TRANSPORT
SCOTLAND

TRANSPORT SCOTLAND ANNUAL REPORT AND ACCOUNTS 07/08

TRANSPORT SCOTLAND ANNUAL REPORT AND ACCOUNTS 07/08

An agency of

The Scottish Government

SCOTTISH GOVERNMENT TRANSPORT PRIORITIES

Wealthier and fairer Scotland
Making journey times faster and more reliable and improving connections to help build and sustain economic growth; providing travel opportunities for employment, business, leisure and tourism and linking towns, cities and rural communities throughout Scotland.

Smarter Scotland
Promoting innovation and encouraging implementation of new transport technologies, such as alternative fuels, to allow us to meet greener challenges and contribute to Scotland's economic growth.

Healthier Scotland
Encouraging a shift from car to public transport and to healthier and physically active forms of transport and improving transport access (public and private) to health and community services.

Safer and stronger Scotland
Improving the quality, accessibility and affordability of public transport to provide access to essential services and economic opportunities, including support for communities in less accessible or remote parts of Scotland. Reducing accidents by improving the condition of our roads, investing in new technologies to increase safety and security, promoting road safety and driver education.

Greener Scotland
Reducing transport emissions to tackle the issues of climate change and air quality by promoting public transport and encouraging individuals to shift from the private car to more sustainable, healthy and active forms of transport. Encouraging the adoption of new low carbon technologies and promoting cleaner vehicles.

ISBN: 978-1-906006-39-6

Transport Scotland
Buchanan House
58 Port Dundas Road
Glasgow
G4 0HF

Produced for Transport Scotland by RR Donnelley B56762 11/08

Published by Transport Scotland, November 2008

Further copies are available from
Blackwell's Bookshop
53 South Bridge
Edinburgh
EH1 1YS

SG/2008/212

CONTENTS

ANNUAL REPORT

- CHIEF EXECUTIVE'S INTRODUCTION 2
- WHO WE ARE AND WHAT WE DO 6
- OUR PEOPLE 8
- DELIVERY AGAINST OUR AIMS 11
- BUSINESS PLAN 2007/08 TARGETS 38

ANNUAL ACCOUNTS

- MANAGEMENT COMMENTARY 44
- REMUNERATION REPORT 48
- STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES 53
- STATEMENT OF INTERNAL CONTROL 54
- INDEPENDENT AUDITOR'S REPORT 57
- FINANCIAL STATEMENTS
  - Operating Cost Statement 60
  - Statement of Recognised Gains and Losses 60
  - Balance Sheet 61
  - Cashflow 62
  - Notes to the Accounts 62
- ANNEX A – DIRECTION BY SCOTTISH MINISTERS 87

CHIEF EXECUTIVE'S
INTRODUCTION

This is Transport Scotland's second Annual Report and the last under our inaugural Corporate Plan which covered the two year period from our creation in 2006. Our second year, 2007/08, has been one of delivery and achievement against the five corporate aims set out in the Corporate Plan, and more particularly, against the 2007/08 Targets published in our Business Plan.

It has also been a year of challenge, a year in which we have been refocusing our priorities to help deliver the Scottish Government's Purpose of increasing sustainable economic growth. This is reflected in our second Corporate Plan covering 2008-11, together with our Business Plan for 2008/09, and a set of delivery priorities that ensures transport will play a vital part in delivering greater prosperity and opportunity for the people of Scotland.

So this Annual Report both reports on our progress and achievements in 2007/08 against our aims and targets and also looks forward to our priorities for the new Corporate Plan period. One of the key areas of activity for us in the new Corporate Plan period will be the action we will take to mitigate and adapt to the ever increasing challenge of climate change. As a delivery agency we are in a unique position to assist the Scottish Government in achieving its target of reducing emissions by 80% by 2050. To deliver this we are developing a Climate Change Action Plan which will ensure that these considerations are embedded within our core business so that Transport Scotland can be at the leading edge of developments in this field.

2007/08 HIGHLIGHTS[1]: DELIVERY HIGHLIGHTS

- At 31 March 2008 work was nearing completion on the Stirling-Alloa-Kincardine Railway to provide passenger services from Alloa to Stirling and freight services to Longannet Power Station[2]
- Our £150 million programme of infrastructure work at Edinburgh Waverley station improving access and increasing capacity by four more trains per hour was delivered on time and within budget by Network Rail
- We completed £4 million worth of rail freight improvements to the Mossend to Elgin line which will enable up to 12.3 million lorry kilometres of freight to be transferred from the nation's roads
- 45 trains were refurbished and put into service to the benefit of passengers travelling on north east, far north, north-west Highland lines and in Strathclyde
- We replaced worn out sections of some of the busiest motorways in Scotland on the M74 and M8 – on time and on budget – as well as carrying out vital bridge repairs such as those on the White Cart Viaduct and Erskine Bridge
- In November 2007 we launched our first-ever Strategic Road Safety Plan which sets out our goals for the next decade and the challenges we face in delivering them
- At the A82 from Fort William to Torlundy a cycle link was built in time for the World Mountain Bike Championships in September 2007

1 Details on all projects referred to in this report can be found at www.transportscotland.gov.uk

2 The SAK line was opened to passenger services on 19 June 2008.

Our targets for 2007/08 included improving the condition of our trunk roads, reducing serious and fatal road accidents, increasing rail passenger numbers by 2% each year, delivering major rail projects, and optimising the use of our concessionary travel schemes. Our achievements against these targets are set out in this report. I have highlighted some of these in this section.

Our achievements against our current Business Plan Aims and Targets are, at the same time, in line with our new delivery priorities for the coming years: improved connections across Scotland; better journey times, better reliability; greener transport alternatives, reduced emissions; increased safety and more innovation. Taken together, they will help us develop and deliver transport infrastructure and services in Scotland of which we can be proud.

A well maintained and operated trunk road network is fundamental to the people and economy of Scotland. We continued to manage the trunk road network effectively, delivering £264 million of road maintenance and improvement schemes while keeping 99.2% of the trunk road network open to traffic at all times. Overall, the trunk road operating companies managed 13,146 individual roadworks sites in 2007/08. We have also invested in our Traffic Scotland, Traveline and Transport Direct services to improve the way in which we provide information to travellers and operate the network. I am particularly pleased to report the successful expansion of the Trunk Road Incident Support Services in the east of Scotland.

Safety is at the heart of everything we do as we aim to make our roads, already among the safest in the world, even safer. We are currently exceeding the Government's 2010 casualty reduction targets and earlier this year we published the Strategic Road Safety Plan which takes forward the work of Transport Scotland not only in addressing historic accident sites but in identifying measures to address potential accident locations. Safer road design, improved speed management, continued maintenance and better provision for vulnerable road users will bring about the further reduction in accidents on our roads that we are all seeking.

Of course, complex infrastructure stretching across the whole of the Scottish mainland and Skye presents some real challenges. Incidents will occur. When they do we expect to be in a position to react quickly and effectively. The closure of the A83 at the 'Rest and Be Thankful' caused major upheaval for those who rely on the road. I was very pleased at the speed with which Scotland TranServ, our trunk road operating company, and Transport Scotland staff reacted. Their actions ensured that the road was reopened to traffic within 17 days of this major incident.

The highly successful concessionary travel scheme for older and disabled people continued to grow with passenger journeys increasing by 4.2 million to a total of 160.2 million. Progress continued on providing Smartcard systems on Scottish buses with a target of having most of the 7,000 buses equipped during 2008/09.

