Unaudited Annual Accounts 2025/26

ZetTrans
SHETLAND'S TRANSPORT PARTNERSHIP

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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).

Members of Zetland Transport Partnership

The current membership is:

Members:	**Representing**
Councillor Moraig Lyall (Chairperson)	Shetland Islands Council
Councillor Robbie McGregor (Vice-Chairperson)	Shetland Islands Council
Councillor Duncan Anderson	Shetland Islands Council
Councillor Liz Peterson	Shetland Islands Council
Other Members:	
Colin Marsland	NHS Shetland
Andrew Gear (re-appointed from 24 June 2025)	Highlands and Islands Enterprise (HIE)
Substitute Members:	
Councillor Alex Armitage	Shetland Islands Council
Councillor Arwed Wenger	Shetland Islands Council
Observer/Advisers:	
Steve Mathieson (re-appointed from 22 February 2026)	Visit Shetland
John Smith	Director of Infrastructure (Shetland Islands Council)

Executive Officers:

Lead Officer: Michael Craigie MCILT
Proper Officer for Finance: Paul Fraser CPFA
Secretary and Proper Officer for Legal Proceedings: Jan Robert Riise LLB (Hons) LEG-Dip

The purpose of the Management Commentary is to provide an overview of ZetTrans' financial performance during 2025/26 and to assist readers in understanding its financial position as at 31 March 2026. It also outlines the principal risks and uncertainties that ZetTrans is likely to face in the future.

Background

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

The Partnership is responsible for developing a transport strategy for Shetland—along with any supporting sub-strategies—that promotes economic well-being, safety, social inclusion, equal opportunities, sustainable transport planning, and integration with other regional partnerships.

ZetTrans works collaboratively with a wide range of stakeholders and partner organisations, including Shetland Islands Council, NHS Shetland, Highlands and Islands Enterprise (HIE), Transport Scotland, bus and ferry operators, airlines, and key industry bodies representing sectors such as tourism, haulage, fishing, and aquaculture. The role of ZetTrans continues to evolve, in line with the development of other RTPs, to ensure that both regional and national (Scottish and UK) transport objectives are delivered in a sustainable and efficient manner.

The Annual Governance Statement provides a summary of the governance arrangements ZetTrans has established to direct and control its activities and ensure the effective management of its affairs. It includes an annual review of the effectiveness of these arrangements, assessed against the principles of good governance. The Statement highlights areas of good practice as well as any significant governance issues identified during the year and provides assurance on the effectiveness of governance arrangements. This process supports transparency, accountability and continuous improvement in the delivery of ZetTrans' functions.

ZetTrans has a statutory duty, under the Community Empowerment (Scotland) Act 2015, to participate as a Community Planning Partner in the Shetland Partnership. The Shetland Partnership comprises a wide range of public sector partners, third sector organisations, and community bodies who work collaboratively to deliver shared ambitions for the future of Shetland. It serves as the Community Planning Partnership for the area and is united by a common vision:

Vision: "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." *Source:* Shetland's Partnership Plan 2018-2028

ZetTrans contributes to this vision by supporting inclusive, accessible, and sustainable transport solutions that enable participation in community life, access to services, and economic opportunity across Shetland.

Shetland Islands Council, as the primary funder for ZetTrans, continues to face a significant challenge in achieving long-term financial sustainability. The latest iteration of the Council's Medium Term Financial Plan (MTFP) outlines an anticipated cumulative funding gap of £134m by 2029/30. ZetTrans will need to work closely with the Council to manage increasing demand for transport services within constrained financial resources over the next four years. To support this, ZetTrans will receive an annual presentation of the Council's MTFP, with specific implications for its functions clearly identified. This will provide transparency on the scale of the financial challenge and its impact on ZetTrans' activities.

Board meetings

ZetTrans Board meetings are held at the Council Chambers in St Ringan's Church. Meetings are broadcast live, enabling members of the public to observe proceeding via desktop or mobile devices. The webcasting platform also provides access to meeting reports and retains archived recordings for a period of 12 months from the date of each meeting.

The webcasting site is located here:
https://shetland.public-i.tv/core/portal/home

The Partnership met on 8 occasions during 2025/26.

Strategy and Performance Management

ZetTrans continues to align its strategic planning and delivery activity with Scotland's National Transport Strategy 2 (NTS2). The NTS2 sets out a national vision for a sustainable, inclusive, safe and accessible transport system that helps deliver a healthier, fairer and more prosperous Scotland for communities, businesses and visitors. Its four priorities are to reduce inequalities, take climate action, help deliver inclusive economic growth, and improve health and wellbeing.

During 2025/26, ZetTrans' work has continued to support these priorities through the implementation of the ZetTrans 2040 Regional Transport Strategy (RTS) and the development of the RTS Delivery Plan and Performance Framework. This work provides the structure through which ZetTrans will translate the RTS into clearer delivery actions, performance indicators and reporting arrangements, allowing progress to be monitored more transparently and consistently in future years.

The Fourth NTS Delivery Plan places continued emphasis on fair access, affordability, concessionary travel, accessible transport, rural and island connectivity, active and sustainable travel, decarbonisation, transport resilience, and the movement of people and goods. These issues are strongly reflected in the ZetTrans RTS and in the main areas of activity progressed during the year, including public and school transport network planning, active and sustainable travel programmes, external ferry and air connectivity, inter-island transport connectivity, and work to strengthen performance reporting.

ZetTrans has also continued to engage with national policy developments that are particularly relevant to Shetland. These include the Islands Connectivity Plan, future Northern Isles Ferry Services, the development of bus service improvement approaches, active travel and People and Place funding, transport decarbonisation, accessible travel, concessionary travel, and the role of transport in supporting access to health, employment, education and essential services.

The national delivery context remains challenging. The Fourth NTS Delivery Plan recognises the significant fiscal pressures affecting transport delivery, including inflation, energy costs, construction costs, public transport patronage recovery and wider public-sector funding constraint. These pressures are also evident locally and reinforce the importance of aligning ZetTrans' strategic objectives with deliverable, affordable and evidence-based actions. The RTS Delivery Plan and Performance Framework is therefore being developed not only as a planning document, but as a means of supporting prioritisation, accountability, Best Value and transparent reporting to the ZetTrans Board, communities, partners and external auditors.

Active Travel Strategy

The Shetland Active Travel Strategy was approved by the ZetTrans Board in March 2021. It provides the strategic basis for making walking, wheeling and cycling more attractive and realistic travel choices for short journeys in Shetland, supporting improved health and wellbeing, reduced inequalities, lower transport emissions and stronger, more liveable communities.

The Active Travel Strategy pre-dates the approval of the ZetTrans 2040 Regional Transport Strategy (RTS). During 2025/26, work continued to align the Active Travel Strategy with the RTS, particularly the RTS theme of "Enabling and encouraging active travel" and Strategic Objective 3: "To facilitate and encourage safe walking, cycling and wheeling for everyone, including for leisure and tourism." This alignment is also being reflected in the emerging RTS Delivery Plan and Performance Framework, which will provide a clearer structure for active travel delivery actions, performance indicators, monitoring and reporting.

The ZetTrans Board approved a Strategic Outline Programme (SOP) for active travel investment in March 2023. The SOP remains an important framework for identifying issues, developing options and supporting evidence-based decision-making for active travel infrastructure across Shetland. It has helped to provide a more structured basis for the development of active travel projects, including projects taken forward through Transport Scotland funding streams.

