

Annual Accounts 2019/20



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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:

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

Other Members:

Mr. C Marsland (NHS Shetland, appointed 25 April 2019)
Mrs R Hunter (HIE Shetland)

Substitute Members:

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

Observer / Advisers:

Mr C Grains (Lerwick Port Authority)
Mr S Mathieson (Visit Shetland)
Mr James Smith (Chair, Sumburgh Airport Consultative Committee, resigned 26 March 2019)
Mr John Smith (Shetland Islands Council, Director of Infrastructure)

Executive Officers:

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

Proper Officer for Finance: Jamie Manson, Executive Manager – Finance, SIC.

Secretary and Proper Officer for Legal Proceedings: Jan Robert Riise, Executive Manager – Governance & Law, SIC.

The purpose of the Management Commentary is to present an overview of ZetTrans' financial performance during the year 2019/20 and to help readers understand its financial position as at 31 March 2020. In addition, it outlines the main risks and uncertainties facing ZetTrans in the financial year 2019/20 and beyond.

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, promotes safety, social inclusion, equal opportunity and plans for a sustainable transport system, integrating across boundaries with other partnerships.

It does this by working together with a number of key stakeholders and interested bodies, including Shetland Islands Council, NHS Shetland, Highlands and Islands Enterprise, Transport Scotland, bus operators, airlines and ferry companies as well as industry bodies in Shetland covering tourism, hauliers, fishing and aquaculture. Its 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 refers to the review of its own governance and the importance of completing this.

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 challenges in achieving sustainability, with an expected cumulative funding gap of £41m by 2023/24 predicted in its Medium Term Financial Plan. To address this key financial challenge, ZetTrans collaborated with Shetland Islands Council to undertake a full review of bus services, using the Treasury ‘5-Case Model’, concluding in the presentation of a full business case for Public Bus, School and Adult Social Care Transport Services in Shetland, on 13 February 2020. The approved network of services collectively delivered £0.473m savings per annum (Public Bus element £0.145m), with some additional service enhancement growth in income expected to reduce costs further.

Strategy and Performance Management

National Transport Strategy 2 (NTS2)

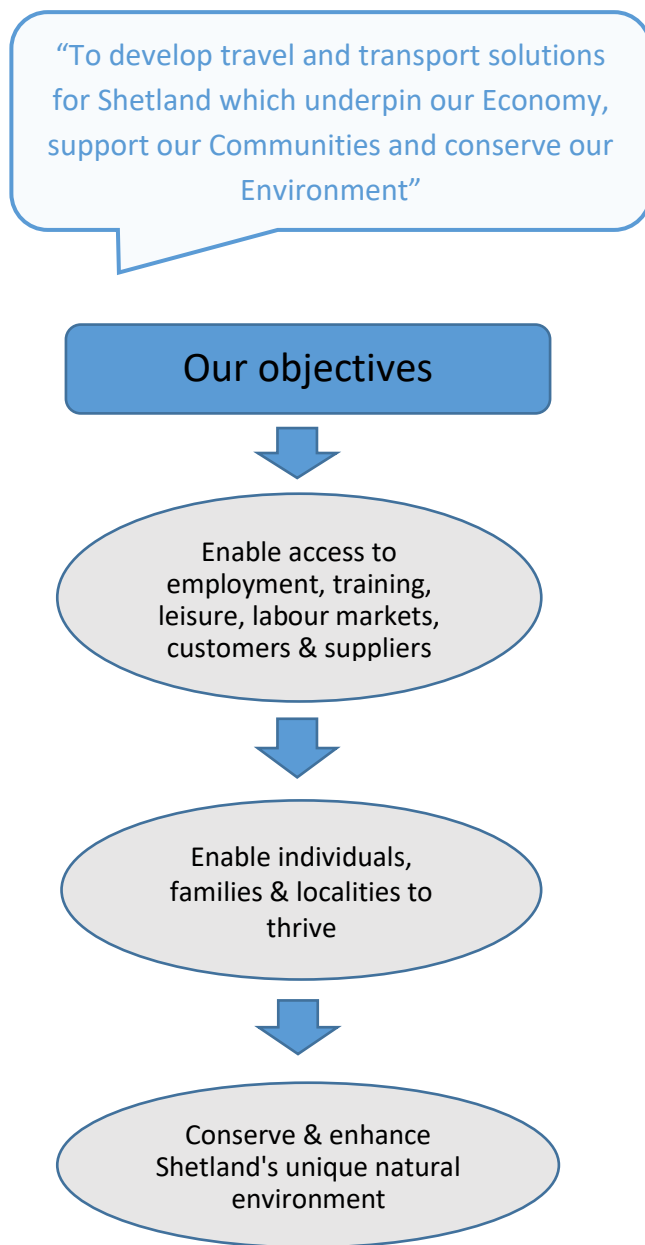
ZetTrans engaged with the Scottish Government to inform its second generation National Transport Strategy (NTS2), which was published on 5 February 2020. The strategy identified the following four priorities, which will be embedded in all planning and policy development throughout 2020/21:

- Improve our health and wellbeing
- Take climate action
- Reduce inequalities
- Help deliver inclusive economic growth

Revision of the Shetland Regional Transport Strategy

The Shetland Transport Strategy was refreshed in 2018, incorporating the findings of other studies, such as the *Shetland Inter-island Transport Study*, the *Northern Isles Ferry Services (NIFS) STAG (Scottish*

Transport Appraisal Guidance) Study, and the *Shetland Partnership Plan 2018-2028*.



The refreshed Shetland Transport Strategy is presented more comprehensively on the Partnerships website: <https://www.zettrans.org.uk/about/strategy>

The Strategy will be reviewed over the course of 2020/21 to take account of the significant shift in emphasis on transport arising out of the Scottish Government’s declaration of a climate emergency and the impacts of COVID-19.

ZetTrans Annual Report

ZetTrans submitted its 2017-19 Annual Report to Transport Scotland in February 2020. A copy can be found at: <http://www.zettrans.org.uk/aboutus/AnnualReportandAccounts.asp>

Key Performance Indicators

ZetTrans adopted a range of 40 key performance indicators (KPIs) in September 2016, a selection of which are shown below. These KPIs relate to a range of transport functions in place in Shetland, both within the scope of ZetTrans operations and those managed by others. Full details can be found at: <http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24967>

Key Performance Indicator	Target	2017/18	2018/19	Target Met
Reliability of Shetland's Transport				
% Cancellation of Inter-island Air Services	Reduce	39.11	41.30	No
No Cancellation of Inter-island Ferry Services	Reduce	721.00	536.00	Yes
% External Ferry Services Departures that vary by +30m	Reduce	7.31	6.35	Yes
Standards of Road Maintenance				
% of Local Road Network - Red/Amber	Reduce	35.30	36.10	No
Fuel Consumption Levels				
Petrol consumption in Shetland (tonnes)	Reduce	3,956	3,843	Yes
Diesel consumption in Shetland (tonnes)	Reduce	11,196	10,321	Yes
Market Growth on Shetland's Transport Network				
Public Bus Passenger Numbers	Monitor	442,365	439,963	n/a
Vehicle Numbers on Inter-islands Ferries	Monitor	379,807	374,665	n/a
Inter-island Ferry Passenger Numbers	Monitor	767,315	762,761	n/a
Inter-island Air Passenger Numbers	Monitor	4,079	3,847	n/a
External Air Passenger Numbers	Monitor	228,123	219,627	n/a
Public Transport Accessibility				
% Wheelchair accessible Public Bus Services (Buses +22 Seats)	Maintain	100.00	100.00	Yes
Road Safety Levels				
No people killed or seriously injured on Shetland's roads	Reduce	9	4	Yes
No of Child casualties	Reduce	1	-	Yes
No people slightly injured on Shetland's roads	Reduce	14	14	No
Transport Integration Opportunities				
% Arriving Inter-island Ferries connecting with Public Bus Services	Increase	23.65	23.02	No
% Departing Inter-island Ferries connecting with Public Bus Services	Increase	23.89	23.78	No
% Arriving external ferries that connect with Public Bus Services	Increase	86.00	86.00	No
% Departing external ferries that connect with Public Bus Services	Maintain	100.00	100.00	Yes

In addition to the transport KPIs shown above, ZetTrans aims to achieve a balanced budget annually. In 2019/20, ZetTrans achieved a favourable outturn position of £0.074m (2018/19 – unfavourable outturn £0.373m). Further information can be found within the Comparison of Outturn with Budget section below.

Activities in year

Inter-island Transport Study

Building on the Shetland Inter-island Transport Study, work continued throughout 2019/20 to develop inter-island transport services outline business cases as follows:

- Ferry service levels throughout Shetland;
- Provision of inter-island air services;
- Capital investment - Replace Fair Isle Ferry and associated infrastructure; and
- Capital investment - Whalsay Transport Link.