Rail usage continued to grow, with rail passenger numbers under the ScotRail Franchise increasing by 5.17%, against a target of 2%. Improved rail services have also been provided to North Berwick, Stirling, Uddingston and Cambuslang.

In addition, figures released in August 2007 by British Transport Police show that reported crime on our railway has fallen 6% in the last year and 27% since the start of the franchise in October 2004.

Investment in transport in Scotland is at a record high. Our budget for the year was £2,046 million and our final outturn was within 0.2% of that figure. This is a clear indication of the tight control we exercise over projects and of the priority we give to ensuring that best value is achieved from public funds.

We have also started to plan for major new projects including the £4.2 billion Forth Replacement Crossing and the £1 billion Edinburgh to Glasgow rail improvement programme.

2007/08 HIGHLIGHTS: CURRENT CONSTRUCTION PROGRAMME

- Construction commenced on the Airdrie to Bathgate Rail Link Project which will be a double-track, electrified rail line to link communities in North Lanarkshire and West Lothian more effectively and efficiently with Edinburgh and Glasgow
- Construction started on the £15 million upgrade of the A9 at Ballinluig, where a fly-over junction will be built to replace the right-turns across the on-coming traffic
- Construction progressed on a bypass of Dalkeith, bringing significant local benefits, reducing congestion and improving the quality of life for local residents
- There was substantial construction activity at the new Upper Forth Crossing project to improve central Scotland connections, open up economic opportunities, ease congestion in Kincardine and improve access to Alloa and the rest of Clackmannanshire
- Approval was given for the completion of the M74 which will significantly reduce congestion on the busiest stretch of the M8 through Glasgow and provide a major economic boost to the west of Scotland
- South Ayrshire saw the start of a £22 million road improvement project that will provide additional overtaking opportunities on the A77, improving journey times to and from Cairnryan and Stranraer ferry terminals.
- We awarded two contracts, with a total value of £13 million, to upgrade the A7 and A76 in Dumfries and Galloway

2007/08 HIGHLIGHTS: PLANNING FOR THE FUTURE

- Preparatory work began on the Forth Replacement Crossing, the largest construction project in the country in a generation
- Continuing the work started in 2006, the Strategic Transport Projects Review (STPR) will be published later this year. This will define the most appropriate strategic investments in Scotland's national transport network from 2012 until 2022
- The statutory process for the M8 Baillieston to Newhouse upgrade to complete the M8 between Edinburgh and Glasgow was begun
- Tenders were received for the M80 Stepps to Haggs improvements
- The statutory process continued for the A90 Aberdeen Western Peripheral Route (AWPR), a bypass around the city with a fast link section to Stonehaven
- The Glasgow Airport Rail Link (GARL) project was combined with Paisley Corridor resignalling work and saw the transfer of delivery powers to Transport Scotland
- We reviewed the Borders Rail Link and will deliver this project to provide a passenger transport service from Edinburgh through Midlothian to Tweedbank in the Scottish Borders. Construction will commence by 2011
- We developed the Edinburgh to Glasgow Improvements Programme which will provide an upgrade to central Scotland's transport links through the delivery of improved rail connections between our two largest cities
- £500 million funding for the City of Edinburgh tram project was confirmed

Key to our continued progress and achievement is having a committed and enthusiastic team with the right skills and resources focused on the delivery of our aims and delivery priorities. We have introduced a Skills Management Programme and a Graduate Training Scheme, both designed to ensure our staff have the appropriate professional skills to deliver excellence in all that we do. I would like to thank both our staff and our industry partners for all their hard work in enabling us to achieve our targets for 2007/08 and look forward to working with them as we move forward into the new Corporate Plan period.

Malcolm Reed CBE
Chief Executive
Transport Scotland

WHO WE ARE AND **WHAT** WE DO

Transport Scotland was created in 2006 as an agency of the Scottish Government, accountable to Parliament and the public through Scottish Ministers, with our Chief Executive reporting directly to the Minister for Transport, Infrastructure and Climate Change.

Transport Scotland is responsible, on behalf of Scottish Ministers, for overseeing the operation and improvement of the trunk road and railway networks and for running the national concessionary travel schemes. We also recommend and advise on future investment priorities for the transport network and oversee the provision of impartial travel information services.

Our purpose is to help deliver the Scottish Government's vision for transport, making a real difference for people and businesses using the national rail and road networks.

Our focus is on making journey times better and more reliable, improving strategic transport connections, encouraging a shift from lorries and private cars, and on improving safety, while at the same time promoting innovation and reducing emissions.

These priorities fully support the Scottish Government's strategic objectives, and have an important part to play in delivering its Purpose of increasing sustainable economic growth. Our detailed aims and delivery priorities are set out in our Corporate Plan and annual Business Plans. Delivery against our targets for 2007/08 are summarised on pages 38 and 39.

Transport Scotland has five executive Directors who report to the Chief Executive and with him form part of the Corporate Board of Transport Scotland, on which they are also supported by two independent non-executive Directors: Dr Iain Docherty and Dr Jacqueline Redmond. The non-executive Directors do not have operational responsibilities and are not civil servants. They are appointed in line with public appointment procedures to bring external perspectives and experience to the organisation. They also constitute the audit committee together with a further external appointee, Eileen Marshall.

MALCOLM REED
Chief Executive

GUY HOUSTON
Finance & Corporate Services

AINSLIE McLAUGHLIN
Major Transport Infrastructure Projects

JIM BARTON
Trunk Roads: Network Management

BILL REEVE
Rail Delivery

FRANCES DUFFY
Strategy & Investment

executive directors

IAIN DOCHERTY

JACQUELINE REDMOND

non-executive directors

OUR PEOPLE

Our people are our most important assets and are key to delivering our priorities. Our recruitment policies are designed to ensure that we have the right people, with the right skills and experience, in the right jobs at the right time, matching our resources to our future needs. They also assist in the delivery of our aim of becoming a national centre of transport excellence.

Transport Scotland currently has 255 permanent staff plus 45 consultants and agency staff covering vacancies.

Recruiting the right staff continued to be a challenge in what was a very buoyant construction market. Within this context, our continuous recruitment process is geared towards ensuring that succession planning is addressed and that we have appropriate people, skills and experience in place. Our graduate training scheme recruits up to four graduates each year in key disciplines including Engineering and Transport Planning. By developing and progressing this scheme over the next three years we will drive towards the development of our specialists of the future.

We have appointed a dedicated Learning and Development Manager to implement a tailored development programme for Transport Scotland. Between October 2007 and March 2008 staff undertook 1,935 hours of learning and development, recognising the importance placed in this crucial area.

Transport Scotland is committed to equal opportunity in employment and advancement. This is based on ability to do the job irrespective of race, colour, ethnic or national origins, gender, marital status, disability, sexual orientation, age, work pattern or membership/non-membership of a trade union. All staff are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying. Transport Scotland recognises, respects and values the diversity of the society that it serves and is actively working to meet the interests of people from all sections of society.

The Chief Executive is responsible for promoting and supporting effective staff relations, consulting with trade union representatives in line with the Partnership Agreement between the Council of Scottish Government Unions and the Scottish Government.

Transport Scotland recognises that transport is particularly important to people with disabilities and has continued to engage with groups through the Scottish Rail Accessibility Forum and the Roads for All forum. The organisation works to the social model of disability, and in the past year reviewed, updated, and published its Disability Equality Scheme.