During 2025/26, ZetTrans and Shetland Islands Council continued to support both active travel infrastructure and behaviour-change activity. This included work funded through national active and sustainable travel programmes, including People and Place, and continued development of the capacity and capability required to plan, prioritise, deliver and evaluate active travel interventions. This is particularly important in the Shetland context, where delivery must take account of rurality, dispersed settlement patterns, weather, topography, road safety, accessibility, public transport integration and the differing needs of functional, leisure and tourism journeys.

The focus going forward is to move from individual projects and funding opportunities toward a more coherent programme approach. This includes strengthening the evidence base, improving prioritisation, developing monitoring and evaluation arrangements, and ensuring that active travel actions are embedded within the RTS Delivery Plan and Performance Framework. This will support clearer reporting to the ZetTrans Board on how active travel investment and behaviour-change activity contribute to RTS outcomes, national transport priorities and Best Value.

Shetland Regional Transport Strategy (RTS)

The "ZetTrans 2040 Regional Transport Strategy" (RTS) covering the period to 2040, was approved by the ZetTrans Board on 19 February 2024 and received Scottish Ministers approval on 15 March 2025. The RTS provides the statutory strategic framework for transport in Shetland and sets out the long-term vision, objectives, themes and policies that guide ZetTrans' work.

The RTS Vison and Strategic Objectives are:

Vision: "Our transport networks in Shetland and our connections to the rest of Scotland support our social and inclusive economic prosperity, provide equitable access to opportunities, enable people to live healthy and active lives, facilitate the development of sustainable and inclusive communities, and contribute to our net zero emission targets."

Strategic Objective 1: To address the barriers which constrain access to and/or impose unreasonable costs on travel and freight transport for all groups to/from the rest of Scotland.

Strategic Objective 2: To address the barriers which constrain access to and/or impose unreasonable costs on travel and freight transport for all within Shetland.

Strategic Objective 3: To facilitate and encourage safe walking, cycling and wheeling for everyone, including for leisure and tourism.

Strategic Objective 4: To improve alternative, more sustainable travel options in Shetland for all including those without access to, or who would prefer not to use a car.

Strategic Objective 5: To transition towards an environmentally and financially sustainable, post-carbon transport network.

Strategic Objective 6: To support safe, resilient, and efficient movement of all people and freight across Shetland.

During 2025/26, ZetTrans' focus moved from the approval of the RTS to implementation planning. Work progressed on the development of an RTS Delivery Plan and supporting Performance Framework. This work is intended to translate the RTS's strategic objectives, themes and policies into clearer delivery actions, responsibilities, milestones, performance indicators and reporting arrangements.

The Delivery Plan and Performance Framework are being developed to strengthen ZetTrans' ability to demonstrate progress against the RTS, support clearer reporting to the ZetTrans Board, and respond to audit recommendations relating to performance information and Best Value. The framework will provide a more structured link between the long-term objectives of the RTS, the delivery activity undertaken by ZetTrans and its partners, and the evidence used to assess progress.

The RTS has also continued to provide the strategic context for major transport workstreams during the year, including public and school transport network planning, active and sustainable travel programmes, inter-island transport connectivity, external ferry and air connectivity, transport decarbonisation, and work to improve network resilience and efficiency.

Further details on the 2040 RTS can be found here:
https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=29797

ZetTrans Annual Report

The most recent Annual Report previously produced by ZetTrans related to the 2022/23 financial year and was approved by the Board on 14 November 2023. Limitations on staff resources, alongside other priority workstreams, affected the Partnership's ability to maintain the normal annual reporting cycle during 2023/24 and 2024/25. This was identified through the external audit process as an area requiring improvement.

During 2025/26, corrective action was taken through the preparation and presentation of a combined Annual Report covering the 2023/24 and 2024/25 reporting years. This report was presented to the ZetTrans Board on 26 March 2026 and provided an updated account of key activity, performance information and progress against the Partnership's strategic priorities.

The combined Annual Report represents an important step in restoring the annual reporting cycle. However, it is recognised that further work is required to embed a more consistent and sustainable approach to performance reporting. This will be taken forward through the RTS Delivery Plan and Performance Framework, which will establish clearer reporting arrangements, performance indicators, data sources and monitoring cycles for future Annual Reports.

Going forward, Annual Reports will be aligned with the RTS Delivery Plan and Performance Framework, allowing ZetTrans to report more clearly on delivery activity, performance trends, risks, outcomes and progress against the RTS Strategic Objectives. This will strengthen transparency, accountability, Best Value reporting and assurance to the ZetTrans Board, communities, partners and external auditors.

A copy of this report can be found here:
http://www.zettrans.org.uk/aboutus/AnnualReportandAccounts.asp

Key Performance Indicators (KPIs)

ZetTrans adopted a range of 40 Key Performance Indicators (KPIs) in September 2016. These indicators related to transport functions in place in Shetland, including services and activities both within the direct scope of ZetTrans operations and those managed by other bodies. These historic indicators have provided a basis for continuity in previous Annual Reports where data has been available.

The approval of the ZetTrans 2040 Regional Transport Strategy has created the need for a revised performance framework that is more directly aligned with the current RTS vision, Strategic Objectives, themes and policies. The RTS includes Strategic Objective-level indicators in Chapter 14, but further work has been required to develop a practical delivery and monitoring framework that can be used for regular reporting to the ZetTrans Board and through future Annual Reports.

During 2025/26, work progressed on the development of the RTS Delivery Plan and Performance Framework. This work is intended to establish a clearer line of sight between the RTS Strategic Objectives, the eight RTS delivery themes, specific delivery actions, performance indicators, data sources, responsible officers and reporting cycles. The emerging framework is based on a two-tier approach, with Strategic Objective indicators used to monitor longer-term system outcomes and theme-level indicators used to monitor delivery activity, outputs and intermediate outcomes. The development of the new KPI framework also responds to external audit findings that previous limitations in performance information and reporting reduced ZetTrans' ability to demonstrate progress against strategic objectives and achievement of Best Value. The combined Annual Report covering 2023/24 and 2024/25 has helped restore performance reporting, while the RTS Delivery Plan and Performance Framework will provide the structure for more consistent future annual reporting.

It is recognised that the new framework will require further embedding. This includes confirming data sources, establishing baselines, agreeing reporting responsibilities, testing the practicality of indicators, and ensuring that the information reported is proportionate, reliable and useful for decision-making. This work will continue during 2026/27 as part of the wider implementation of the RTS Delivery Plan and Performance Framework.

Going forward, ZetTrans will use the revised KPI framework to support clearer reporting on delivery progress, transport outcomes, risks, trends and areas requiring further attention. This will strengthen accountability to the ZetTrans Board, improve transparency for communities and partners, and provide a stronger evidence base for Best Value and external audit assurance.

Activities in year

During 2025/26, ZetTrans' activity was shaped by the transition from approval of the ZetTrans 2040 Regional Transport Strategy into the practical work required to implement, monitor and report on delivery. The year combined continued oversight of core statutory transport functions with significant progress on delivery planning, performance reporting, public transport reform, active and sustainable travel, external connectivity, equality duties, fares policy and engagement with major strategic transport investment.

RTS Delivery Plan and Performance Framework

A central area of activity during 2025/26 was the development of the RTS Delivery Plan and supporting Performance Framework. This work was progressed in response to the need to establish a clearer and more measurable link between the RTS, delivery activity, performance indicators and annual reporting.

A progress report was presented to the Partnership in November 2025, setting out the proposed approach and programme for developing a Delivery Plan for 2026–28 and a Performance Framework aligned with audit expectations. The work is intended to translate the RTS vision, Strategic Objectives, themes and policies into defined delivery actions, responsibilities, milestones, performance indicators and reporting arrangements.

