

Unaudited Annual Accounts **2022/23**



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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

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

Members:

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

Other Members:

Colin Marsland
Andrew Gear

Substitute Members:

Councillor Alex Armitage
Councillor Arwed Wenger

Observer/Advisers:

Callum Grains (until 13 December 2022)
Steve Mathieson
John Smith

Representing

Shetland Islands Council
Shetland Islands Council
Shetland Islands Council
Shetland Islands Council

NHS Shetland

Highlands and Islands Enterprise (HIE)

Shetland Islands Council

Shetland Islands Council

Lerwick Port Authority

Visit Shetland

Director of Infrastructure (Shetland Islands Council)

Prior to the local elections in May 2022, the membership consisted of:

Members:

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

Other Members:

Colin Marsland
Andrew Gear

Substitute Members:

Councillor Steven Coutts
Councillor Duncan Anderson

Observer/Advisers:

Callum Grains
Steve Mathieson
John Smith

Representing

Shetland Islands Council
Shetland Islands Council
Shetland Islands Council
Shetland Islands Council

NHS Shetland

Highlands and Islands Enterprise (HIE)

Shetland Islands Council

Shetland Islands Council

Lerwick Port Authority

Visit Shetland

Director of Infrastructure (Shetland Islands Council)

Executive Officers:

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

Proper Officer for Finance: Jamie Manson CPFA (until 6 November 2022) and Paul Fraser CPFA (from 9 January 2023).

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

The purpose of the Management Commentary is to present an overview of ZetTrans' financial performance during the year 2022/23 and to help readers understand its financial position as at 31 March 2023. In addition, it outlines the main risks and uncertainties that ZetTrans is likely to face in the future.

Background

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

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

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

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

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

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."

Shetland Islands Council, as the primary funder for ZetTrans, continues to face a significant challenge in achieving long-term financial sustainability with an expected cumulative funding gap of £106.4m by 2026/27, as outlined in the latest iteration of the Council's Medium Term Financial Outlook (MTFO). ZetTrans will need to work with the Council to meet future demand for transport with limited financial resources over the next five years.

The Impact of COVID-19

The pandemic continued to impact some of the Council services and activities during the year, including activities relating to ZetTrans. Throughout the year, activity has been managed in accordance with applicable Scottish Government guidance and the restrictions in place through the year.

Hybrid arrangements were used in line with the restrictions and public health guidance at the time of the meeting to facilitate attendance at ZetTrans meetings. Members and officers have been able to attend meetings in person along with members and officers attending remotely. These arrangements enabled a quorum to be maintained at all meetings and routine business to be conducted throughout the year without any significant or adverse impact on the governance of the Partnership's activities.

Board meetings

ZetTrans Board meetings are held at the Council Chambers. The Council chamber moved from the Town hall to the former St Ringan's Church in March 2022. Conferencing and broadcast technology was installed to allow the live streaming of meetings. ZetTrans meetings, since March 2023 are broadcast live, allowing the public to watch the debate on any desktop or mobile device. The webcasting site also contains reports available to the public and holds archived recordings for 12 months from the meeting date.

The webcasting site is located here:

<https://shetland.public-i.tv/core/portal/home>

The Partnership met on 7 occasions during 2022/23.

Strategy and Performance Management

National Transport Strategy 2 (NTS2)

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

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

The detail of the NTS2 can be found here:-

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

Active Travel Strategy

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

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

Over the course of 2022/23, more work was undertaken on Settlement Audits throughout Shetland to identify candidate projects and interventions. ZetTrans approved a Strategic Outline Programme (SOP) for investment on 16 March 2023. The SOP is the strategic framework for delivery of Active Travel infrastructure across Shetland, which will help inform identification of issues and options and will provide evidence based planning and decision-making.