In August 2006 the Transport Scotland Board published a corporate policy statement pledging its commitment to effective health and safety management across all of the Agency's undertakings.

Through a planned process of development the Transport Scotland Health and Safety Management System now consists of:

- A complete and specifically focused set of procedures and guidance notes that relate to the business activities of staff working both in and out of the office
- A helpline facility to provide staff with health and safety advice
- General health and safety awareness training for all staff
- Training in specific subjects in which particular staff need to be competent, such as the Corporate Culpable Homicide Act 2007

No major accidents or incidents were recorded by Transport Scotland staff over the past year and only one minor accident in the office was logged. Since October 2006 staff have completed 937 hours of health and safety related training.


170 474
170423
First

DELIVERY AGAINST OUR AIMS

AIM 1
ENSURE THAT SCOTLAND'S RAIL AND TRUNK ROAD SYSTEMS ARE MANAGED EFFICIENTLY, ECONOMICALLY AND EFFECTIVELY

Scotland's motorway and trunk road network covers 3,405 kilometres[3]. It includes 1,900 bridges and 3,700 other structures. The trunk road network is currently valued at £14.1 billion. It belongs to Scottish Ministers and is included in the Agency's balance sheet.

Although the trunk road network comprises only 6.2% of Scotland's total road mileage, it carries 37% of all traffic and 63% of heavy goods vehicle traffic, emphasising its strategic importance to Scotland's economy.

The rail network in Scotland comprises 2,735 kilometres of railway – of which 23% is electrified – and 346 stations. Our role is to develop and improve this network as rail is ideally suited to providing fast long-distance passenger services between major urban centres, providing high quality commuter services and to transporting high-volume and long distance freight. Although the Agency provides funding for the development of the rail network, the economic ownership of these assets rests with Network Rail. These assets are not therefore included on our balance sheet.

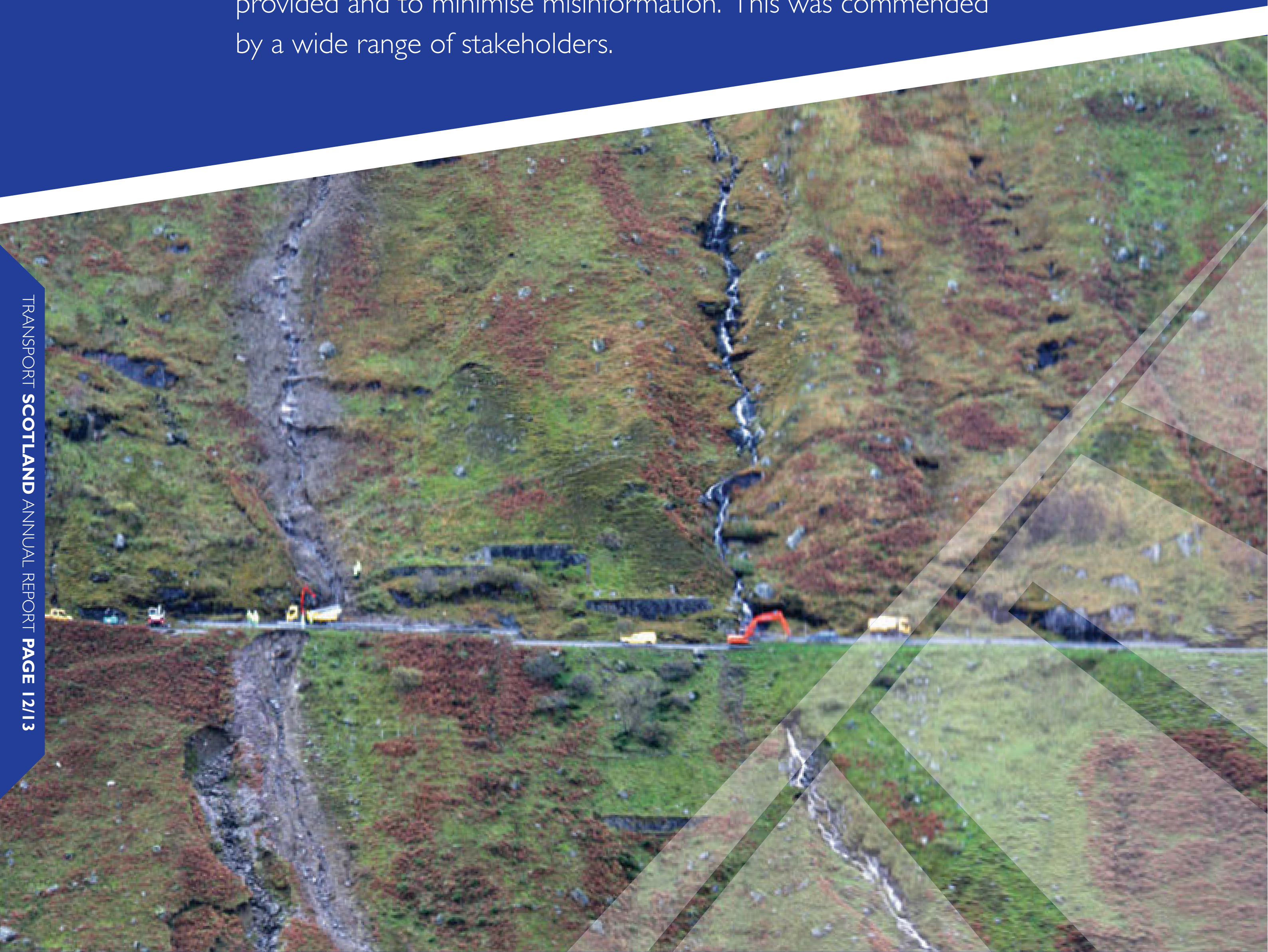
Scotland's railway carried over 81 million passengers last year, the highest level since the 1960s. In addition, over 14 million tonnes of freight were transported in 2005/06 (the most recent year for which figures are available). Network Rail owns and operate the rail infrastructure while First ScotRail provides most passenger services under its franchise. Cross-border services, apart from the ScotRail sleeper trains and some internal links, are operated under Department for Transport franchises.

MANAGING EFFICIENTLY
Transport Scotland is responsible for ensuring that these networks are put to best use in moving people and goods around the country with minimal delay and with the least possible impact on the environment. We are committed to ensuring that we respond to climate change and during 2007/08 we carried out an internal review of our activities in this area. This found that we were already undertaking a significant range of work across our policy, operational and corporate activities. Recognising the need to maintain momentum on this issue, the Transport Scotland Board asked the Chief Executive to oversee personally the delivery of a three-year action plan further to embed climate change adaptation and mitigation activities into the work of the Agency. This preparatory work will be fully reflected in all areas of our activity over the next Corporate Plan period to help us systematically manage and reduce our carbon footprint.

3 Source: Scottish Government – Scottish Transport Statistics at August 2008.

CASE STUDY:
A83 REST AND BE THANKFUL LANDSLIP

Dealing with major incidents on the trunk road network efficiently and effectively is a key part of our work. A major landslip on 28 October 2007 closed the A83 in Argyll. This deposited a large amount of material on the road. While the road blockage was quickly cleared removing the unstable material above the road was a much more challenging operation and involved helicopter lifts and specialist mountaineering staff. The road was reopened on 14 November 2007. Investigations are now under way to identify a permanent solution at this complicated and geotechnically challenging location. During the road closure Transport Scotland and ScotlandTranServ kept the public informed of progress on measures to reopen the road and remove the long diversion. The updates were actively managed through one source to ensure that accurate information was provided and to minimise misinformation. This was commended by a wide range of stakeholders.