This work will strengthen governance, transparency, Best Value assurance and future Annual Reporting by providing a clearer framework through which ZetTrans can demonstrate progress against the RTS.

Public and School Transport

Public and school transport was one of the most significant operational and strategic workstreams during the year.

In June 2025, ZetTrans considered the Outline Business Case for the future public and school bus transport network and approved Option 3: "Do Minimum – Minor Enhancements" as the Preferred Option to be taken forward to Full Business Case. This option was selected because it represented a balanced response to stakeholder engagement, policy alignment, affordability and financial constraint. The Preferred Option retained the existing network while introducing modest enhancements, including additional evening services and basic Sunday coverage, with improved accessibility and no loss of service for existing users.

The Full Business Case was then presented to ZetTrans in February 2026. This confirmed that the Preferred Option was deliverable, affordable and capable of being implemented from August 2026, when the existing contracts expire. The procurement exercise provided greater certainty on service specifications, costs, risks and mobilisation arrangements, and confirmed that the Preferred Option could be delivered within existing budget provision and at a lower cost than estimated at Outline Business Case stage.

Approval of the Full Business Case enabled ZetTrans to proceed with the award and mobilisation of the new public bus service contracts, supporting continuity of service from August 2026.

Public Bus Fares and the £2 Bus Fare Cap Pilot

During the year, ZetTrans was successful, in partnership with HITRANS, in securing participation in the Scottish Government's £2 Bus Fare Cap Pilot. The pilot commenced on 30 January 2026 and capped eligible single bus journeys at £2, with reimbursement from Transport Scotland based on the difference between the capped fare and the underlying standard fare.

The pilot provided an important opportunity to support affordability for passengers while gathering evidence on passenger behaviour, revenue impacts and the implications of fare capping in rural and island contexts.

In March 2026, ZetTrans approved an interim adjustment to underlying public bus fares, with effect from 1 April 2026. Public bus fares in Shetland had remained unchanged since 2017, and the adjustment was designed to partially restore the real-terms value of fares while limiting direct impact on passengers during the £2 Bus Fare Cap Pilot. The Partnership also agreed that a full Public Bus Fares Policy Review would be undertaken once the Scottish Government's position on the future national approach to bus fares following the pilot was sufficiently developed.

Active and Sustainable Travel

Active and sustainable travel remained a major area of delivery during 2025/26.

In April 2025, ZetTrans approved the People and Place Programme for 2025/26, subject to confirmation of Transport Scotland funding and subsidy control compliance. The programme supported behaviour-change interventions with delivery partners including Scottish Cycling, Cycling UK, Paths for All and Love to Ride UK. It also included capacity and capability funding to support additional staffing and consultancy resource for programme planning, management and monitoring.

The approved programme included projects focused on schools and young people, workplace walking, cycle access, community-based cycling activity, digital engagement and cycling data, and wider behaviour-change support. This programme contributed to the RTS objectives relating to active travel, sustainable travel, accessibility, health and wellbeing, climate change and inclusion.

Alongside this, ZetTrans approved the proposed Tier 2 Active Travel Infrastructure Fund programme submitted by Shetland Islands Council to Transport Scotland. The proposed infrastructure programme included construction and design projects arising from earlier settlement audits and design work, supporting the development of a more coherent and evidence-led active travel programme.

Equality Outcomes and Mainstreaming

ZetTrans continued to fulfil its equality duties during the year.

In April 2025, the Partnership approved the Equality Outcomes and Mainstreaming Report 2025–2029. This established a refreshed set of ZetTrans equality outcomes focused on accessible transport information, inclusive access to services through both digital and traditional methods, safe and welcoming active and sustainable travel, accessible internal and external transport networks, and improved links to essential amenities including healthcare and retail.

This work supports the wider RTS emphasis on reducing barriers, improving access and embedding equality considerations in transport planning and delivery. It also provides a clearer basis for ensuring that equality considerations are reflected in future Delivery Plan actions, performance reporting, business cases, service reviews and project development.

Northern Isles Ferry Services

External connectivity remained a key area of strategic focus during 2025/26.

In September 2025, ZetTrans considered and approved its response to Transport Scotland's consultation on the next Northern Isles Ferry Services Contract. The response was rooted in the RTS objective of addressing barriers to travel and freight transport to and from the rest of Scotland, and in the RTS theme of enhancing external connections and supply chains.

The consultation response provided an opportunity for ZetTrans to set out Shetland's strategic requirements in relation to reliability, capacity, affordability, accessibility, cabins, passenger experience, freight, resilience and future vessel and contract specification. This engagement is important because the Northern Isles Ferry Services are fundamental to Shetland's social and economic wellbeing and to the movement of people, goods and services to and from the rest of Scotland.

Strategic Inter-Island Transport Connectivity and Fair Isle Ferry Replacement

During 2025/26, ZetTrans continued to maintain a strategic interest in major Council-led transport projects that are directly relevant to delivery of the ZetTrans 2040 Regional Transport Strategy.
The Shetland Inter-Island Transport Connectivity programme remained a significant area of strategic transport activity during the year. Although the programme is led through Shetland Islands Council governance arrangements, it is closely aligned with the RTS objectives relating to internal connectivity, accessibility, affordability, resilience, freight movement, island community sustainability and the transition to a more sustainable transport network.

ZetTrans' strategic interest in the programme was reflected through officer and member involvement in the relevant governance and engagement arrangements. This helped ensure that the development of the business case work continued to take account of the long-term transport outcomes set out in the RTS, while recognising that formal programme governance and delivery responsibility sit with Shetland Islands Council.

The Fair Isle Ferry Replacement project also continued to represent a strategically important transport investment for Shetland. While the project is led by Shetland Islands Council, it directly supports the RTS objective of securing safe, resilient and sustainable transport connections for Shetland's island communities. The project will replace the Good Shepherd IV, which provides the lifeline sea connection to Fair Isle, and is therefore significant to community sustainability, access to services, freight movement, population retention and long-term island resilience.

Reference to these Council-led projects in this Management Commentary reflects their strategic relevance to ZetTrans' statutory transport planning role and to the wider delivery of the RTS. It does not alter the governance or delivery responsibilities for those projects, which remain with Shetland Islands Council.

Inter-Island Air Services

ZetTrans continued to support island connectivity and island community sustainability through its transport policy decisions.

In March 2026, the Partnership approved revised fares for the Foula and Fair Isle inter-island air services for 2026/27 and agreed to introduce, on an interim pilot basis, a Friends and Family concessionary fare policy for those routes.

This pilot was designed to respond to long-standing community concerns that the cost of travel for friends and family can act as a barrier to maintaining personal, family and community connections with Foula and Fair Isle. The pilot approach allows ZetTrans to respond proportionately while monitoring uptake, financial effects, capacity implications and administrative requirements before considering any longer-term policy.

Governance and Partnership Representation

Governance and partnership representation also continued during the year. In April 2025, the Partnership considered the reappointment of the HIE Shetland nominated Other Member. This helped maintain the Board's statutory membership structure and ensured continued economic development representation within ZetTrans decision-making.

This sits alongside the wider work undertaken during the year to strengthen governance, performance reporting and delivery planning through the RTS Delivery Plan and Performance Framework.

Overall Summary

Taken together, the activity undertaken in 2025/26 demonstrates a year of substantial transition and delivery.