In addition to this ZetTrans worked with Shetland Islands Council to promote the inclusion of fixed links as inter-island transport solutions within Shetland in the National Transport Strategy 2 and the Strategic Transport Projects Review 2.

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

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 continues to work in partnership with Shetland Islands Council, to engage with Transport Scotland with a view to reaching a fair funding agreement for 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.

Recognising that Shetland Islands Council has not yet secured a mutually acceptable position for funding of inter-island transport and infrastructure, it remains a key area of interest for ZetTrans to support Shetland Islands Council in securing sufficient funding to support services and replace infrastructure.

Public Bus Services

Over the course of 2019/20 ZetTrans worked in partnership with Shetland Islands Council to develop a Public Bus, School and Adult Social Care Transport Business Case.

Critical Success Factors (CSFs) within the business case included “*contributes to raising the Place Standard Score for transport and achieving Shetland Partnership Plan outcomes*”, and to provide “*.. the best value for money while meeting Council revenue budget objectives*”.

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.

The additional costs of re-tendering are considered to be due to COVID-19, with the re-tendering exercise taking place during lock down, when local operators were facing significant loss of income and unquantified risks for the future.

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.


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. 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 to monitor the additional financial pressures associated with responding to the pandemic.

 **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 £41m by 2023/24, 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 is developing its own Medium Term Financial Plan (expected late 2020), reflecting the principles and assumptions contained within the Scotland Performs, the National Performance Framework and the Scottish Government's Medium Term Financial Strategy. The MTFP will estimate likely resource requirements over the next 5 years, and summarise actions to be taken to bring spending in line with available resources on a sustainable basis.

 **Withdrawal from the European Union** – Despite several delays to the withdrawal process, there remains a continuing lack of clarity on the practicalities of leaving the European Union.



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.

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.

ZetTrans set a balanced budget for 2020/21 in March 2020, which was predicated on a set of assumptions and expectations that have shifted significantly in a short period of time. ZetTrans' focus from the outset of the pandemic has been to maintain the delivery of essential and business-critical services while complying with national guidance and the restrictions on daily life. As Scotland prepares to ease the restrictions in a phased approach, ZetTrans is examining how it can resume 'normal' service delivery in a safe way, in line with the phased approach set out in the Scottish Government's *Framework for Decision Making*. The consequences of making adaptations to services, premises and ways of working will undoubtedly result in additional financial costs, at least in the short term, which puts a balanced budget at risk. At this very early stage, it is anticipated that an additional financial burden in excess of £320k will require to be met by Shetland Islands Council.

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'.

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 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.

A Medium Term Financial Plan, providing the financial framework for the delivery of sustainable transport services across Shetland over a five-year period should be in place by late 2020. 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, creating an ever-widening gap between the resources available and the resources required in order to maintain service delivery at current levels.

Primary Financial Statements

The Annual Accounts for 2019/20 summarise ZetTrans transactions and cash flows for the year and its year-end position as at 31 March 2020. The accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on International Financial Reporting Standards (IFRS), with interpretation appropriate to the public sector and the overriding requirement of the Code is that the Annual Accounts provide a true and fair view of the financial position and the financial transactions of the Partnership.

A description of the purpose of the primary statements has been included immediately prior to each of the financial statements: the Comprehensive Income and Expenditure Statement (CIES), Balance Sheet and Cash Flow Statement. These three statements are accompanied by notes to the accounts, 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 Annual Accounts for the purpose of the auditor's certificate and opinion.

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

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 2019/20

The CIES show that the net economic cost of providing ZetTrans services in 2019/20 was £3.662m. 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 2019/20 is summarised as follows:

2018/19 Actual £	Revenue	2019/20 Budget £	2019/20 Actual £	2019/20 Variance £
390,487	Policy, Strategy & Projects	372,972	450,981	(78,009)
2,010,960	Transport Services - Bus	2,105,029	1,961,076	143,953
933,504	Transport Services - Air	933,504	935,004	(1,500)
323,943	Transport Services - Ferry	324,700	315,000	9,700
3,658,894	Total Expenditure	3,736,205	3,662,061	74,144
(131,750)	Scottish Government Grant	(131,750)	(131,750)	0
(3,526,648)	SIC Grant	(3,603,990)	(3,504,686)	(99,304)
0	Other Grant	0	(25,175)	25,175
(496)	Bank Interest	(465)	(450)	(15)
(3,658,894)	Total Income	(3,736,205)	(3,662,061)	(74,144)
0	Net (Surplus)/Deficit for Year	0	0	0

Expenditure is categorised into two main areas:

1. Policy, Strategy & Projects (£0.451m), which is a £0.061m (16%) increase when compared to 2018/19 (£0.390m). This increase is primarily due to ongoing costs associated with transport network redesign projects, although £0.025m relates to the Active Travel Strategy, funded by Sustrans.