Transport Scotland maintains the trunk road network mainly through its four trunk road operating companies (OCs). BEAR (Scotland) manages the North East and South East Units, Amey Infrastructure Services the South West Unit and Scotland TranServ the North West Unit. Their work is overseen and directed by Transport Scotland staff, supported by the Performance Audit Group (PAG) which monitors and reports on how the OCs are performing. PAG's annual report, produced in September 2007, confirmed that all OCs were generally performing well and that the two new contracts for the North East and South East Units which began in April 2007, have bedded in well. Transport Scotland staff are now working closely with the OCs exploring how they might reduce their carbon footprint.

Our road network is essential for individuals and businesses in Scotland. Enhanced technology is improving the efficiency of the network for users through our state-of-the-art Intelligent Transport System (ITS). We began work on enhancing the Traffic Scotland system, which will greatly improve our ability to monitor road conditions and provide accurate, up-to-date information to travellers, and we have put in place a new interim control centre at Atlantic Quay in Glasgow.

We expanded the Trunk Road Incident Support Service (TRISS) to cover the east of Scotland. TRISS ensures that disruption caused by unplanned incidents on our network is cleared away as quickly as possible. We continued to work with various stakeholders to find solutions to challenges caused by severe weather: our enhanced Met Office service in the control centre, together with the further deployment of weather cameras, assisted in our approach.

MANAGING ECONOMICALLY

Transport Scotland has developed a world class road maintenance regime that delivers a high level of service to users and maintains the asset value of the trunk road network. We have implemented new and improved contracts for their maintenance which should lead to efficiency savings of £19 million over the next five years.

CASE STUDY:
ROAD ASSET MANAGEMENT PLAN

In November 2007 we published our first Road Asset Management Plan (RAMP). We carried out a review of our current practices, compared them against industry best practice, and identified where and how we could do things better. The three-year RAMP sets out how we will manage the trunk road network and the service this will deliver. It is key to our effective delivery of road maintenance. We will regularly review and update it to reflect changes and improvements in our management practices.

Scottish Ministers have funded record levels of investment in the railways through Transport Scotland including the ScotRail Franchise (£294 million in 2007/08), funding of Network Rail in Scotland (£365 million), and delivery of our major public transport projects (£251 million).

Over the year, we continued to engage effectively with Network Rail and the Office of the Rail Regulator, which has resulted in the first fixed price agreement with Network Rail for the delivery of a rail project, the Airdrie to Bathgate Rail Link Project, providing best value and certainty that the cost will be less than the previous £375 million estimate.

Network Rail funding is fixed for five-year periods. With the devolution of rail powers to Scottish Ministers in 2006, the regulatory review for 2009/14 is the first time that the Scottish Government has provided statutory input to this process. Our aim is to ensure that the network delivers the outputs which will best support Scottish Ministers' priorities. During 2007/08 we continued the work to refine the network outputs we can achieve for the public funding that will be available.

Transport Scotland continues to manage the ScotRail franchise, which is the means by which Scottish Ministers contract for the delivery of passenger rail services on the ScotRail network. This is one of the largest[4] rail franchises in Great Britain, providing over 2000 train services every weekday to 346 stations across the Scottish network. Over the year passenger numbers continued to increase to 81.3 million, an increase of 5.17% against a target of 2%. The performance of these train services also continued to improve, the Public Performance Measure (PPM) standing at 90.5% at the end of the year.

MANAGING EFFECTIVELY

The Service Quality Incentive Regime (SQUIRE) is designed to ensure that the rail franchisee maintains specific levels of service both at station and on trains throughout the entire Scottish Rail network. Over the year our team of inspectors carried out 4420 station inspections, 2600 train inspections and almost 900 audits on ticket inspections along with additional inspections on areas such as the management of faults recording and the provision of effective CCTV both at the control centres and on trains. During the year the entire SQUIRE system was fully automated, significantly improving efficiency and effectiveness. The new system improved what was already considered among the best performance monitoring regimes within the GB rail network.

Scotland's trunk road network is already one of the safest in the world and we are constantly seeking to improve that record. Our Strategic Road Safety Plan, published in 2007, seeks to develop and implement a road safety strategy through a range of initiatives and projects, directed at achieving Scottish Ministers' 2010 casualty reduction targets. We play a central role on the steering group for the Scottish Government's 'Expert Panel' on road safety and our Strategic Trunk Road Safety Unit develops targeted road safety strategies. The safety performance of the trunk road network is assessed annually by screening all locations where three or more injury accidents have occurred in a three-year period. This helps to identify accident patterns at specific locations on the network which might benefit from localised engineering improvements. We have also implemented a proactive casualty reduction strategy by delivering safety improvements at potential accident locations identified through an assessment of road layout.

4 In terms of route miles and stations operated (only Northern Rail covers a larger area).

CASE STUDY:
STRATEGIC ROAD SAFETY PLAN

Last year we delivered Transport Scotland's first Strategic Road Safety Plan. The Plan takes forward our work not only in addressing historic accident sites but also in identifying measures to tackle potential accident locations. The Safety Plan sets out an Action Plan that gives Transport Scotland and the trunk road operating companies an evidence-led strategy that will prioritise initiatives where they are most needed. This is a major step forward in preventing the pain and suffering inflicted on our communities as a result of road accidents. Applying Transport Scotland's knowledge and best practice will be a vital component of Scotland's new 10-year road safety strategy.

In the course of the year Transport Scotland produced an initial two year review of the UK's longest distance average speed camera system on the A77. This review indicated very significant reductions in casualty numbers.

There are 1,900 bridges and 3,700 other structures on the Scottish motorway and trunk road network. In order to ensure their continued safe use and that of the public we continued with our programme of cyclic inspections in line with UK standards where each bridge and structure is subjected to a general inspection every two years and a much more detailed 'close-up' principal inspection every six years. This significant annual task for Transport Scotland and its operating companies ensures that defects and safety related issues are addressed before they cause significant cost or put safety at risk.

Over the year, we have continued with our bridge-strengthening and replacement programme by commencing the A82 Achnambeithach Bridge Replacement, working towards the UK national target of assessing and strengthening of road bridges for 40 Tonne HGVs by 2010/11.

CASE STUDY:
A737 IMPROVEMENT SCHEME

Work has recently been completed on a new £1.3 million roundabout at Roadhead on the A737 trunk road. The work involved replacing a substandard junction layout with a new roundabout to improve road safety and traffic flow. The A737 is a key strategic route linking the M8 with North Ayrshire and the traffic flow on the section north of Lochwinnoch is one of the highest for a single carriageway trunk road, with over 22,000 vehicles a day passing the junction. As part of further improvement works on the route, two new roundabouts aimed at improving road safety are planned on the Beith Bypass section.


14707
J807 WFS
Stagecoach
Stagecoach
0870 608 2 60

AIM 2
ESTABLISH AND RUN THE NATIONAL CONCESSIONARY TRAVEL SCHEMES

This aspect of our work delivers important social and user benefits the length and breadth of the country. Our Scotland-wide free bus travel for older and disabled people continues to demonstrate its success and high level of customer satisfaction with passenger journeys increasing over the year from 156 million to 160.2 million and the number of cardholders increasing to 1.1 million people, over 90% of those eligible.

