on other requirements

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

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

### Statutory other information

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

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

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

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


We have nothing to report in respect of these matters.

## Conclusions on wider scope responsibilities

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

## Use of our report

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

DocuSigned by:  
  
3377FE03D94848A...  
Pat Kenny, CPFA (for and on behalf of Deloitte LLP)  
110 Queen Street  
Glasgow  
G1 3BX  
United Kingdom  
30 September 2021

## Primary Financial Statements

### Comprehensive Income and Expenditure Statement for year ended 31 March 2021

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

2019/20 Net Expenditure £	Notes	2020/21 Gross Expenditure £	2020/21 Gross Income £	2020/21 Net Expenditure £
450,981	Policy, Strategy & Projects	389,933	(89,017)	300,916
1,961,076	Transport Services - Bus	2,626,503	(440,980)	2,185,523
935,004	Transport Services - Air	1,053,035	0	1,053,035
315,000	Transport Services - Ferry	315,000	0	315,000
<b>3,662,061</b>	<b>Cost of Services</b>	<b>4,384,471</b>	<b>(529,997)</b>	<b>3,854,474</b>
(450)	Financing & Investment Income	0	(6)	(6)
(3,661,611)	Taxation & Non-specific Grant Income 7	0	(3,894,308)	(3,894,308)
<b>0</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>4,384,471</b>	<b>(4,424,311)</b>	<b>(39,840)</b>
<b>0</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>0</b>
<b>0</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>(39,840)</b>

## Movement in Reserves Statement

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

2020/21	Usable Reserves £	Unusable Reserves £	Total Reserves £
<b>Balance at 1 April 2020</b>	0	0	0
<b>Movement in reserves during the year:</b>			
Total comprehensive income and expenditure	(39,840)	0	(39,840)
Adjustments between accounting basis and funding basis per regulations (Note 6)	39,840	(39,840)	0
<b>Decrease in year</b>	0	(39,840)	(39,840)
<b>Balance at 31 March 2021</b>	0	(39,840)	(39,840)

No movement in reserves in the prior year, therefore no comparator statement presented.

## Balance Sheet as at 31 March 2021

This statement shows the value as at 31 March 2021 of the assets and liabilities recognised by the Partnership. The net assets of the partnership (assets less liabilities) are matched by reserves held by the Partnership.

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

As at 31 March 2020 (restated) £		Notes	As at 31 March 2021 £
0	Property, Plant and Equipment	9	39,840
<b>0</b>	<b>Long-Term Assets</b>		<b>39,840</b>
224,783	Short-term debtors	11	149,347
132,200	Cash & cash equivalents	10	0
<b>356,983</b>	<b>Current Assets</b>		<b>149,347</b>
(356,983)	Short-term creditors	12	(149,347)
<b>(356,983)</b>	<b>Current Liabilities</b>		<b>(149,347)</b>
<b>0</b>	<b>Net Assets</b>		<b>39,840</b>
0	Unusable Reserves	8	39,840
<b>0</b>	<b>Total Reserves</b>		<b>39,840</b>

The unaudited financial statements were issued on 24 June 2021 and the audited financial statements were authorised for issue by the Partnership on 30 September 2021.

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

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 .....3692A17ECF004CD.....  
 Jamie Manson CPFA  
 Proper Officer for Finance  
 Zetland Transport Partnership

30 September 2021



## Cash Flow Statement for the year ended 31 March 2021

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

2019/20		2020/21
£	Notes	£
	<b>Operating Activities</b>	
(450)	Interest received	(6)
(131,750)	Grants	(131,750)
0	Cash paid to suppliers of goods and services	263,956
<b>(132,200)</b>	<b>Net cash flows from Operating Activities</b>	<b>132,200</b>
<b>0</b>	<b>Investing Activities</b>	<b>0</b>
<b>0</b>	<b>Financing Activities</b>	<b>0</b>
<b>(132,200)</b>	<b>Net increase or (decrease) in cash &amp; cash equivalents</b>	<b>132,200</b>
0	Cash & cash equivalents at 1 April	(132,200)
(132,200)	Net movement in cash & cash equivalents during the year	132,200
<b>(132,200)</b>	<b>Closing cash &amp; cash equivalents</b>	<b>0</b>

## Notes to the Financial Statements

### Note 1: Expenditure and Funding Analysis

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

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

There were no adjustments between accounting and CIES, therefore no prior year movement presented.