The SOP can be found here:

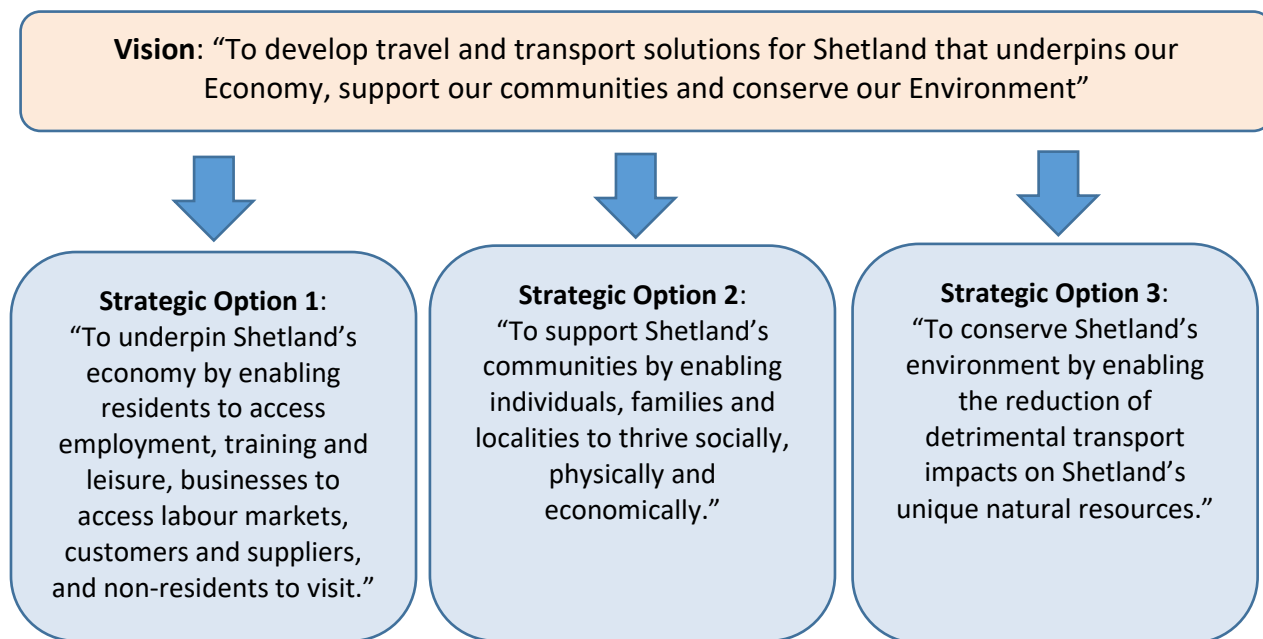
<http://coins.shetland.gov.uk/submissiondocuments.asp?submissionid=28833>

Shetland Regional Transport Strategy (RTS)

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

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

For the duration of 2022/23, the refreshed 2018-2028 RTS has remained the strategic policy context for ZetTrans business. The RTS vision and strategic objectives are set out below:



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

A draft consultative RTS and list of stakeholders to consult was approved by ZetTrans on 1 December 2022. The 12-week consultation period closed on 23 February 2023. Following this, the final draft 2022-42 RTS will be drawn up and will be presented for approval by ZetTrans in June 2023. Thereafter this will be submitted to the Scottish Ministers for their approval.

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

ZetTrans Annual Report

Other work stream priorities have had a significant impact on the team’s ability to deliver an Annual Report. A copy of the last published Annual Report that covered the period 2017-19 can be found here:

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

Key Performance Indicators (KPIs)

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

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

The KPI information, as adopted by the Partnership, has not been updated since 2018/19. These KPI’s were not updated in 2022/23 recognising that the new RTS, as part of its monitoring and evaluation, included development of a set of KPIs. These would be linked to the new RTS strategic objectives and be included within proposed monitoring reports to be produced on a two-yearly basis.

Both the non-production of an Annual Report and lack of KPI information are reported as Prior Year Significant Governance issues within the Annual Governance Statement (page 12).

Activities in year

Inter-island Transport – Business Cases

Building on the Shetland Inter-island Transport Study, work continued throughout 2022/23 to complete the Outline Business Case (OBC) for the Fair Isle Ferry and this was approved by the Council on 14 November 2022.

In January 2023, the Council were notified that the bid to Round 2 of the Levelling up fund had been successful for the Fair Isle Ferry project. Shetland Islands Council are progressing delivery of the project, this includes completion of a full business case by the end of 2023.

During the year, a scoping report was produced on the inter-island transport connectivity (IITC). This established an approach to developing the required business cases for IITC for inter-island ferry services and fixed links. In March 2023, the Council approved to fund the development of IITC network strategic and Outline business cases.