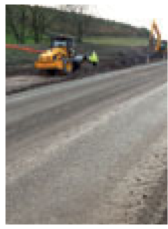
There remains potential for growth in the subsidised scheme for young people which was effectively promoted during the year with a high-profile media campaign which helped increase the number of cards issued from 25,941 to 46,804 during 2007/08.

The use of electronic Smartcards, rather than using the card as 'show and go', across all of Scotland has progressed more slowly than planned. Just over 3.5 million of the 160.2 million journeys were made using Smartcard equipment. Producing a leading-edge solution to allow customers to travel seamlessly across Scotland without the need for cash has been a significant technical challenge for our suppliers and the delivery of smart-enabled ticketing machines for all buses was therefore delayed. Over the year we successfully resolved many of these difficulties and 750 out of 7,000 buses were installed with smart machines by 31 March 2008[5]. We now plan to have most buses equipped with Smartcard systems during 2008/09.

We also reviewed and updated our internal control systems for these schemes. In developing more robust audit and anti-fraud measures good progress was made with the enhanced fraud strategy which will be implemented during the financial year 2008/09.

5 By 30 September 2008 this figure had risen to 2,106.


JCB



AIM 3
DELIVER THE SCOTTISH MINISTERS' COMMITTED PROGRAMME OF ENHANCEMENTS TO SCOTLAND'S RAIL AND TRUNK ROAD INFRASTRUCTURE

Transport Scotland is responsible for delivering planned and future major improvements to the trunk road and rail networks, to ensure they meet today's needs and tomorrow's challenges. Latest forecasts suggest that without any policy intervention total road traffic in Scotland will grow by around 22% between 2005 and 2015. Demand for rail has also been growing in recent years and in 2007/08 reached the highest level since 1960 with over 81.3 million passengers on First ScotRail services. Demand for both passenger and rail freight services is forecast to increase by at least a third over the next 20 years. These are the challenges that future transport infrastructure improvements must meet.

The trunk road network is being developed to meet these challenges through a series of major projects in various stages of development on the M8, M80, M74 and A90 at Aberdeen. The M8 and M80 schemes, when implemented, will see the completion of the central Scotland motorway network linking Glasgow, Edinburgh and Stirling. A series of smaller projects on the rural trunk road network is also being planned and implemented including overtaking schemes to increase journey time reliability and safety across the network, and bypasses such as that being developed for Crianlarich on the A82.

The rail network is being developed through a programme of major rail projects, together with a portfolio of smaller improvements which make a real difference to the quality of a Scottish rail journey. Projects range from the development of a new rail line for the Borders to increasing car parking capacity at stations and providing a new footbridge with lifts at Lockerbie Station.

The 2007/08 programme of major improvements consisted of six rail major projects and seven road major projects. Each project has a spend of £50 million or more and most have planned completion dates beyond the 2007/08 financial year.

In addition there are around 40 improvement schemes under active development, the highest number for decades, as well as £10-£20 million per annum investment in various small rail schemes such as customer information improvements, train refurbishment and safety enhancements.

Trunk road projects under construction include three schemes which will allow more overtaking opportunities on the A75, replacement of the last remaining single track section on the Scottish trunk road network at Arisaig on the A830 *(pictured left)*, overtaking schemes on the ferry routes such as the A76 at Glenairlie and the A77 north of Cairnryan, as well as realignment/improvement of substandard sections of the A7 south of Langholm and the A9 at Helmsdale.

MAJOR ROAD PROJECTS

Trunk road projects are directly managed by Transport Scotland staff who lead the work of designers, contractors and other third parties to ensure projects are delivered on time and to budget with the necessary statutory permissions in place.

The new Upper Forth Crossing at Kincardine is nearing completion and is on target to open in November 2008, the 'push-launch' concrete deck having reached the south shore 40 days ahead of schedule. The project will relieve congestion, improve traffic flow and assist a future maintenance programme for the existing bridge.

In December 2007 the Scottish Government confirmed its intention to build a multi-modal, cable stay bridge to the west of the existing Forth Road Bridge. A number of key milestones have already been achieved since December's announcement:

- January 2008 – consultants appointed as the project management team
- February 2008 – land searches undertaken and environmental studies started
- March 2008 – traffic surveys, ground investigations and aerial surveys started

The next phase of the project will include developing the road connections and bridge design; establishing procurement, financing and legislative options; and consulting with key stakeholders including landowners, local community groups and statutory bodies such as Scottish Natural Heritage, Scottish Environmental Protection Agency and Architecture and Design Scotland.

Public Local Inquiries have been scheduled for the M8 extension between Baillieston and Newhouse, which will complete the continuous motorway link between Glasgow and Edinburgh, and the A90 Aberdeen Western Peripheral Route which will tackle congestion and improve accessibility in the area.

The preferred bidder for the M80 Stepps to Haggs improvements has been announced and works are planned to commence later in the year. This scheme will bring benefits to drivers by improving road safety while alleviating congestion and delays, particularly during peak hours, as well as improving journey times. The road will also provide local communities with better accessibility and environmental benefits.

CASE STUDY:
M74 COMPLETION

The £445 million contract to build the 'missing link' between the end of the existing M74 at Fullarton Road Junction and the M8 south of the Kingston Bridge commenced in May 2008. Getting the project to this stage required much work during 2007/08 as the project's complexity includes several crossings of railway lines, dealing with contaminated land, and construction in a constrained urban environment. Completion is programmed for 2011. This project will improve access to Glasgow Airport, provide relief to the congestion on the M8 in Glasgow and support local development potential, including new jobs attracted to the area as part of a wider regeneration project. It will also improve the air quality in the Glasgow City Centre Air Quality Management area and will be a vital link in assisting the 2014 Commonwealth Games.

CASE STUDY:
A9 BALLINLUIG JUNCTION IMPROVEMENT

This major trunk road improvement scheme *(pictured above)* got under way in July 2007. The improvement provided a new flyover junction south of Ballinluig. Two slip roads connect the A9 to the A827 (to Aberfeldy) removing the need to turn right across oncoming traffic. The new junction had to be constructed in a tight location between the existing road, railway and river and was designed to fit sympathetically with the local landscape and environment. In time features like the sustainable drainage will enhance the local landscape and biodiversity, leaving a positive legacy. Opened in May 2008, on budget and two months ahead of schedule, the new junction brings a much needed safety benefit to road users.

CASE STUDY:
A68 DALKEITH NORTHERN BYPASS PROJECT

This project *(pictured below)* involves building five kilometres of high quality single carriageway which will allow travellers to bypass Dalkeith between Fordal Mains and the Edinburgh City Bypass. Work began in August 2006 and is progressing on time with an expected completion date of September 2008. The need for a bypass has been long recognised and it will bring significant benefits to the residents of Dalkeith by reducing accidents, congestion, noise and air pollution associated with the heavily used current route through the town centre.

MAJOR RAIL PROJECTS

The portfolio of major rail projects is delivered by our rail industry partners and historically has been promoted by a variety of local government partnerships, with Transport Scotland having differing types of engagement with each. Over the past year we have concentrated on reviewing these arrangements in order to ensure best value for money and to review the effectiveness of how these projects are delivered. The promotion and funding of these projects has now been consolidated within Transport Scotland – at the heart of government.