### Note 2: Accounting Standards Issued and Adopted in Year

Adoption of new and revised standards.

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

In the current year, the Partnership has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendment to IFRS 9: Applying IFRS9 with IFRS4;
- Amendment to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to IAS 39, IFRS 4, IFRS 7 and IFRS 9: Interest Rate Benchmark Reform (Phase 1); and
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

- b) Standards, amendments and interpretations early adopted this year

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

### Note 3: Accounting Standards Issued but not yet Adopted

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

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

- IFRS 16: Leases. HM Treasury have agreed to defer implementation until 1 April 2022;
- IFRS 17: Insurance Contracts. Applicable for periods beginning on or after 1 January 2023;
- Amendment to IAS 1: Classification of Liabilities as Current or Non-Current. Applicable for periods beginning on or after 1 January 2023;
- Amendment to IAS 1: Disclosure of Accounting Policies. Applicable for periods beginning on or after 1 January 2023;

- Amendment to IAS 8: Definition of Accounting Estimates. Applicable for periods beginning on or after 1 January 2023;
- Amendments to IAS 16: Property, Plant and Equipment proceeds before intended use. Applicable for periods beginning on or after 1 January 2022;
- Amendments to IAS 37: Onerous Contracts, cost of fulfilling a contract. Applicable for periods beginning on or after 1 January 2022;
- Amendments to IAS 39, IFRS 4, IFRS 7 and IFRS 9: Interest Rate Benchmark Reform (Phase 2). Applicable for periods beginning on or after 1 January 2021; and
- Annual Improvements to IFRS Standards 2018-2020 Cycle. Applicable for periods beginning on or after 1 January 2022.

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

IFRS 16 Leases supersedes IAS 17 Leases and is being applied by Code from 1 April 2022. IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee's assets and liabilities, and provides enhanced disclosures to improve transparency of reporting on capital employed.

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

## Note 5: Prior Period Error

The Code permits the offsetting of financial assets and financial liabilities, and for the net amount to be presented in the Balance Sheet, where the Partnership:

- has a legally enforceable right to set off the recognised amounts, and intends to 'settle on a net basis', or
- will simultaneously realise the asset and settle the liability.

The Partnership discovered an error, when reviewing the comparator information, in the application of this accounting treatment.

In 2019/20, the Partnership offset the Shetland Islands Council financial asset and financial liability, however the resulting credit balance was not classified within short-term creditors instead remaining in short-term debtors. As a

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

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

Due to the need to reassess lease calculations, together with uncertainty on expected leasing activity from April 2021 and beyond, a quantification of the expected impact of applying the standard in 2021/22 is currently impracticable. However, the Partnership does not expect the implementation of this standard to have a material impact on the financial statements.

## Note 4: Critical Judgements & Estimation Uncertainties

There are no material critical judgements or sources of estimation uncertainty included in the Financial Statements.

result, the current assets in the Balance Sheet were understated by £0.225m and the current liabilities in the Balance Sheet were overstated by £0.225m. The net impact on the Balance Sheet was neutral, however, as the amounts are considered material, prior year figures are restated in the Balance Sheet and related notes. The Partnership has since reviewed its processes and updated its working papers to ensure the accounting treatment is correctly applied going forward.