In addition to this ZetTrans continued to work with Shetland Islands Council in engaging in Transport Scotland's Strategic Transport Projects Review 2 (STPR2). Although, the approach adopted to the definition of what is within the scope of STPR2 led to fixed links and inter-island ferry services in Shetland being scoped out of STPR2, there are some meaningful interventions proposed that will support the economy and wellbeing of Shetland.

The detail of STPR2 can be found here: -

<https://experience.arcgis.com/experience/925294035a8f4ad39248fd0ff47249f6/page/Home/?views=Key-Stages>

STPR2 will help deliver the vision, priorities and outcomes as set out in the NTS2 and will align with other national plans, such as the Infrastructure Investment Plan, National Planning Framework (NPF4) and Climate Change Plan. The original scope of STPR2 was adapted to consider COVID-19 pandemic, the first phase identified and made recommendations on transport interventions in the short term with the second phase identifying a longer-term programme of potential transport investment opportunities for the period 2022-2042. A final STPR2 was published on 8 December 2022.

Public Bus Services

Public bus service passenger levels increased beyond pre-pandemic levels in 2022/23, aided by the increased number of young people accessing services because of the introduction of the Under 22s Free Bus Travel Scheme. This represented a 28.47% increase on 2021/22 figures.

The main challenge over the course of the year was the financial climate. There was a significant increase in contract costs following the re-tendering of 6 service routes, which represents a third of the total bus service costs. Despite this, all services have been maintained with a number of services being run by different operators.

Northern Isles Ferry Services

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

Key Risks

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



Financial Pressures – ZetTrans receives its primary funding from Shetland Islands Council. The Council is not in a financially sustainable position over the medium term, facing an anticipated cumulative budget deficit of £106.4m by 2026/27, with the level of core funding from the Scottish Government expected to reduce in real terms, whilst demand for services increases.



Withdrawal from the European Union – The practicalities of leaving the European Union are still being identified, despite the UK and EU reaching agreement on the Trade and Co-operation Agreement on 24 December 2020 and new arrangements coming into force from 1 January 2021. Although no specific risks to ZetTrans have been identified, uncertainties remain which may affect ZetTrans in the future. ZetTrans, through the Council, will continue to monitor this, regularly reviewing the position and reporting to members.



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

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

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



Climate Change – ZetTrans' performance in relation to climate change is incorporated with that of Shetland Islands Council. In January 2020, the Council approved a Strategic Outline Programme detailing activities to facilitate a wider Shetland response to climate change, as well as contributing to the Scottish, UK and international efforts. Progress on the objectives set out in the SOP was reported to the Council in November 2021. The Council approved the [“Shetland Net Zero Route Map”](#) in November 2022 and this details two possible pathways for Shetland to mitigate its emissions.

Workforce Management

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

Primary Financial Statements

The Financial Statements for 2022/23 summarise ZetTrans transactions and cash flows for the year and its year-end position as at 31 March 2023. 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 2022/23

The CIES presents the full economic cost of providing ZetTrans services in 2022/23. 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 17), reconciles the Deficit on Provision of Services of £0.008m, disclosed in the CIES, to the outturn, used for management decision-making.

The majority of this expenditure was met through grant income from the Scottish Government, Shetland Islands Council, and Sustrans - a charity making it easier for people to walk and cycle. The final revenue outturn position compared to the revised budget for 2022/23 is summarised as follows:

2021/22 Actual £		2022/23 Budget £	2022/23 Actual £	2022/23 Variance £
412,733	Policy, Strategy & Projects	531,891	634,232	(102,341)
2,746,392	Transport Services - Bus	2,832,534	3,096,394	(263,860)
947,614	Transport Services - Air	946,614	1,027,805	(81,191)
315,000	Transport Services - Ferry	325,215	315,180	10,035
4,421,739	Total Expenditure	4,636,254	5,073,611	(437,357)
(68,985)	Other Grants	(125,736)	(220,014)	94,278
(523,473)	Public Transport Service Income	(621,332)	(585,242)	(36,090)
3,829,281	Net Expenditure	3,889,186	4,268,355	(379,169)
(131,750)	Scottish Government Grant	(131,750)	(131,750)	0
(211,935)	SIC Match Funding	(274,399)	(280,492)	6,093
(63)	Bank Interest	(6)	(1,976)	1,970
(3,485,533)	SIC Public Service Contribution	(3,483,031)	(3,854,137)	371,106
(3,829,281)	Other Income	(3,889,186)	(4,268,355)	379,169
0	Net (Surplus)/Deficit for Year	0	0	0