2. Transport Services (£3.211m), which is a £0.057m (2%) decrease when compared to 2018/19 (£3.268m). This decrease is due primarily to increased Bus Fare income of £0.045m (though it should be noted that the response to the COVID-19 pandemic reduced income by £0.011m [when compared to previous years]), and reduced Ferry Service maintenance of £0.010m.

Comparison of Outturn v Budget

In 2019/20, ZetTrans spent £0.078m more in Policy, Strategy & Projects and £0.152m less in Transport Services when compared to the revised budget. The budget was revised at the year-end, when work on Transport Business Cases was complete (pending future political decisions), and Shetland Island Council Change funding of £0.133m was applied. This is off-set by reducing provision for leasing costs by £0.075m, due to Shetland Islands Council acquiring 100% shares in SLAP in 2018, with the business, assets and liabilities of SLAP transferring in April 2019. Overall, therefore the approved budget increased by £0.059m.

The overall result is an under-spend of £0.074m against revised budget and an under-spend of £0.015m against the original approved budget.

Shetland Islands Council are required under legislation, to meet the net expenses of ZetTrans each financial year. For 2019/20, the funding required from Shetland Islands Council has reduced by £0.015m when compared to the originally approved budget.

2020/21 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, HITRANS, Scottish Government, Transport Scotland and Orkney Islands Council.

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

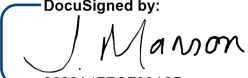
The approved gross revenue budget for ZetTrans for 2020/21 is £4.229m, of which £0.269m is for core activities and the implementation of the Regional Transport Strategy and £3.960m is for public transport services in Shetland.

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 £0.137m from Shetland Islands Council. Transport operations are budgeted to cost £3.959m and are funded by anticipated bus fare income of £0.668m and a contribution from Shetland Islands Council of £3.292m.

At this stage, it is not possible to accurately quantify the additional costs to be incurred as a result of the COVID-19 pandemic, however recent estimates indicate that an additional contribution in excess of £0.32m may be required from Shetland Islands Council in 2020/21.

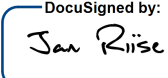
Acknowledgements

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

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Jamie Manson CPFA
Proper Officer for Finance
Zetland Transport Partnership

24/09/2020

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

24/09/2020

Statement of Responsibilities

Zetland Transport Partnership's Responsibilities

ZetTrans is required to:

- Make arrangements for the proper administration of its financial affairs, and to ensure that the Proper Officer for Finance has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For Zetland Transport Partnership, that officer is the Executive Manager – Finance, 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 unaudited Annual Accounts were approved for signature by the Partnership at its meeting on 16 July 2020.

Signed on behalf of Zetland Transport Partnership.

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R Thomson
Chairperson
Zetland Transport Partnership

24/09/2020

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 2020.

DocuSigned by:

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Jamie Manson CPFA
Proper Officer for Finance
Zetland Transport Partnership

24/09/2020

Annual Governance Statement

Scope of Responsibility

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

The Governance Framework

ZetTrans is a statutory body established under the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005. ZetTrans' functional responsibilities are defined in The Transfer of Functions to the Shetland Transport Partnership Order 2006. The 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:

http://www.shetland.gov.uk/about_finances/default.asp

The Code of Governance was adopted by the Council on 20 September 2012, revised in 2017, and is consistent with the principles of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'. This underpinned the governance framework for the year.

The planned governance review for Zetland Transport Partnership has been delayed. This is to recommence with a self-evaluation process, which will also address the issues raised through the audit of the Annual Accounts 17/18. This will progress alongside the Council's own governance review with a view to addressing the improvements identified with regard to roles and responsibilities. The revised target date is February 2021.

The financial management arrangements conform to the governance requirements of the CIPFA Statement

on the Role of the Chief Financial Officer in Local Government (2010).

Review of Effectiveness

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

- Progress towards key strategic and service objectives;
- Financial and budget monitoring;
- Internal Audit reviews on specific 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 on page 26 of the Council's annual accounts).

Significant Governance Issues

No significant governance issues have been noted during the year.