ZetTrans progressed from the approval of the RTS into the early stages of structured implementation; addressed audit expectations around performance reporting and Best Value; approved major public transport business case decisions; strengthened active and sustainable travel delivery; engaged with national ferry policy; fulfilled equality reporting duties; developed fares policy responses in a complex national and local funding environment; and maintained strategic involvement in major Council-led transport investment and business case activity.

These activities were undertaken against a background of financial pressure, limited staff capacity, reliance on Shetland Islands Council support arrangements, and the need to ensure continuity, affordability and resilience across Shetland's transport networks.

Workforce Management

ZetTrans does not directly employ staff. It operates under the Minute of Agreement with Shetland Islands Council, through which the Council provides administrative, professional, technical, financial, legal and governance support to enable ZetTrans to carry out its statutory functions.

During 2025/26, the demands on the Transport Planning Service continued to increase as ZetTrans moved from approval of the 2040 Regional Transport Strategy into delivery planning, performance reporting and implementation activity. This included the development of the RTS Delivery Plan and Performance Framework, public and school transport business case work, active and sustainable travel programme delivery, external connectivity work, fares policy, equality reporting and wider governance and audit-related activity.

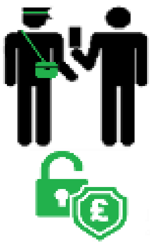
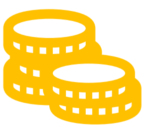
External funding secured through Transport Scotland's People and Place programme provided important additional capacity and capability during the year. This funding enabled commitment to the recruitment of a new post in 2026/27 within the Council's Transport Planning Service to assist with delivery of the RTS, with a particular focus on Active and Sustainable Travel behaviour-change and infrastructure programmes. The post is intended to strengthen the Service's ability to plan, prioritise, manage, monitor and report on active and sustainable travel interventions, reducing reliance on short-term consultancy support and helping to embed delivery capacity within the Council service that supports ZetTrans.

Consultancy support also continued to be used where specialist or time-limited capacity was required, including programme development, monitoring and evaluation, and support for complex transport planning workstreams. However, the direction of travel is to build more resilient internal capacity so that ZetTrans and the Council can better manage future delivery, reporting and assurance requirements.

Capacity and succession remain important risks. ZetTrans' functions are supported by a small number of Council officers, and significant organisational knowledge is held within key roles, including the Lead Officer role. Planned or unplanned changes in these roles, including retirement, could affect continuity of delivery, governance assurance, performance reporting and strategic programme management if not actively managed. This risk is being mitigated through clearer documentation of delivery responsibilities, development of the RTS Delivery Plan and Performance Framework, use of external funding to strengthen capacity, and ongoing workforce and succession planning within the Council's support arrangements.

Key Risks

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

Risk/Uncertainty	Mitigating actions
Staff Resources 	ZetTrans relies on Shetland Islands Council for staffing support, and ongoing pressure on capacity and access to specialist skills presents a risk to delivery of its statutory functions. This has increased as activity has expanded from RTS approval into delivery. Reliance on a small number of key officers also creates resilience risks relating to succession and continuity, including planned or unplanned changes in critical roles (such as retirement or turnover), with associated loss of organisational knowledge if not effectively managed. Mitigation includes implementation of the Council's Workforce Strategy and workforce planning arrangements, alongside use of external funding to enhance capacity and capability, including recruitment to a dedicated RTS/Active and Sustainable Travel post to strengthen delivery resource. Consultancy support is used where specialist expertise or short-term capacity is required. Clearer documentation of delivery responsibilities and the RTS Delivery Plan and Performance Framework also support resilience and continuity, including preparation for planned and unplanned changes in key roles.
Bus Fare Income Security 	Bus fare income, including passenger fares, concessionary travel reimbursement and other fare-related reimbursement arrangements, represents a significant volume of transactions and presents a risk to the completeness and accuracy of income. This risk has increased during 2025/26 due to the added complexity of the Scottish Government's £2 Bus Fare Cap Pilot, where reimbursement is based on underlying fares. Uncertainty over the future national approach to bus fares following the pilot also creates risk in relation to income levels, reimbursement arrangements and the level of Council support required. Mitigation includes the use of SMART ticketing systems, enhanced reporting and regular reconciliation and compliance checks to support the completeness and accuracy of income. Ongoing monitoring of passenger numbers, fare income and reimbursement is undertaken, alongside engagement with Transport Scotland on the operation of the £2 Bus Fare Cap Pilot. Application of revised underlying fares and development of a Public Bus Fares Policy Review further support effective income management and financial sustainability.
Financial Pressures 	ZetTrans receives its primary funding from Shetland Islands Council, and its financial sustainability is closely linked to the Council's MTFP position and ability to fund the net cost of statutory transport functions. While the 2025/26 Public and School Bus Transport procurement outcome improved short-term affordability and confirmed delivery within existing budgets, wider financial pressures remain. Transport costs continue to be exposed to inflation, labour, fuel and energy costs, market conditions and contract indexation, with school transport particularly subject to demand-led pressures. Public transport services also continue to require Council support after fare income and reimbursement. External funding provides additional support but is typically time-limited and subject to national policy decisions, creating ongoing uncertainty. Mitigation includes regular budget monitoring and alignment with the Council's MTFP, alongside implementation of the Public and School Bus Transport procurement outcome. Ongoing monitoring of contract costs, inflation and indexation is undertaken to manage cost pressures. Active pursuit of external funding supports priority activity and helps offset pressures on core budgets. The RTS Delivery Plan and Performance Framework supports prioritisation, affordability, Best Value and transparent financial oversight.

Risk/Uncertainty	Mitigating actions
Climate Change	The RTS establishes objectives for transitioning toward an environmentally and financially sustainable post-carbon transport network. Delivery is dependent on the availability and maturity of suitable technologies, supporting infrastructure, operator capability, external funding and national policy. The rural and island operating context creates additional challenges for decarbonising bus, air and ferry services without compromising reliability, accessibility or affordability. Mitigation includes aligning activity with the Council's climate plans and national transport policy; developing the evidence base through active and sustainable travel, public transport and decarbonisation studies; incorporating climate considerations into business cases and impact assessments; and using the RTS Delivery Plan and Performance Framework to monitor relevant actions and outcomes.

Primary Financial Statements

The Financial Statements for 2025/26 summarise ZetTrans transactions and cash flows for the year and its year-end position as at 31 March 2026. 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 2025/26

The CIES presents the full economic cost of providing ZetTrans services in 2025/26. 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 Deficit on Provision of Services of £0.032m, 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 and Shetland Islands Council. The final revenue outturn position compared to the revised budget for 2025/26 is summarised as follows:

2024/25 Actual £		2025/26 Budget £	2025/26 Actual £	2025/26 Variance £
806,849	Policy, Strategy & Projects	1,030,278	847,216	183,062
3,863,723	Transport Services - Bus	4,128,218	4,240,379	(112,161)
1,109,902	Transport Services - Air	1,138,964	1,138,714	250
5,780,474	**Total Expenditure**	**6,297,460**	**6,226,309**	**71,151**
(312,119)	Other Grants	(539,056)	(496,457)	(42,599)
(681,247)	Public Transport Service Income	(680,442)	(663,480)	(16,962)
4,787,108	**Net Expenditure**	**5,077,962**	**5,066,372**	**11,590**
(125,162)	Scottish Government Grant	(125,163)	(125,162)	(1)
(364,047)	SIC Match Funding	(363,059)	(222,878)	(140,181)
(5,521)	Bank Interest	(3,000)	(2,719)	(281)
(4,292,378)	SIC Public Service Contribution	(4,586,740)	(4,715,613)	128,873
(4,787,108)	**Other Income**	**(5,077,962)**	**(5,066,372)**	**(11,590)**
0	**Net (Surplus)/Deficit for Year**	**0**	**0**	**0**

2025/26 Outturn Position

The outturn position for 2025/26 represents an underspend of £0.071m against the revised budget. This comprises a £0.183m underspend within Policy, Strategy & Projects, offset by a (£0.112m) overspend within Transport Services – Bus.