In 2022/23, ZetTrans spent £0.102m more in Policy, Strategy & Projects and £0.335m more in Transport Services when compared to the revised budget. The unfavourable outturn variance within Policy Strategy & Projects is mainly due to unbudgeted for consultancy costs, although most of this was offset by unbudgeted for specific grant income. Within Transport Services, the unfavourable expenditure outturn variance is mainly due to increased Bus and Air contract costs, due to several re-tendered bus routes and contract indexation being more than budgeted. The overall result is an overspend of £0.437m against the revised budget.

Looking Ahead

ZetTrans faces a number of significant challenges and uncertainties, many of which were mentioned earlier in this commentary.

The primary funder, Shetland Islands Council, anticipates a continued real-terms reduction in core revenue funding following publication of the Scottish Government's Resource Spending Review in May 2022. In addition, the cost of delivering services is increasing, with rising inflation, increased volatility in energy costs and wider supply chain issues, (including availability of raw materials, goods and contracted labour). This creates an acute risk to ZetTrans of being

able to maintain service delivery at current levels within the confines of the 2023/24 budget. The financial position is subject to regular monitoring, enabling remedial action to be taken.

The ongoing development of the 2022-42 RTS during 2022/23 will conclude in 2023/24, and will provide a framework that will enable ZetTrans to identify challenges and opportunities arising from COVID-19 and climate change, which can be incorporated into the Partnership's strategic planning over the next twenty years. ZetTrans will need to balance competing stakeholder demands, such as from the Shetland Partnership (the outcomes of which ZetTrans is statutorily committed to), any emerging Scottish Government policies and priorities and those of the Shetland Islands Council in the final RTS.

2023/24 Budget Outlook

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

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

On 16 March 2023, the Partnership approved the 2023/24 budget. The gross revenue budget is £5.195m, of which £0.337m is for core activities and the implementation of the Regional Transport Strategy and £4.858m is for public transport services in Shetland.

The core running costs and implementation of the Regional Transport Strategy work, including the work to access better information on the services being delivered and implementing processes for better performance management, is funded by a grant of £0.132m from Scottish Government and additional funding of £0.205m from Shetland Islands Council. Transport operations are budgeted to cost £4.858m and are funded by anticipated bus fare income of £0.557m and a contribution from Shetland Islands Council of £4.301m.

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Paul Fraser CPFA
Proper Officer for Finance
Zetland Transport Partnership

30 June 2023

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

30 June 2023

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 30 June 2023.

Signed on behalf of Zetland Transport Partnership.

.....
Moraig Lyall
Chairperson
Zetland Transport Partnership

30 June 2023

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 2023.



.....
Paul Fraser CPFA
Proper Officer for Finance
Zetland Transport Partnership

Annual Governance Statement

Introduction

This Annual Governance Statement explains how the Zetland Transport Partnership, has complied with the principles of the CIPFA/SOLACE Framework ‘*Delivering Good Governance in Local Government*’ for the year ended 31 March 2023. The Partnership relies upon the same internal controls, procedures, policies and systems as the Shetland Islands Council in order to deliver its stated functions. The arrangements put in place by the Council apply equally to the activities of the Partnership. This Annual Governance Statement therefore reflects the fact that the Partnership’s governance arrangements and systems of internal control mirror the arrangements put in place by the Shetland Islands Council, and concludes on their effectiveness.

Scope of Responsibility

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

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

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

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

The Purpose of the Governance Framework

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

The Governance Framework

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

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

The governance framework has been in place for the year ended 31 March 2023 and up to the date of approval of the annual accounts.

The key elements of the governance framework include:

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

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

A previously planned governance review for Zetland Transport Partnership had been due to conclude by February 2021. This review has been further delayed due to lack of available resources and other competing priorities of staff. It is intended that the review will be undertaken following the conclusion of the wider review of the Council's governance arrangements due to be completed by September 2023.