COVID-19

COVID-19 is a new strain of coronavirus that has quickly spread across the globe, prompting the World Health Organisation, on 11 March 2020, to declare the outbreak a pandemic and a public health emergency of international concern. The COVID-19 pandemic has significantly impacted the delivery of transport to the residents of Shetland, resulting in changes to the way services are delivered across the Isles.

The Council's Corporate Management Team, chaired by the Chief Executive, met regularly to facilitate and monitor the strategic response. They were supported


by a Tactical Team, chaired the Executive Manager – Governance and Law (also ZetTrans Secretary and Proper Officer for Legal Proceedings), and the Resilience Adviser, Emergency Planning.

In addition, the Council participates as a member of the Shetland Emergency Planning Forum and attends the Highlands and Islands Resilience Partnership, activated in response to the pandemic. Participation in both multi-agency fora helps to ensure a holistic, Shetland-wide approach is taken to the response and, in time, the recovery to the pandemic. ZetTrans is able to feed into and benefit from both by the Council's participation, with the seeking of ZetTrans views prior to meetings and updates on progress.

At the Zetland Transport Partnership Board meeting on 16 March 2020, just prior to lockdown, members were assured that there were already systems and policies in place to deal with any emergency that may arise. In any event, there was no business for the next scheduled meeting on 30 April, and the meeting scheduled for 25 June was intended for the 2019/20 Unaudited Accounts only. Due to the deferral of the Accounts, under the Coronavirus (Scotland) Act 2020, the next meeting will take place on 16 July 2020, when members will be able to attend in person, or by electronic means. To date therefore there has been no impact to the Board.

Conclusion

Overall, we consider that the governance and internal control environment operating in 2019/20 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.

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

24/09/2020

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R Thomson
Chairperson
Zetland Transport Partnership

24/09/2020

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Zetland Transport Partnership for the year ended 31 March 2020 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 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the body as at 31 March 2020 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 2019/20 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 four 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 nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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 conclusions thereon.

Responsibilities of the Proper Officer for Finance and Zetland Transport Partnership's 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting 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. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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

Other information in the annual accounts

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

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

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

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

Matters on which we are required to report by exception

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

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

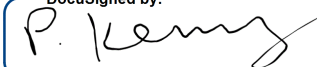
We have nothing to report in respect of these matters.

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.

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Pat Kenny, CPFA (for and on behalf of Deloitte LLP)

110 Queen Street

Glasgow

G1 3BX

United Kingdom

24 September 2020

Primary Financial Statements

Comprehensive Income and Expenditure Statement for 2019/20

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

These costs are recovered through Scottish Government funding, fare income from service use and Shetland Islands Council grant funding to reach a break-even position.

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

2018/19 Net Expenditure £	Notes	2019/20 Gross Expenditure £	2019/20 Gross Income £	2019/20 Net Expenditure £
390,487	Policy, Strategy & Projects	450,981	0	450,981
2,010,960	Transport Services - Bus	2,632,391	(671,315)	1,961,076
933,504	Transport Services - Air	935,004	0	935,004
323,943	Transport Services - Ferry	315,000	0	315,000
3,658,894	Net Cost of Services	4,333,376	(671,315)	3,662,061
(496)	Financing & Investment Income	0	(450)	(450)
(3,658,398)	Taxation & Non-specific Grant Income 4	0	(3,661,611)	(3,661,611)
0	(Surplus) or Deficit on Provision of Services	4,333,376	(4,333,376)	0

There are no other items of comprehensive income & expenditure

Balance Sheet as at 31 March 2020

This statement shows the value as at 31 March 2020 of the assets and liabilities recognised by ZetTrans.

It should be noted that total current assets equal total current liabilities in the Balance Sheet. This is because Shetland Islands Council are required to cover the net deficit of provision of services by ZetTrans, resulting in the net assets of ZetTrans being nil at the year-end. Further to this, the Cash and cash equivalents held by ZetTrans at the end of the financial year are also due to Shetland Islands Council.

As at 31 March 2019 £	Notes	As at 31 March 2020 £
0	Short-term debtors	0
0	Cash & cash equivalents	132,200
0	Current Assets	132,200
0	Short-term creditors	(132,200)
0	Grants received in Advance	0
0	Current Liabilities	(132,200)
0	Net Assets	0

The unaudited financial statements were issued on 16 July 2020 and the audited financial statements were authorised for issue by the Partnership on 24 September 2020.

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

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Jamie Manson CPFA
 Proper Officer for Finance
 Zetland Transport Partnership

24/09/2020

Cashflow Statement for 2019/20

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

The cash amounts held by ZetTrans at the year-end are due to Shetland Islands Council for the provision of services in 2019/20.