The favourable variance within Policy, Strategy & Projects was primarily due to reduced Shetland Islands Council support service costs. This reflects a combination of lower staffing costs arising from in-year vacancies and the utilisation of external funding sources. The overspend within Transport Services – Bus was largely attributable to the application of revised Office for National Statistics index to prior year contracts. This resulted in a retrospective uplift for 2024/25 and an increase to the 2025/26 base contract cost. Despite the higher base, in-year indexation for 2025/26 was lower than budgeted; however, this did not offset the impact of the revised 2024/25 index uplift.

On the income side, there was an overall adverse variance of (£0.060m). This comprised a (£0.043m) shortfall in grant income, reflecting lower levels of eligible expenditure and consequently reduced drawdown from the Regional Transport Partnership's People and Place grant. In addition, public transport income was (£0.017m) below budget, principally reflecting lower-than-budgeted reimbursement associated with journeys made under the under-22 concessionary travel scheme, partially offset by increased reimbursement relating to over-60 concessionary travel.

Taking account of all variances, the overall net position was an underspend of £0.012m against the revised budget, resulting in a reduced funding requirement from Shetland Islands Council.

Looking Ahead

ZetTrans continues to face a number of significant challenges and uncertainties. These include the financial sustainability of supported transport services, the capacity and resilience of staffing arrangements, the need to embed improved performance reporting, and the requirement to maintain reliable, affordable and accessible transport connections across Shetland and to the rest of Scotland.

The ZetTrans 2040 Regional Transport Strategy, approved by Scottish Ministers in March 2025, provides the long-term strategic framework for addressing these challenges. The focus now is on implementation. During 2026/27, ZetTrans will continue to develop and embed the RTS Delivery Plan and Performance Framework, with the aim of providing a clearer link between strategic objectives, delivery activity, performance indicators, risk management and annual public reporting.

This work will be important in responding to external audit expectations around performance information, Best Value and governance assurance. A key priority will be to ensure that the Delivery Plan and Performance Framework becomes a practical management and reporting tool, rather than a one-off document. This will require continued work to confirm actions, responsibilities, data sources, baselines, reporting frequencies and Board reporting arrangements.

Public and school transport will remain a major focus during 2026/27. Following approval of the Full Business Case in February 2026, ZetTrans will move into the award, mobilisation and implementation of new public bus service contracts for commencement from August 2026. This will be a significant operational and governance priority, requiring careful contract management, communication with operators and service users, and monitoring of costs, performance and service delivery.

The future of public bus fares will also require further attention. The Scottish Government's £2 Bus Fare Cap Pilot provides an important opportunity to support affordability and gather evidence on passenger behaviour, revenue impacts and the operation of fare capping in rural and island contexts. However, there remains uncertainty over the national approach to bus fares following the conclusion of the pilot. ZetTrans will therefore require to undertake a fuller Public Bus Fares Policy Review once the national policy position is sufficiently clear, ensuring that future fares policy balances affordability, income security, financial sustainability and alignment with national policy.

Active and sustainable travel will continue to be developed through both behaviour-change and infrastructure activity. External funding secured through Transport Scotland has strengthened capacity and capability, including support for a new post within the Council's Transport Planning Service. This provides an opportunity to move from individual projects toward a more coherent programme approach, with stronger prioritisation, monitoring and evaluation, and clearer alignment with the RTS Delivery Plan.

ZetTrans will also continue to engage in strategic transport matters led by Shetland Islands Council and Transport Scotland. This includes the Shetland Inter-Island Transport Connectivity programme, the Fair Isle Ferry Replacement project, the Islands Connectivity Plan, future Northern Isles Ferry Services, and wider work on external air and ferry connectivity. While some of these activities are not directly led by ZetTrans, they are materially relevant to the delivery of the RTS and to the long-term resilience, affordability and accessibility of Shetland's transport networks.

The Partnership will continue to operate in a constrained financial environment. Shetland Islands Council remains the primary funder of ZetTrans and faces significant medium-term financial pressures. At the same time, the cost of delivering transport services remains exposed to inflation, market conditions, fuel and energy costs, labour costs and contract indexation. ZetTrans will continue to work with the Council to ensure that transport planning, service delivery and budget planning are aligned, transparent and evidence based.

Capacity and succession planning will also remain important. ZetTrans relies on a small number of Council officers and corporate support arrangements to deliver its statutory functions. As delivery, reporting and assurance expectations increase, it will be important to retain organisational knowledge, document key processes, strengthen internal capacity and manage any transition in key roles carefully.

Overall, the year ahead will be a period of implementation, consolidation and assurance. ZetTrans will need to sustain momentum on RTS delivery, public transport contract mobilisation, active and sustainable travel, fares policy, performance reporting and strategic connectivity, while continuing to manage financial constraint and organisational capacity risk. The priority will be to ensure that ZetTrans can demonstrate clear, proportionate and evidence-based progress against its statutory responsibilities and the long-term objectives of the Regional Transport Strategy.

2026/27 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 services is a key priority of ZetTrans. The financial environment in which these services are delivered is challenging, reflecting the inherent complexity of transport operations, the significant day-to-day revenue costs involved, and the need to support infrastructure replacement through strategic planning and partnership working. Nevertheless, developments in funding opportunities from the Scottish Government and UK Government may have a positive impact on ZetTrans' financial position and help to reduce its reliance on funding from Shetland Islands Council.

The Partnership approved its 2026/27 budget on 26 February 2026, setting a gross revenue budget of £6.450m. This comprises £0.855m for core activities, including delivery of the RTS and Active Travel interventions, and £5.595m for the provision of public transport services in Shetland.

Core running costs and RTS implementation activity—including improvements to service information and performance management processes—are funded through a £0.125m grant, a £0.227m contribution from Shetland Islands Council, and £0.003m of bank interest. In addition, ZetTrans will work with delivery partners to deliver behaviour change Active Travel interventions targeted at schools, young people, workplaces, and the wider community, with a focus on access and inclusion. This programme, which includes the development of internal capacity and capability, is supported by £0.500m of external grant funding from the Scottish Government.

Transport operations are budgeted at £5.595m and are expected to be funded through bus fare income of £0.679m and a £4.916m contribution from Shetland Islands Council.

The 2026/27 budget was developed with due regard to Shetland Islands Council's MTFP. As the primary funder of ZetTrans, consideration of the Council's financial framework is an important factor in assessing the affordability and deliverability of the Partnership's strategic objectives, and in understanding the broader financial constraints within which it operates. This alignment supports a realistic and sustainable approach to financial planning.

Further detail on the 2026/27 budget is provided in the approved budget report:
https://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=32202

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Paul Fraser CPFA
Proper Officer for Finance
Zetland Transport Partnership

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Michael Craigie MCILT
Lead Officer
Zetland Transport Partnership

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

Statement of Responsibilities

Zetland Transport Partnership's Responsibilities

ZetTrans is required to:

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

I confirm that these annual accounts were approved for signature by the Partnership at its meeting on 25 June 2026.

Signed on behalf of Zetland Transport Partnership.

....
Moraig Lyall
Chairperson
Zetland Transport Partnership

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 2026.