We have completed detailed project reviews where we have looked at the contractual arrangements, the schedules, and the cost plans for the Borders Rail Link and the Glasgow Airport Rail Link (GARL). We have also taken over the legal powers to implement both projects. Preparatory work on GARL began in autumn 2007, with this project now being combined with Paisley Corridor resignalling to eliminate costly and disruptive engineering works in coming years.

The Stirling-Alloa-Kincardine (SAK) project, the largest rail project of its kind undertaken in Scotland in recent years, was substantially completed during 2007/08. A new station was built in Alloa to allow direct hourly passenger services between Alloa, Stirling and Glasgow Queen Street and onward services from Stirling to Edinburgh. The line will provide a more efficient freight route to carry coal from the West of Scotland to Longannet Power Station and potentially provide freight services to other customers along the line. A number of unforeseen factors contributed to this project running over time and budget including land access issues and ground stabilisation due to the presence of old mine workings. In summer 2007 Transport Scotland took over direct control of the project to prevent further cost increases or delays[6]. We will ensure that the lessons learned from SAK, one of our first significant rail infrastructure projects, are incorporated into the other major rail projects which will follow.

Work has progressed well on the Airdrie to Bathgate project, with advanced works for the redoubling of the existing Bathgate Branch starting in early 2007 and due to be completed in December 2008.

As agreed by Parliament, we will continue to provide financial support to a maximum of £500 million towards the capital costs of the Edinburgh Tram project. Responsibility for delivery of this project has been passed to City of Edinburgh Council.

6 This action was effective and the railway was successfully opened to passenger services on 19 June 2008.

CASE STUDY:
EDINBURGH WAVERLEY STATION

The project to improve capacity at Edinburgh Waverley Station was successfully completed in November 2007, on time and under the £150 million budget. The project provides four extra train paths per hour in each direction, four new platforms, escalators and lifts within Waverley Station and a new platform at Haymarket Station. As part of the project, electrification equipment required for the Airdrie to Bathgate project was also installed at the station over the Christmas and New Year period. Bringing these works forward avoided future disruption to passengers and made best use of the experienced team already on site. The project was funded by Transport Scotland and delivered in partnership with station owner Network Rail. As a result of substantial design changes following stakeholder consultation, the planned redevelopment of Waverley steps will now be completed in 2010/11.

AIM 4
HELP TO BUILD SCOTLAND'S NATIONAL TRANSPORT STRATEGY BY RECOMMENDING AND ADVISING ON INVESTMENT PRIORITIES FOR TOMORROW'S RAIL AND TRUNK ROAD NETWORKS

Transport Scotland plays a key role in helping the Scottish Government to deliver its purpose of increasing sustainable economic growth. Our focus is on making journey times better and more reliable, improving strategic transport connections, encouraging a shift from lorries and private cars, and on improving safety, while at the same time promoting innovation and reducing emissions. All of this added together will help us to develop transport infrastructure and services in Scotland of which we can be proud.

In advising Ministers on investment priorities for tomorrow's rail and trunk road networks within the framework of the Scottish Transport Appraisal Guidance (STAG), we assess proposed transport options against five criteria:

- Environmental impact
- Safety
- Economy
- Transport integration
- Accessibility

STAG is a policy and evidence based method which ensures all options are assessed in an informed, consistent manner against the five appraisal criteria. A STAG report presents relevant information to decision makers, allowing them to make informed choices. Completion of an appraisal using STAG provides a strategic business case for taking forward options and is a requirement where funding, approval and support is sought from Government. It also ensures that the end result can be audited, making the process transparent and publicly accountable. Transport Scotland has recently updated and republished STAG following comprehensive consultation.

During the year, we have continued to work on the Strategic Transport Projects Review (STPR). The STPR aims to identify a prioritised package of transport measures across various modes of transport for delivery between 2012 and 2022 that will meet the Government's Transport priorities set out at the front of this Annual Report.

In the summer of 2007 we carried out a major study, as part of STPR, examining potential improvements to rail services between Edinburgh and Glasgow. Since then we have been developing the resulting Edinburgh to Glasgow Improvements Programme along with our industry colleagues, Network Rail and First ScotRail. Lead roles have been designated and joint working groups have been put in place.

This programme will provide an upgrade to central Scotland's transport links through the delivery of improved rail connections between Edinburgh and Glasgow. It will provide more and faster services, running more frequently and with increased capacity.

In the short term there will be more and faster trains between Glasgow Central and Edinburgh via Shotts and a new interchange with the Edinburgh tram network to serve Edinburgh Airport. In the longer term services will be faster, more frequent and more reliable. City centre to city centre journey times will be brought down from 50 minutes to close to 35 minutes by 2016, there will be trains every 10 minutes on the route via Falkirk, and routes will be electrified helping to reduce transport emissions.

CASE STUDY: HIGH LEVEL OUTPUT SPECIFICATION (HLOS)

Devolution requires Scottish Ministers to set out their requirements for the rail network to allow the Office of Rail Regulation to set Network Rail's targets and income. In July 2007 Ministers published their £3.6 billion specification to deliver major rail projects such as Airdrie to Bathgate and the Glasgow Airport Rail Link and to improve journey times, increase capacity and meet rising demand on the railways between 2009 and 2014. The HLOS provides a platform for the rail industry to secure best value for assisting sustainable economic growth in Scotland.

AIM 5
STRIVE TOWARDS EXCELLENCE BY BUILDING OUR WORKING PRINCIPLES INTO EVERYTHING WE DELIVER, AND INTO HOW WE WORK AS AN ORGANISATION

In delivering our responsibilities, Transport Scotland operates on the basis of five working principles, which are to:

- Strive to become a centre of excellence in transport delivery, both nationally and internationally
- Promote transport integration
- Maintain a clear outward focus on the needs of transport users
- Work in partnership with other transport providers and wider government in our planning and delivery
- Make the most efficient use of public resources and equip our staff to do the best possible job

CENTRE OF EXCELLENCE

We recognise the challenges ahead in the construction sector and the shortages in skills in civil engineering. In 2007 we introduced a Graduate Training Scheme which is accredited by the Institute of Civil Engineers and the Institution of Highways and Transport. This is a four-year scheme for prospective engineers and transport planners who follow a structured training programme to Chartership supported by our Chief Professional Officer, mentors, delegated engineers, line managers and Human Resources.

Transport Scotland's Rail Delivery Directorate has established the 'Introduction to Rail Knowledge Training Course' in conjunction with the Institution of Railway Operators (IRO). The three-day course is designed to enhance understanding of the railway environment and provide an overview of railway operational, technical and commercial disciplines. All staff with railway responsibilities have undertaken this course over the last year and it is now in place as part of new employees, induction to Rail Delivery. Feedback on this course has been extremely positive and some industry partners have placed their own staff on this course.

Amongst other events promoted by Transport Scotland was a national conference on passive safety[7] to encourage the greater provision of safer roadside features. Transport Scotland's lead in the field of passive safety was recognised in the course of the year by the award of the first UK wide Surveyor/Traffic Engineering and Control/EuroRAP Passive Safety award.

INTEGRATION

Through our own Traffic Scotland website www.trafficscotland.org and through the funding of Traveline Scotland www.travelinescotland.com and Transport Direct www.transportdirect.info we have continued to make good progress in improving and updating travel information services to the public and businesses on both traffic flow and public transport services. During 2007/08 we invested £8 million in the Traffic Scotland system. This service not only benefits end-users directly, but is also a vital management tool for ourselves, local authorities and other transport providers.