2018/19 £	Notes	2019/20 £
	Operating Activities	
(496)	Interest received	(450)
(131,750)	Grants	(131,750)
324,058	Cash paid to suppliers of goods and services	0
191,812	Net cash flows from Operating Activities	(132,200)
0	Investing Activities	0
0	Financing Activities	0
191,812	Net increase or (decrease) in cash & cash equivalents	(132,200)
191,812	Cash & cash equivalents at 1 April	0
(191,812)	Net movement in cash & cash equivalents during the year	(132,200)
0	Closing cash & cash equivalents	(132,200)

Notes to the Financial Statements

The Annual Accounts summarise the Partnership's transaction for the 2019/20 financial year and its position at the year-end, 31 March 2020. 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 2019/20, 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 historical cost, and the accounts have been prepared on a going concern basis.

Note 1: Accounting Standards Issued and Adopted in Year

The following accounting standards were new or amended in the 2019/20 Code:

- Amendments to IAS40 Investment Property: Transfers of Investment Property;
- Annual improvements to IFRS Standards 2014-2016 Cycle. IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard. IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments; and
- Amendments to IFRS 9 Financial Instruments: Prepayment features with negative compensation.

The Code required implementation in the financial statements from 1 April 2019. The amendments have not had any significant impact on the Partnership's financial statements.

Note 2: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code:

- Amendments to IAS28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;

- Annual Improvements to IFRS Standards 2015-2017 Cycle; and
- Amendments to IAS19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

The Code requires implementation in the accounts from 1 April 2020 and there is therefore no impact on the 2019/20 financial statements. Amendments to IAS28 and IAS19 are expected to have no impact on ZetTrans' financial statements.

Note 3: Critical Judgements & Estimation Uncertainties

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

Note 4: Grant Income

The Partnership credited the following grants, contributions and donations to the CIES in 2019/20:

2018/19 £		2019/20 £
(131,750)	Scottish Government Revenue Expenditure Grant	(131,750)
0	Other Grants	(25,175)
(3,526,648)	Shetland Islands Council Grant	(3,504,686)
(3,658,398)	Total	(3,661,611)

Note 5: Cash and Cash Equivalents

The Cash and Cash Equivalents balance as at 31 March 2020, is due to Shetland Islands Council for the provision of service in 2019/20.

March 2019 £		March 2020 £
0	Bank current account	132,200
0	Total	132,200

Note 6: Short-term Creditors

March 2019 £		March 2020 £
0	Shetland Islands Council	(121,550)
0	Public Corporations & Trading Funds	(6,241)
0	Other Entities & Individuals	(4,409)
0	Total	(132,200)

Note 8: 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:

2018/19 £		2019/20 £
9,790	Fees payable in respect of external audit services carried out by the appointed auditor for the year	9,578
9,790	Total	9,578

Note 9: 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.

Note 7: 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.

2018/19 £		2019/20 £
6,932	Members' expenses	6,613
6,932	Total	6,613

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 2019/20, The Scottish Government provided £0.132m to fund running costs of the Partnership (£0.132m in 2018/19).

Shetland Islands Council is responsible for funding the net expenditure of the Partnership under the Transport (Scotland) Act 2005. In 2019/20 the Council provided £3.211m (£3.268m in 2018/19) to fund the delivery of the public transport service and a further £0.294m (£0.259m in 2018/19) of match funding for core running costs. ZetTrans does not employ its own staff and during 2019/20, Shetland Islands Council charged ZetTrans £0.224m (£0.198m in 2018/19) in respect of staff, supplies and other support services.

Note 10: 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 11: Accounting Policies

A General Principles

The Code specifies the applicable accounting policies for:

- Selecting measurement bases for recognising assets, liabilities, gains and losses in the Annual Accounts;
- Making changes to reserves; and
- The minimum disclosure requirements.

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

B Accounting Conventions and Concepts

The accounting convention adopted in the Annual Accounts is historical cost.

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

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

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

C Accruals of Income and Expenditure

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

D 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.

E Government Grants and Contributions

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

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

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.

The unaudited annual accounts were authorised for issue on 16 July 2020. 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 2020, the figures in the financial statements and notes have been adjusted in all material aspects to reflect the impact of this information.

The COVID-19 pandemic has had a substantial impact on ZetTrans service delivery and financial sustainability. Further details of this impact are included within the Management Commentary.

G Value Added Tax

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