Paul Fraser

....
Paul Fraser CPFA
Proper Officer for Finance
Zetland Transport Partnership
25 June 2026

Annual Governance Statement

Executive Summary

This Annual Governance Statement (AGS) provides a transparent and evidence-based assessment of the Zetland Transport Partnership's governance arrangements for the year ending 31 March 2026. It has been prepared in accordance with the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* (2025 addendum).

ZetTrans exercises its own statutory accountability while operating through governance systems, controls and corporate support provided by Shetland Islands Council under the Minute of Agreement. The Council's internal controls, procedures, policies and systems therefore operate across much of the Partnership's activity, while responsibility for the governance of ZetTrans remains with the Partnership.

This Annual Governance Statement reflects that relationship and provides an assessment of the effectiveness of the governance arrangements applying to ZetTrans during the year.

The Council has a Local Code of Corporate Governance which sets out how it complies with the principles of good governance. The Partnership's governance arrangements are underpinned by this Code.

Scope of Responsibility

The Partnership is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Partnership has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003 and the Transport (Scotland) Act 2005.

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

As the Council is the sole constituent authority and provides corporate and operational support under the Minute of Agreement, ZetTrans' governance arrangements operate in close alignment with the Council's systems and controls. This does not alter ZetTrans' separate statutory accountability for the proper governance and discharge of its functions.

The Partnership has a system of internal control designed to manage risk to a reasonable level. However, such a system can provide only reasonable and not absolute assurance of effectiveness.

The system of internal control is designed to identify and prioritise the risks to the achievement of the Partnership's objectives, to evaluate the likelihood and impact of those risks, and to manage them efficiently, effectively and economically.

The Partnership is also responsible for reviewing the effectiveness of its governance arrangements and system of internal control.

What is the Annual Governance Statement?

The Partnership is required by the Local Authority (Scotland) Regulations 2014 to prepare and publish an AGS. Preparation of the AGS provides an opportunity to undertake a rigorous annual assessment of the Partnership's governance arrangements and to consider whether they remain fit for purpose. The review takes into account not only current requirements but also anticipated future challenges.

In this document, the Partnership:

- acknowledges its responsibility for ensuring that there is a sound system of governance;
- summarises the key elements of the Governance Framework, assessed against the principles of good governance;
- explains how the review of effectiveness has been conducted and its outcomes
- identifies areas where governance arrangements require improvement and how these are being addressed; and
- demonstrates how governance issues identified in the previous year's statement have been addressed and whether further action is required.

The AGS reports on the governance arrangements in place for 2025/26 and up to the date of approval of the audited accounts.

What is the Governance Framework?

The governance framework comprises the systems, processes, culture and values by which the Partnership is directed and controlled. It enables the Partnership to monitor the achievement of its strategic priorities and to evaluate whether these priorities are being delivered through appropriate and cost-effective services.

The Partnership relies on the governance framework adopted by Shetland Islands Council, which is consistent with the seven principles of good governance set out in the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework*, as illustrated below:

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

The key elements of the Partnerships' governance framework include:

- the legal powers, duties and functions of the Partnership, and the roles and responsibilities of the people who take decisions on behalf of the community;
- the **Scheme of Administration and Delegations** and the **Minute of Agreement** between the Council and the Partnership, which set out the functions delegated to officers on behalf of the Partnership and the conditions under which these are exercised;
- **Standing Orders**, which set out the rules governing how Partnership meetings are conducted and decisions are made;
- **Financial Regulations**, which set out how the Partnership manages its financial affairs in accordance with statutory requirements and good practice;
- **Contract Standing Orders**, which set out the principles and rules about contracting with other parties;
- the Council's **Performance Management Framework**, which sets out the arrangements for the Partnership to establish objectives, monitor and report performance against those objectives, and identify areas for improvement;
- **Compliance** with CIPFA codes of practice and the CIPFA Statements on the Role of Head of Internal Audit and the Role of Chief Financial Officer; and
- A **programme of internal audit reviews** across Council service areas, which provides assurance about the effectiveness of the system of internal controls and identifies areas of improvement.

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

A review of the Partnership's governance arrangements will be progressed during 2026/27, informed by and aligned with the Council's wider governance review, while recognising ZetTrans' separate statutory responsibilities.

Our assessment of effectiveness

The Partnership is responsible for reviewing the effectiveness of its governance framework on an annual basis and for ensuring the continued adequacy and effectiveness of its system of internal control. The review has been undertaken in accordance with the governance framework described in this Statement. The review of effectiveness is informed by:

- each executive officer has reviewed the governance arrangements in place and certified their effectiveness, including compliance with internal financial controls and identification of any weaknesses or areas of concern.
- For 2025/26, no areas of significant weakness were identified; however, a number of improvement actions were identified and are being progressed, including those relating to performance reporting and KPI development;
- progress against key strategic and service objectives;
- financial and budget monitoring arrangements;
- Internal Audit reviews of specific functions and cross-Council activities;

- External Audit observations, comments and recommendations for improvement; and
- the Council's self-assessment against the principles of good governance.

The Partnership also takes assurance from the Council's review of effectiveness, reflecting the shared governance framework.

As noted in the Management Commentary, staff delivering services on behalf of the Partnership are subject to Shetland Islands Council's internal controls, policies and procedures. While no separate internal audit opinion has been issued specifically for the Partnership, assurances are taken from the Council's overall internal audit opinion, which is considered to apply to the Partnership's activities. These assurances take account of improvement actions identified through audit work, including those relating to performance reporting and Best Value, which are being progressed and do not undermine the overall assurance opinion.

The Chief Internal Auditor's annual opinion is that reasonable assurance can be placed on the adequacy and effectiveness of the Council's governance and control environment. This opinion is informed by the programme of audit work undertaken during the year, including follow-up of prior year audit recommendations, identified improvements in the control environment, and recognition that implementation of agreed audit recommendations continues to present challenges within agreed timescales.

Significant Governance Issue

No new significant governance issues have been identified during 2025/26. The significant governance issue previously reported in relation to performance information and KPI reporting remains ongoing, although substantive progress was made during the year.

Update on Significant Governance issues previously reported

The following table details actions taken to address the significant governance issues reported in previous Annual Governance Statements.

Prior Year Significant Governance Issue	The lack of KPI information significantly limits the ability of the Partnership to demonstrate accountability through open and transparent reporting.
Responsible Officer	Lead Officer
Action taken	During 2025/26, substantial progress was made in addressing the limitations in ZetTrans' performance information and reporting arrangements. A combined Annual Report covering 2023/24 and 2024/25 was prepared and presented to the Partnership, restoring continuity in public performance reporting using the existing performance indicators where information was available. In November 2025, the Partnership considered and endorsed a structured programme for developing an RTS Delivery Plan and supporting Performance Framework. The work was designed to establish a clearer link between the RTS Strategic Objectives, delivery themes, individual actions, responsible leads, milestones, performance indicators and annual reporting arrangements. Development work continued during the remainder of 2025/26, including preparation of the draft Delivery Plan, the proposed KPI hierarchy and the associated governance, assurance and reporting arrangements.
Current Status and further action required	**Ongoing:** The development of the RTS Delivery Plan and Performance Framework represents a substantive response to the prior-year governance issue. However, the framework is not yet fully embedded and has not completed a full reporting cycle. The draft Delivery Plan and Performance Framework are being presented to the Partnership in June 2026. Subject to the Partnership's consideration and approval, work during 2026/27 will focus on confirming data sources and baselines, establishing reporting responsibilities, implementing the agreed monitoring cycle and using the framework to support future Annual Reports and reporting to the Partnership. The issue will remain open until the framework has been approved and sufficiently embedded to demonstrate consistent KPI-based monitoring and reporting against the RTS.