In December 2007 we launched our enhanced Traffic Customer Care Line (0800 028 1414). This provides drivers with information on road conditions and allows them to report problems on the national roads network. It is integrated with Traveline Scotland journey planning service which means it can 'hand over' road users to a public transport option when they are calling about roadworks, congestion, planned events etc., thus providing the traveller with a one-stop-shop approach to car and public transport journey planning information.

As these services evolve and users are better able to make informed travel choices, they will encourage travellers and hauliers, where appropriate, to think about alternatives to private, road based transport which will support the effective and efficient transport network which is so vital to Scotland's future economic growth.

The planned consultation on an integrated ticketing strategy for Scotland was delayed and has begun during the financial year 2008/09. Following this consultation a strategy will be developed and presented for Ministerial approval.

OUTWARD FOCUS/CUSTOMER SATISFACTION SURVEY

In 2007 we commissioned our first Road User Survey to improve our understanding of the requirements of road users on the general safety and condition of the trunk road network. Active engagement with road users and other interested parties helps us understand current levels of satisfaction and the level of service road users expect. Users were asked to rate their degree of satisfaction and the importance they place on a whole range of service standards and their perception of current performance against those standards. The results allow us to focus on priority areas for improvement and provides the starting point for the development of a concise and focused annual road user survey. One of the key findings is that 52% of respondents are satisfied with the surface condition of trunk roads with the top three features of trunk roads that make road users feel unsafe being potholes (59%), uneven road surfaces (39%) and slippery roads caused by ice/snow (36%).

7 Passive safety is the use of roadside features such as collapsible posts to road signs that reduce the risk of personal injury when struck by a vehicle.

PARTNERSHIPS IN PLANNING AND DELIVERY

We continue to work closely with a wide range of stakeholders within the transport industry and across the public and private sectors. We regularly consult on the impact our policies and projects are likely to have and we actively seek external input in shaping them. For example, during 2007/08 we hosted a series of public exhibitions on our plans for the Forth Replacement Crossing, we established STPR reference groups, and had very constructive engagement with our key rail industry partners, Network Rail and First ScotRail, in developing our plans for improving Edinburgh-Glasgow rail connections.

The accessibility of the rail network to disabled passengers is reserved for the Westminster government, but Transport Scotland officials work closely with the Department for Transport (DfT) to bring accessibility improvements to the Scottish rail network. In 2006 the DfT launched the Access for All programme to invest £370 million in Britain's railway stations over a 10-year period to remove barriers to mobility impaired travellers. The Scottish proportion of this fund is £39 million, and Transport Scotland recommends which stations will receive investment. Eight stations were selected in Phase 1 to receive around £12 million of improvements such as bridges, lifts and ramps as appropriate. Construction is already under way at five of these stations and is due for completion in summer 2008.

In addition to the main Access for All Fund there is also a small schemes fund from which just over £1.2 million of smaller-scale improvements have been made in over 25 stations throughout Scotland in 2007/08. These include tactile maps and audible navigation aids for blind and partially sighted travellers, automatic doors, variable height counters, improved lighting and investment in disabled persons on-line journey planners.

We have established both the Scottish Rail Accessibility Forum and the Roads for All Forum in order to work with disability organisations and make sure that we take accessibility issues fully into account. We also work with the DfT on the 'Railways for All' Strategy. In compliance with our own Trunk Road Disability Equality Scheme and Action Plan we have undertaken a full accessibility audit of the trunk road network and we will report annually on our progress in this area.

Transport Scotland is fully supportive of the Government's Modernising Planning agenda – aimed at streamlining the planning process in Scotland. Integrating land use planning and transport is the key to sustainable economic development and we have been working hard, reviewing all of our processes and guidance, so that we can play our full part in making this happen.

EFFICIENT USE OF PUBLIC RESOURCES

Transport Scotland as a public body is responsible for ensuring it delivers in line with the principles of Efficient Government and best value to make best use of taxpayers' money. These principles apply not only to what we deliver externally – transport services and projects – but also to how we work internally.

We operate clear internal control systems to ensure consistent, fit-for-purpose processes for project management, procurement, resource management and business systems including information systems. We seek to continuously improve these processes, which are themselves overarched by a robust corporate governance framework.

Once more we fully utilised our available budget of £2,046 million through efficient management control, delivering the maximum potential from the funds available.

A key people task for 2007/08 was to recruit appropriate people to meet our business needs. We invested much time and effort in establishing and running a continuous recruitment campaign but continue to find it difficult to fill all available posts in a highly competitive employment market.

Since its creation, Transport Scotland has been subject to ten audits carried out on various aspects of its functions, five each by Internal Audit and Audit Scotland, with approximately 80% of our annual spend subject to this scrutiny over the last two years. In general, the Agency has been found to have high levels of assurance that our objectives are being met and that appropriate risk management, control and governance arrangements are in place.

BUSINESS PLAN 2007/08 TARGETS

Aim 1: Ensure that Scotland's rail and trunk road systems are managed efficiently, economically and effectively	Progress
Trunk roads	
Improve trunk road condition, by managing and monitoring the delivery of our annual maintenance programmes and operating contracts	ACHIEVED
Improve trunk road efficiency through the use of Intelligent Transport Systems and travel information for road users. The key outcome is to improve journey time reliability	ACHIEVED
Contribute to the Scottish Government's overall target to reduce serious/fatal road accidents by 2010, through delivery of our annual road safety improvement programmes	ACHIEVED
Improve joint working between planning authorities, developers and the Scottish Government	ACHIEVED
Rail	
Work with Network Rail to facilitate its delivery of operation, maintenance and renewal targets as determined and enforced by the Office of Rail Regulation	ACHIEVED
Manage and monitor the Scotrail Franchise	ACHIEVED
Increase rail passenger numbers by 2% per annum	ACHIEVED
Aim 2: Establish and run the national concessionary travel schemes	
Enhance the Scotland-wide Free Bus Scheme for older and disabled people	ACHIEVED
Enhance the National Concessionary Travel Scheme for young people on buses, trains and ferries	ACHIEVED
Ensure the widest possible availability and optimise ease of both Schemes to entitled users through rollout of smartcard equipped ticket machines to all Scottish buses	DELAYED
Aim 3: Deliver the Scottish Ministers' committed programme of enhancements to Scotland's rail and trunk road infrastructure	
Milestones for the Major Public Transport Infrastructure Projects	
Complete construction phase of Stirling-Alloa-Kincardine railway project	ACHIEVED
Start preparatory works on: Glasgow Airport Rail Link, Airdrie-Bathgate Rail Link, Borders Railway	ACHIEVED
Edinburgh Trams – complete funding arrangements with City of Edinburgh Council	ACHIEVED
Waverley Station: Complete capacity works reconstruction and accept revised design proposals for Waverley Steps	ACHIEVED

BUSINESS PLAN 2007/08 TARGETS (continued)