Review of Effectiveness

The Partnership is responsible for reviewing the effectiveness of the governance framework on an annual basis, and for ensuring the continued effectiveness and adequacy of the systems of internal control. The review of effectiveness is informed by:

- progress towards key strategic and service objectives;
- financial and budget monitoring;
- Internal Audit reviews on specific functions and on activities which occur across the Council; and
- External Audit observations, comments and recommendations for improvement.

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

As noted in the Management Commentary, staff providing services to ZetTrans are covered by all relevant Shetland Islands Council internal controls, policies and procedures. Although no specific internal audit opinion has been expressed by internal audit for ZetTrans, the Partnership is satisfied that the internal audit opinion provided to the Council applies equally to the activities of ZetTrans and therefore takes assurance from that audit opinion. The Chief Internal Auditor's opinion is that limited assurance can be placed upon the adequacy and effectiveness of the governance and control environment. This opinion is expressed as management have found it challenging to implement agreed 2021/22 audit recommendations within reasonable timescales, meaning original risks identified remained during 2022/23.

Significant Governance Issue

No significant governance issues have been noted during the year.

Update on Significant Governance issues previously reported

The following table details actions taken to address the significant governance issues reported in the 2020/21 and 2021/22 Annual Governance Statements.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Current Status and further action required
Serious deficiencies in the Councils procurement and commissioning arrangements. As the Partnership relies on the same policies, procedures and systems there is potential operational, financial and reputational risks.	Director of Corporate Services - SIC	Action plan developed and reported at Audit Committee June 2022. To drive work forward and report on progress a detailed Procurement project action plan was established, setting out resources and timescales. Progress on this was reported to Audit Committee in May 2023.	Ongoing Timescales for completion of all actions September 2023.
The lack of KPI information significantly limits the ability of the Partnership to demonstrate accountability through open and transparent reporting.	Lead Officer	A set of KPIs linked to Strategic Objectives have been developed as part of the draft Regional Transport Strategy 2022-2042. The final draft RTS is to be presented to ZetTrans in June 2023 for onward submission to the Scottish Ministers.	Ongoing Once the RTS is approved by Scottish Ministers, monitoring reports are to be produced on a two-yearly basis setting out the transport and behavioural trends against KPIs. In addition ZetTrans Board should seek to define and ensure local KPIs and usage information demonstrating performance should be provided to each meeting as a standard.
The Partnership has not published an Annual Report since September 2019.	Lead Officer	No action taken during the year.	Ongoing There has been no progress in year due to lack of available staff resources. ZetTrans Board should seek to ensure this is able to be completed annually.

Conclusion

Overall, we consider that the governance and internal control environment operating in 2022/23 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

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

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Moraig Lyall
Chairperson
Zetland Transport Partnership

30 June 2023

30 June 2023

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2023

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.

2021/22 Net Expenditure £		Notes	2022/23 Gross Expenditure £	2022/23 Gross Income £	2022/23 Net Expenditure £
347,732	Policy, Strategy & Projects		642,660	(220,014)	422,646
2,222,919	Transport Services - Bus		3,096,394	(585,242)	2,511,152
947,614	Transport Services - Air		1,027,805	0	1,027,805
315,000	Transport Services - Ferry		315,180	0	315,180
3,833,265	Cost of Services		5,082,039	(805,256)	4,276,783
(63)	Financing & Investment Income & Expenditure	6	11	(1,987)	(1,976)
(3,873,660)	Taxation & Non-specific Grant Income	7	0	(4,266,379)	(4,266,379)
(40,458)	(Surplus) or Deficit on Provision of Services		5,082,050	(5,073,622)	8,428
0	Other Comprehensive (Income) and Expenditure				0
(40,458)	Total Comprehensive (Income) and Expenditure				8,428

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.