These restatements are summarised in the tables below, only showing lines that have changed:

### Effect on the line items in the Balance Sheet 31 March 2020 (page 22)

	2019/20 As originally stated £	2019/20 As restated £	Restatement £
Short-term Debtors	0	224,783	224,783
<b>Current Assets</b>	<b>132,200</b>	<b>356,983</b>	<b>224,783</b>
Short-term Creditors	(132,200)	(356,983)	(224,783)
<b>Current Liabilities</b>	<b>(132,200)</b>	<b>(356,983)</b>	<b>(224,783)</b>

### Effect on Note 11: Short-term Debtors (page 28)

The Code requires financial statements to include disclosures that are material to the presentation of a 'true and fair' view of the financial position, financial performance and cash flows of the Partnership and to the understanding of users of the financial statements. In 2019/20, the Short-term Debtors balance (and 2018/19 comparator) equalled £nil and therefore no disclosure was included in the notes to the financial statements. However, the 2019/20 £nil balance was a result of the error in the application of accounting treatment to "settle on a net basis".

Short-term Debtors	2019/20 Not originally disclosed £	2019/20 As restated £	Restatement £
Central Government Bodies	82,591	82,591	0
Shetland Islands Council	(224,783)	0	224,783
Other Entities & Individuals	142,192	142,192	0
<b>Total</b>	<b>0</b>	<b>224,783</b>	<b>224,783</b>

### Effect on Note 12: Short-term Creditors (page 28)

Short-term Creditors	2019/20 As originally stated £	2019/20 As restated £	Restatement £
Shetland Islands Council	(121,550)	(346,333)	(224,783)
<b>Total</b>	<b>(121,550)</b>	<b>(346,333)</b>	<b>(224,783)</b>

## Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

## Note 7: Taxation and Non-specific Grant Income

The Partnership credited the following grants, contributions and donations to the CIES in 2020/21:

2019/20 £		2020/21 £
	<b>Credited to Taxation and Non-specific Grant Income</b>	
(3,504,686)	Shetland Islands Council Grant	(3,722,718)
(131,750)	Scottish Government Revenue Expenditure Grant	(131,750)
(25,175)	Other Grants	(39,840)
<b>(3,661,611)</b>	<b>Total</b>	<b>(3,894,308)</b>
	<b>Credited to Services</b>	
0	Sustrans	(59,017)
0	Highlands and Islands Enterprise	(30,000)
<b>0</b>	<b>Total</b>	<b>(89,017)</b>

## Note 8: Unusable Reserves

### Capital Adjustment Account

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

aside by the Partnership as finance for the costs of acquisition, construction and enhancement.

2019/20 £		2020/21 £
0	<b>Opening balance</b>	0
	<b>Capital financing in the year:</b>	
0	Capital grants and contributions credited to the CIES that have been applied to capital financing	(39,840)
<b>0</b>	<b>Closing balance</b>	<b>(39,840)</b>

## Note 9: Property, Plant and Equipment

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

## Note 10: Cash and Cash Equivalents

All cash held is due to the Shetland Islands Council for the provision of service. As at 31 March 2021, the Cash and Cash Equivalents balance is nil, as settled before the end of the year:

As at 31 March 2020 £		As at 31 March 2021 £
132,200	Bank current account	0
<b>132,200</b>	<b>Total</b>	<b>0</b>

## Note 14: 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:

2019/20 £		2020/21 £
9,578	Fees payable in respect of external audit services carried out by the appointed auditor for the year	9,795
<b>9,578</b>	<b>Total</b>	<b>9,795</b>

## Note 11: Short-term Debtors

As at 31 March 2020 (restated) £		As at 31 March 2021 £
82,591	Central Government Bodies	17,972
0	Shetland Islands Council	67,124
142,192	Other Entities & Individuals	64,251
<b>224,783</b>	<b>Total</b>	<b>149,347</b>

## Note 12: Short-term Creditors

As at 31 March 2020 (restated) £		As at 31 March 2021 £
0	Central Government Bodies	(48,242)
(346,333)	Shetland Islands Council	(82,223)
(6,241)	Public Corporations & Trading Funds	(6,382)
(4,409)	Other Entities & Individuals	(12,500)
<b>(356,983)</b>	<b>Total</b>	<b>(149,347)</b>

## Note 13: 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.

2019/20 £		2020/21 £
6,613	Members' expenses	163
<b>6,613</b>	<b>Total</b>	<b>163</b>

## Note 15: Related Parties

The Partnership is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Partnership or to be controlled or influenced by the Partnership. Disclosure of these transactions allows readers to assess the extent to which the Partnership may have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to contract freely with them.