Forward look on governance

The Partnership is committed to addressing new and outstanding governance matters, including the continued development of performance reporting arrangements and the management of capacity and succession risks arising from reliance on a small number of Council officers.

The Partnership will continue to monitor the effectiveness of its governance arrangements and will take account of relevant Council recommendations as part of its next annual review.

Conclusion

Overall, it is considered that the governance and internal control environment in place for ZetTrans during 2025/26 provides reasonable assurance that significant risks to the achievement of its strategic objectives are identified and that appropriate actions are taken to manage and mitigate those risks.

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Moraig Lyall	Michael Craigie MCILT
Chairperson	Lead Officer
Zetland Transport Partnership	Zetland Transport Partnership

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2026

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.

2024/25 Net Expenditure £		Notes	2025/26 Gross Expenditure £	2025/26 Gross Income £	2025/26 Net Expenditure £
530,623	Policy, Strategy & Projects		851,808	(496,457)	355,351
3,182,476	Transport Services - Bus		4,240,379	(663,480)	3,576,899
1,137,405	Transport Services - Air		1,166,217	0	1,166,217
4,850,504	Cost of Services		6,258,404	(1,159,937)	5,098,467
(5,521)	Financing & Investment Income & Expenditure	6	1	(2,720)	(2,719)
(4,781,587)	Taxation & Non-specific Grant Income	7	0	(5,063,653)	(5,063,653)
63,396	(Surplus) or Deficit on Provision of Services		6,258,405	(6,226,310)	32,095
0	Other Comprehensive (Income) and Expenditure				0
63,396	Total Comprehensive (Income) and Expenditure				32,095

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.

2025/26	Usable Reserves £	Unusable Reserves £	Total Reserves £
Balance at 1 April 2025	0	(110,058)	(110,058)
Movement in reserves during the year:			
Total comprehensive income and expenditure	32,095	0	32,095
Adjustments between accounting basis and funding basis per regulations (Note 5)	(32,095)	32,095	0
Decrease in year	0	32,095	32,095
Balance at 31 March 2026	0	(77,963)	(77,963)

2024/25	Usable Reserves £	Unusable Reserves £	Total Reserves £
Balance at 1 April 2024	0	(63,442)	(63,442)
Adjustments on transition to new accounting arrangements for leases	(110,012)	0	(110,012)
Transitional adjustments between accounting basis and funding basis	110,012	(110,012)	0
Adjusted balance at 1 April 2024	0	(173,454)	(173,454)
Movement in reserves during the year:			
Total comprehensive income and expenditure	63,396	0	63,396
Adjustments between accounting basis and funding basis per regulations (Note 5)	(63,396)	63,396	0
Decrease in year	0	63,396	63,396
Balance at 31 March 2025	0	(110,058)	(110,058)

Balance Sheet as at 31 March 2026

This statement shows the value as at 31 March 2026 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 2025 £		Notes	As at 31 March 2026 £
27,549	Property, Plant and Equipment	9	22,957
82,509	Property, Plant and Equipment - Right Of Use	14	55,006
110,058	**Long-Term Assets**		**77,963**
262,817	Short-term debtors	10	377,091
0	Cash & cash equivalents	11	0
262,817	**Current Assets**		**377,091**
(262,817)	Short-term creditors	12	(377,091)
(262,817)	**Current Liabilities**		**(377,091)**
110,058	**Net Assets**		**77,963**
110,058	Unusable Reserves	8	77,963
110,058	**Total Reserves**		**77,963**

The unaudited financial statements were issued on 25 June 2026.

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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Paul Fraser CPFA
Proper Officer for Finance
Zetland Transport Partnership
25 June 2026

Cash Flow Statement for the year ended 31 March 2026

This statement shows the changes in cash and cash equivalents during the financial year. Included in the Cash Flow Statement is interest and grants that are directly paid into the ZetTrans' bank account. All expenditure and other income is processed through the Shetland Islands Council bank account and therefore is not included here.

2024/25 £		Notes	2025/26 £
	Operating Activities		
(5,522)	Interest received	6	(2,708)
(438,429)	Grants		(125,162)
(443,951)	Cash inflows generated from operating activities		(127,870)
443,950	Cash paid to suppliers of goods and services		127,869
1	Interest paid	6	1
443,951	Cash outflows generated from operating activities		127,870
0	Net cash flows from Operating Activities		0
0	Investing Activities		0
0	Financing Activities		0
0	Net increase or (decrease) in cash & cash equivalents		0
0	Cash & cash equivalents at 1 April		0
0	Net movement in cash & cash equivalents during the year		0
0	Closing cash & cash equivalents		0

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

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

2025/26	Net Expenditure Chargeable to ZetTrans £	Adjustments for capital purposes £	Net Expenditure in the CIES £
Policy, Strategy & Projects	350,759	4,592	355,351
Transport Services - Bus	3,576,899	0	3,576,899
Transport Services - Air	1,138,714	27,503	1,166,217
Net Cost of Services	**5,066,372**	**32,095**	**5,098,467**
Other income and expenditure	(5,066,372)	0	(5,066,372)
(Surplus) or Deficit	**0**	**32,095**	**32,095**

2024/25	Net Expenditure Chargeable to ZetTrans £	Adjustments for capital purposes £	Net Expenditure in the CIES £
Policy, Strategy & Projects	494,730	35,893	530,623
Transport Services - Bus	3,182,476	0	3,182,476
Transport Services - Air	1,109,902	27,503	1,137,405
Net Cost of Services	**4,787,108**	**63,396**	**4,850,504**
Other income and expenditure	(4,787,108)	0	(4,787,108)
(Surplus) or Deficit	**0**	**63,396**	**63,396**

Note 2: 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:

- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets). Applicable for periods beginning on or after 1 April 2025.
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7). Applicable for periods beginning on or after 1 April 2025.
- Annual improvements to IFRS accounting standards – Volume 11. Applicable for periods beginning on or after 1 April 2025.
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7). Applicable for periods beginning on or after 1 April 2025.

ZetTrans does not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods.

Note 3: Critical Judgements in applying accounting policies

In applying the accounting policies set out in note 17, the Partnership has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

- there is a high degree of uncertainty about future levels of funding for local government. However, the Partnership has determined that this uncertainty is not yet sufficient to provide an indication that the level of service provision within the Partnership will require to be materially changed; and
- the Partnership uses the Shetland Islands Council's financial management systems and processes, meaning most of its transactions, that is, payment of invoices and receipt of income are processed through the Council's bank account. This has a significant impact on the amounts recognised in the Cash Flow Statement, as it is limited to the transactions, interest and specific grant income, which are processed through the Partnership's bank account.

Note 4: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 25 June 2026. 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 2026, the figures in the financial statements and notes have been adjusted in all material aspects to reflect the impact of this information.

There were no events which took place after 31 March 2026 which would materially affect the 2025/26 annual accounts.