2022/23	Usable Reserves £	Unusable Reserves £	Total Reserves £
Balance at 1 April 2022	0	(80,298)	(80,298)
Movement in reserves during the year:			
Total comprehensive income and expenditure	8,428	0	8,428
Adjustments between accounting basis and funding basis per regulations (Note 5)	(8,428)	8,428	0
Increase in year	0	8,428	8,428
Balance at 31 March 2023	0	(71,870)	(71,870)

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

Balance Sheet as at 31 March 2023

This statement shows the value as at 31 March 2023 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 2022 £		Notes	As at 31 March 2023 £
80,298	Property, Plant and Equipment	9	71,870
80,298	Long-Term Assets		71,870
138,145	Short-term debtors	11	183,580
0	Cash & cash equivalents	10	0
138,145	Current Assets		183,580
(111,955)	Short-term creditors	12	(183,580)
(26,190)	Grants received in Advance - Revenue	7	-
(138,145)	Current Liabilities		(183,580)
80,298	Net Assets		71,870
80,298	Unusable Reserves	8	71,870
80,298	Total Reserves		71,870

The unaudited financial statements were issued on 30 June 2023.

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

30 June 2023

Cash Flow Statement for the year ended 31 March 2023

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

2021/22 £	Notes	2022/23 £
	Operating Activities	
(64)	Interest received	(1,987)
(120,771)	Grants	(131,750)
(120,835)	Cash inflows generated from operating activities	(133,737)
120,834	Cash paid to suppliers of goods and services	133,726
1	Interest paid	11
120,835	Cash outflows generated from operating activities	133,737
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.

2022/23	Net Expenditure Chargeable to ZetTrans £	Adjustments for capital purposes £	Net Expenditure in the CIES £
Policy, Strategy & Projects	414,218	8,428	422,646
Transport Services - Bus	2,511,152	0	2,511,152
Transport Services - Air	1,027,805	0	1,027,805
Transport Services - Ferry	315,180	0	315,180
Net Cost of Services	4,268,355	8,428	4,276,783
Other income and expenditure	(4,268,355)	0	(4,268,355)
(Surplus) or Deficit	0	8,428	8,428

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

Note 2: Accounting Standards Issued and Adopted in Year

Adoption of new and revised standards.

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

In the current year, the Partnership has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2022. Their adoption has not had any material impact on

the disclosures or on the amounts reported in these financial statements:

- Annual Improvements to IFRS Standards 2018 - 2020; and
 - Amendments to IAS 16 (Property, Plant and Equipment) – amendments to Proceeds before intended use.
- b) Standards, amendments and interpretations early adopted this year

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

Note 3: Accounting Standards Issued but not yet Adopted

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

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

- Amendments to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) – definition of Accounting Estimates – applicable for periods beginning on or after 1 April 2023;
- Amendments to IAS 1 (Presentation of Financial Statements) and IFRS Practice Statement 2 – disclosure of Accounting Policies – applicable for periods beginning on or after 1 April 2023.

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

Note 4: 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. A critical judgement made in the statement of accounts is that there is a high degree of uncertainty about future levels of funding for local government. However, the Partnership has determined that this uncertainty is not yet sufficient to provide an indication that the level of service provision within the Partnership will require to be materially changed.

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

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

2022/23	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	(8,428)	8,428
Total Adjustments	8,428	8,428

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

Note 6: Financing and Investment Income and Expenditure

2021/22 £		2022/23 £
1	Interest payable and similar charges	11
(64)	Interest receivable and similar income	(1,987)
(63)	Total	(1,976)

Note 7: Taxation and Non-specific Grant Income

The Partnership credited the following grants, contributions and donations to the CIES in 2022/23:

2021/22 £		2022/23 £
	Credited to Taxation and Non-specific Grant Income	
(3,697,498)	Shetland Islands Council Grant	(4,134,629)
(131,750)	Scottish Government Revenue Expenditure Grant	(131,750)
(13,086)	Capital Grants and Contributions	0
(31,356)	Donated Asset	0
(3,873,690)	Total	(4,266,379)
	Credited to Services	
(53,985)	Sustrans	(68,503)
(15,000)	Scottish Government	(64,252)
0	Shetland Islands Council	(59,875)
0	Highlands and Islands Enterprise	(27,384)
(68,985)	Total	(220,014)

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

2021/22 £		2022/23 £
	Revenue Grants - Receipts in Advance	
(26,190)	Highlands and Islands Enterprise	0
(26,190)	Total	0

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.