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

In 2020/21, The Scottish Government provided £0.132m to fund running costs of the Partnership (£0.132m in 2019/20).

Shetland Islands Council is responsible for funding the net expenditure of the Partnership under the Transport (Scotland) Act 2005. In 2020/21 the Council provided £3.554m (£3.211m in 2019/20) to fund the delivery of the public transport service and a further £0.169m (£0.294m in 2019/20) of match funding for core running costs. ZetTrans does not employ its own staff and during 2020/21, Shetland Islands Council charged ZetTrans £0.294m (£0.224m in 2019/20) in respect of staff, supplies and other support services.

## Note 16: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 30 September 2021. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material aspects to reflect the impact of this information.

## Note 17: Critical Judgements in applying accounting policies

The Partnership has determined that uncertainty in relation to future levels of local government funding does not indicate that the level of service provision

within the Partnership will require to be materially changed.

## Note 18: Accounting Policies

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

### A General Principles

The Annual Accounts summarise the Partnership's transactions for the 2020/21 financial year and its position at the year-end, 31 March 2021. ZetTrans' is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government Scotland Act 2003 requires to be prepared in accordance with proper accounting practices. These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts have been prepared on a going concern basis. Management has considered the a range of factors that may influence the ability of the Partnership to continue as a going concern, including:

- the regulatory and legislative framework governing Pension Funds;
- the Council's governance arrangements;
- the Council's current and medium-term financial position; and
- the impact of COVID-19.

The concept of the Partnership as a going concern is based on the premise that sufficient funding will be available to ensure that its functions and services will continue in existence for the foreseeable future. Management's assessment of the above factors has determined that it is still appropriate to prepare the Partnership's financial statements on a going concern basis, as required by the Code of Practice on Local Authority Accounting 2020/21.

## B 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 only made 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 Partnership's 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.

## 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 Charges to Revenue for Non-Current Assets

The Partnership is charged with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the Partnership;
- revaluation and impairment losses in assets used by the partnership where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the Partnership.

## E Cash and Cash Equivalents

Cash is represented by deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

## 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 financial year, whereby the annual accounts are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the financial year, whereby the annual accounts are not adjusted to reflect such events; where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

## G Government Grants and Contributions

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

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

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



Income (non-ring fenced revenue grants and all capital grants) in the CIES.

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

## H Property, plant and equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

Assets are carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets are held at depreciated historical cost;
- Community assets and assets under construction are held at historical cost;
- Surplus assets are held at fair value, estimated at highest and best use from a market participant's perspective; and
- all other assets are held at current value, determined as the amount that would be paid for the asset in its existing use value.

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

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

Assets included in the Balance Sheet at current value are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Unrealised gains arise from notional changes in value that have not been converted into cash.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that they may be impaired.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES; and
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation

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

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

- Other land and buildings: 1 - 105 years
- Vehicles, plant, furniture and equipment: 1- 40 years
- Infrastructure: 5 – 60 years

Surplus assets are depreciated on a straight-line basis over their useful economic life. The relevant economic life for surplus assets is in line with those stated above for each category of asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If an asset no longer meets the criteria to be classified as an asset held for sale, it is reclassified back to a non-current asset. It is valued at the lower of its carrying amount before the asset was classified as held for sale, adjusted for depreciation, amortisations or revaluations that would have been recognised if the asset had not been classified as an asset held for sale, and its recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

## I Reserves

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

## J Value Added Tax

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

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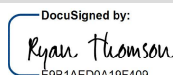
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Signing Complete	Security Checked	9/30/2021 3:52:49 PM
Completed	Security Checked	9/30/2021 3:52:49 PM
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