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

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

2025/26	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Capital Adjustment Account:		
Reversal of items charged to the CIES:		
Charges for depreciation of non-current assets	(32,095)	32,095
Total Adjustments	(32,095)	32,095

2024/25	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Capital Adjustment Account:		
Reversal of items charged to the CIES:		
Charges for depreciation of non-current assets	(35,931)	35,931
Charges for impairment of non-current assets	(27,465)	27,465
Total Adjustments	(63,396)	63,396

Note 6: Financing and Investment Income and Expenditure

2024/25 £		2025/26 £
1	Interest payable and similar charges	1
(5,522)	Interest receivable and similar income	(2,720)
(5,521)	**Total**	**(2,719)**

Note 7: Taxation and Non-Specific Grant Income

2024/25 £		2025/26 £
	Credited to Taxation and Non-specific Grant Income	
(4,656,425)	Shetland Islands Council Grant	(4,938,491)
(125,162)	Scottish Government Revenue Expenditure Grant	(125,162)
(4,781,587)	**Total**	**(5,063,653)**
	Credited to Services	
(312,119)	Scottish Government	(496,457)
(312,119)	**Total**	**(496,457)**

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.

2024/25 £		2025/26 £
(63,442)	**Balance at 1 April**	**(110,058)**
(110,012)	Transitional adjustments between accounting basis and funding basis	0
(173,454)	**Adjusted balance at 1 April**	**(110,058)**
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
35,931	Charges for depreciation of non-current assets	32,095
27,465	Charges for impairment of non-current assets	0
(110,058)	**Balance at 31 March**	**(77,963)**

Note 9: Property, Plant and Equipment

Movements in 2025/26	Property, Plant & Equipment £
Cost or Valuation	
Opening Balance at 1 April 2025	39,356
Closing Balance at 31 March 2026	39,356
Depreciation and Impairment	
Opening Balance at 1 April 2025	(11,807)
Depreciation charge	(4,592)
Closing Balance at 31 March 2026	(16,399)
Net Book Value as at 31 March 2026	22,957
Net Book Value as at 31 March 2025	27,549

Movements in 2024/25	Property, Plant & Equipment £
Cost or Valuation	
Opening Balance at 1 April 2024	84,282
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services	(44,926)
Closing Balance at 31 March 2025	39,356
Depreciation and Impairment	
Opening Balance at 1 April 2024	(20,840)
Depreciation charge	(8,428)
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services	17,461
Closing Balance at 31 March 2025	(11,807)
Net Book Value as at 31 March 2025	27,549
Net Book Value as at 31 March 2024	63,442

The 2024/25 comparatives have been amended to correct a presentational issue in the 2024/25 Audited Annual accounts, affecting the closing balance and net book value. Related line narratives have been updated accordingly. This does not affect the Balance Sheet.

Note 10: Short-term Debtors

As at 31 March 2025 £		As at 31 March 2026 £
202,057	Central Government Bodies	147,007
54,810	Shetland Islands Council	223,733
5,950	Other Entities & Individuals	6,351
262,817	Total	377,091

Note 11: Cash and Cash Equivalents

All cash held is due to the Shetland Islands Council for the provision of service. As at 31 March 2026, the Cash and Cash Equivalents balance is nil, as settled before the end of the year (2024/25: Nil).

Note 12: Short-term Creditors

As at 31 March 2025 £		As at 31 March 2026 £
(8,533)	Central Government Bodies	(12,064)
(2,443)	Shetland Islands Council	0
(251,841)	Other Entities & Individuals	(365,027)
(262,817)	Total	(377,091)

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.

2024/25 £		2025/26 £
986	Members' expenses	1,595
986	Total	1,595

Note 14: Leases

In 2024/25, the Partnership adopted IFRS 16 Leases in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom. The main impact was the recognition of right-of-use assets on the Balance Sheet as at 1 April 2024. Comparative figures for 2024/25 reflect the application of this standard.

Partnership as lessee

The Partnership's lease contract comprises of two Britten-Norman BN2 Islander Aircraft which are used in the provision of the inter-Island air service.

Right-of-use assets

The table shows the movement in the carrying value of right-of-use assets held under leases by the Partnership:

Movements in 2025/26	Property, Plant & Equipment £
Balance at 1 April 2025	82,509
Depreciation charge	(27,503)
Balance at 31 March 2026	55,006

Movements in 2024/25	Property, Plant & Equipment £
Balance at 1 April 2024	0
Recognition of right-of-use assets	110,012
Adjusted balance at 1 April 2024	110,012
Depreciation charge	(27,503)
Balance at 31 March 2025	82,509

Note 15: 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:

2024/25 £		2025/26 £
12,800	Fees payable in respect of external audit services carried out by the appointed auditor for the year	13,360
12,800	Total	13,360

Note 16: 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 2025/26, The Scottish Government provided £0.125m to fund running costs of the Partnership (2024/25: £0.125m) and specific grant funding of £0.496m (2024/25: £0.312m).

Shetland Islands Council is responsible for funding the net expenditure of the Partnership under the Transport (Scotland) Act 2005. In 2025/26, the Council provided £4.716m (2024/25: £4.292m) to fund the delivery of the public transport service and £0.223m (2024/25: £0.364m) of match funding for core running costs. In addition, ZetTrans charged the Council £0.100m (2024/25: £0.111m) for its use of the public bus service to transport pupils to school. ZetTrans does not employ its own staff and during 2025/26, Shetland Islands Council charged ZetTrans £0.235m (2024/25: £0.277m) in respect of staff, supplies and other support services.

Note 17: 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 2025/26 financial year and its position at the year-end, 31 March 2026. 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 require 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 2025/26, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the accounts is principally historical cost. The accounts have been prepared on a going concern basis.

The Partnership will disclose material accounting policy information to aid the reader's understanding and interpretation of the information presented in the financial statements. Information is considered to be material if it might influence the decisions users make based on financial information about ZetTrans. If immaterial items are included, they can interfere with decision making, because excessive detail may obscure the relevant information. Some items may qualify as material by nature or context regardless of their size.

B Accruals of Income and Expenditure

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

C Cash and Cash Equivalents

Cash is represented by deposits with financial institutions repayable without penalty on notice of not more than 24 hours. The Cash Flow Statement details cash inflows and outflows, that is, cash received in to and paid out of the Partnership's bank account and consists of interest and grants. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand. All other cash flows are processed through the Shetland Islands Council bank account and therefore are not included in the Partnership's Cash Flow Statement.

D Changes in accounting policies

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 authority's financial performance. Where a change is made, it is applied retrospectively (unless not material or stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

E Charges to Revenue for Non-Current Assets

Depreciation and impairment losses attributable to the assets used by the Partnership, is charged to the CIES to record the cost of holding non-current assets during the year. The partnership is not required to fund depreciation or impairment losses so is balanced by way of an adjusting transaction with the capital adjustment account.

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.

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

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

H Leases

The partnership as lessee

The Partnership classifies contracts as leases based on their substance. Contracts and parts of contract, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 *Leases* to include arrangements with nil consideration, peppercorn or nominal payments.

The only lease arrangement which the Partnership has is for nil consideration.

Initial measurement

The Code requires the right-of use asset acquired under a lease that does not have commercial payment terms to be accounted for as a donated asset. This circumstance will arise where rents are for a nil consideration.

The right-of-use asset is uplifted to fair value and credited as a gain in the surplus or deficit on the provision of services. As a capital transaction the impact of the gain is neutralised by statutory reversals.

Subsequent measurement

The right-of-use asset is subsequently measured using the fair value model and is carried at a revalued amount. In these financial statements assets held under nil consideration lease are valued at existing use value.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

Lease expenditure

Expenditure in the CIES includes straight-line depreciation. Rentals for leases of low value or shorter than 12 months are expensed.

I 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 subsequently carried at depreciated historical cost, which is used as a proxy for current value where assets are of low value, short operational lives, and are not subject to regular revaluation. As, such indexation is not applied.

Impairment

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

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

- the carrying amount of the asset is written down against the relevant service lines in the CIES; and

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

Depreciation

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

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

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

J 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.

K Value Added Tax

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