2021/22 £		2022/23 £
(39,840)	Balance at 1 April	(80,298)
3,984	Reversal of items relating to capital expenditure debited or credited to the CIES: Charges for depreciation and impairment of non-current assets	8,428
(44,442)	Capital financing in the year: Capital grants and contributions credited to the CIES that have been applied to capital financing	0
(80,298)	Balance at 31 March	(71,870)

Note 9: Property, Plant and Equipment

Movements in 2022/23	Property, Plant & Equipment £
Cost or Valuation	
Opening Balance at 1 April 2022	84,282
Closing Balance at 31 March 2023	84,282
Depreciation and Impairment	
Opening Balance at 1 April 2022	(3,984)
Depreciation charge	(8,428)
Closing Balance at 31 March 2023	(12,412)
Net Book Value as at 31 March 2023	71,870
Net Book Value as at 31 March 2022	80,298

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

Note 10: Cash and Cash Equivalents

All cash held is due to the Shetland Islands Council for the provision of service. As at 31 March 2023, the Cash and Cash Equivalents balance is nil, as settled before the end of the year (2021/22: Nil).

Note 11: Short-term Debtors

As at 31 March 2022 £		As at 31 March 2023 £
73,868	Central Government Bodies	105,411
0	Shetland Islands Council	1,785
64,277	Other Entities & Individuals	76,384
138,145	Total	183,580

Note 12: Short-term Creditors

As at 31 March 2022 £		As at 31 March 2023 £
0	Central Government Bodies	(7,900)
(6,207)	Shetland Islands Council	0
(7,020)	Public Corporations & Trading Funds	0
(98,728)	Other Entities & Individuals	(175,680)
(111,955)	Total	(183,580)

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.

2021/22 £		2022/23 £
18	Members' expenses	0
18	Total	0

Note 14: External Audit Costs

The Partnership has incurred the following costs in respect of external audit services provided in accordance with the Code of Audit Practice:

2021/22 £		2022/23 £
10,530	Fees payable in respect of external audit services carried out by the appointed auditor for the year	10,648
10,530	Total	10,648

Note 15: Related Parties

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

The Scottish Government is responsible for providing the statutory framework within which the Partnership operates. It provides some funding in the form of grants and prescribes the terms of many of the transactions that the Transport Partnership has with other parties. In 2022/23, The Scottish Government provided £0.132m to fund running costs of the Partnership (£0.132m in 2021/22).

Shetland Islands Council is responsible for funding the net expenditure of the Partnership under the Transport (Scotland) Act 2005. In 2022/23 the Council provided £3.854m (£3.486m in 2021/22) to fund the delivery of the public transport service, £0.280m (£0.212m in 2021/22) of match funding for core running costs and £0.060m (nil in 2021/22) specific grant funding. In addition, ZetTrans charged the Council £0.100m (£0.094m in 2021/22) for its use of the public bus service to transport pupils to school. ZetTrans does not employ its own staff and during 2022/23, Shetland Islands Council charged ZetTrans £0.281m (£0.234m in 2021/22) in respect of staff, supplies and other support services.

Note 16: Events after the Balance Sheet Date

The unaudited annual accounts were authorised for issue on 30 June 2023. 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 2023, the figures in the financial statements and notes have been adjusted in all material aspects to reflect the impact of this information.

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 2022/23 financial year and its position at the year-end, 31 March 2023. ZetTrans' is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government Scotland Act 2003 requires to be prepared in accordance with proper accounting practices. These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

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

The concept of the Partnership as a going concern is based on the premise that sufficient funding will be available to ensure that its functions and services will continue in existence for the foreseeable future. Management's assessment of the above factors has determined that it is still appropriate to prepare the Partnership's financial statements on a going concern www.zettrans.org.uk

basis, as required by the Code of Practice on Local Authority Accounting 2022/23.

B Accruals of Income and Expenditure

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

C Charges to Revenue for Non-Current Assets

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

D Cash and Cash Equivalents

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

E Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the annual accounts are authorised for issue.

Two types of events can be identified:

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

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

F Government Grants and Contributions

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

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

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

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

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

G Property, plant and equipment

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

Recognition

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

Impairment

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

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

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

Depreciation

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

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

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

H Reserves

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

I Value Added Tax

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