Milestones for the six Major Trunk Road Infrastructure Projects	
New Kincardine Crossing – Project manage delivery	ACHIEVED
M74 - Award Contract (Subject to VFM considerations)	ACHIEVED
M74/A725 (Raith Interchange) – Publication of draft orders	ACHIEVED
M8 Baillieston-Newhouse – Publication of draft orders	ACHIEVED
Aberdeen Western Peripheral Route – Publication of draft orders	ACHIEVED
M80 – Invite tenders	ACHIEVED
Minor and additional trunk road schemes: make most efficient use of budget availability for other improvements	ACHIEVED
Aim 4: Help to build Scotland's National Transport Strategy (NTS) by recommending and advising on investment priorities for tomorrow's rail and trunk road networks	
Provide advice to Ministers on form, function and location of Forth Replacement Crossing	ACHIEVED
Advise Scottish Ministers on strategic priorities for rail and trunk roads in Scotland	ACHIEVED
Ensure that Scottish Ministers rail priorities are implemented in ORR periodic review process and development of GB wide policy areas and legislation	ACHIEVED
Develop tools to inform/assess current and future investment decisions	ACHIEVED
Deliver the Strategic Transport Projects Review to inform next 10-year transport investment plan in summer 2008	ACHIEVED
Aim 5: Strive towards excellence by building our working principles into everything we deliver, and into how we work as an organisation	
Work with other transport providers, representative groups and wider government to provide strategic guidance and a clear outward focus on the needs of transport users	ACHIEVED
Develop, implement and evaluate a Communications Plan for Transport Scotland, to ensure external and internal messages are clearly and effectively conveyed	ACHIEVED
Manage and develop our staff through effective leadership and the right Human Resources policies	PARTLY ACHIEVED
Build and develop Transport Scotland to reflect our commitment to equality and diversity	ACHIEVED
Enhance the operational efficiency and effectiveness of Transport Scotland within Buchanan House and beyond	PARTLY ACHIEVED
Optimise ease of use of public transport and promote transport integration	PARTLY ACHIEVED
Document and report on the management of our finances and other resources	ACHIEVED
Review and improve our business processes where required to ensure Transport Scotland continuously improves how it delivers	PARTLY ACHIEVED
Apply best value principles to ensure business processes achieve continuous improvement	ACHIEVED

TRANSPORT SCOTLAND ANNUAL ACCOUNTS 07/08

CONTENTS

ANNUAL ACCOUNTS

- MANAGEMENT COMMENTARY 44
- REMUNERATION REPORT 48
- STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES 53
- STATEMENT OF INTERNAL CONTROL 54
- INDEPENDENT AUDITOR'S REPORT 57
- FINANCIAL STATEMENTS
  - Operating Cost Statement 60
  - Statement of Recognised Gains and Losses 60
  - Balance Sheet 61
  - Cashflow 62
  - Notes to the Accounts 62
- ANNEX A – DIRECTION BY SCOTTISH MINISTERS 87

MANAGEMENT COMMENTARY

FINANCIAL STATEMENTS

The financial statements cover the period from 1 April 2007 to 31 March 2008. They have been prepared in accordance with a Direction given by the Scottish Ministers in pursuance of the Public Finance and Accountability (Scotland) Act 2000.

Transport Scotland was created as an executive agency on 1 January 2006. This is effectively the second trading year for Transport Scotland as an agency of the Scottish Government.

The financial statements have been prepared in accordance with Her Majesty's Treasury's *Financial Reporting Manual* (FReM). As Transport Scotland is an executive agency of the Scottish Government, the financial statements are consolidated within the Scottish Government Consolidated Resource Accounts.

Transport Scotland's annual report and accounts can be found at: www.transportscotland.gov.uk, and the Scottish Government consolidated Resource Accounts at www.scotland.gov.uk.

SIGNIFICANT ACCOUNTING POLICIES

Those areas of Transport Scotland's financial statements where accounting judgements have significant impact are outlined below:

■ VALUATION OF THE ROAD NETWORK

To produce this valuation requires the use of assumptions, estimates and professional judgement. The model used to produce the valuation is known as the UK Asset Valuation System (UK-AVS), run by a firm of external consultants (EC Harris LLP) and uses a series of standard costs to value the asset and indices to uplift land and the cost of road construction on an annual basis.

■ RECOGNITION AND THE VALUATION OF PROVISIONS

Due to the long term nature of Transport Scotland's road and rail improvement schemes certain assumptions and judgements are made relating to land acquisition and compensation claims.

■ PRIVATE FINANCE INITIATIVES (PFI) – THE BALANCE OF RISK

Transport Scotland has two PFI agreements (M77 & M74/M6) for the provision of new roads infrastructure and maintenance of this infrastructure. These contracts are for fixed terms, typically thirty years, and the balance of risks and rewards has been judged to lie with the PFI contractor. Correspondingly, these assets are only present on Transport Scotland's balance sheet to the extent of the capital element included in the unitary charge payment.

RAIL INFRASTRUCTURE IN SCOTLAND

The Railways Act 2005 transferred the responsibility for specifying and funding rail infrastructure in Scotland to the Scottish Ministers from 1 April 2006. This was accompanied by a budget transfer from the Department for Transport (DfT).

Major rail projects, which are capital in nature, are funded by Transport Scotland but as the control of the economic benefits arising from the use of these assets does not ultimately lie with Transport Scotland, the rail capital assets in question sit on Network Rail's balance sheet and not Transport Scotland's.

FUNDING

Resources to fund Transport Scotland's day-to-day costs and capital investment programme are obtained through the Budget (Scotland) Act 2007 which authorised the Scottish Government's spending plans for the financial year 2007/08, including those of Transport Scotland.

Private sector funding is also available under PFI and Public Private Partnership arrangements for major road and rail capital schemes. The choice between public and private funding is made on an assessment of value for money on a scheme-by-scheme basis.

Transport Scotland is funding City of Edinburgh Council for the delivery of the Tram project. During 2007/08 a payment of £24.8m was made to secure the future price of commodities for this project.

FINANCIAL PERFORMANCE AND USE OF RESOURCES

Transport Scotland was allocated resources by the Scottish Ministers of £2,046m for 2007/08. Of this, £501m represents a notional charge for cost of capital for roads, with the remaining £1,545m representing the Agency's operating budget. The final outturn for the year was within budget limits (0.2% variance).

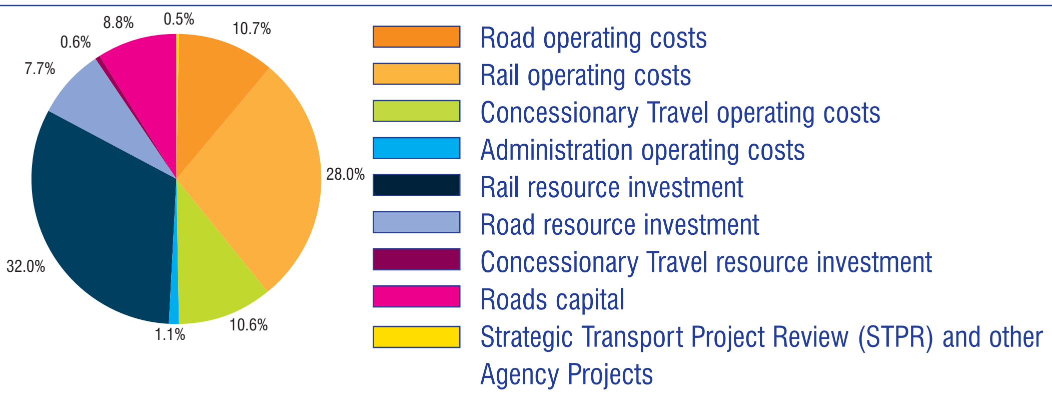
Transport Scotland 2007/08	Actual £000	*Budget £000	Variance £000
Resource - Operating Costs	786,927	820,499	33,572
Resource – Investment	624,262	598,321	(25,941)
Capital	136,376	125,800	(10,576)
Sub-total	**1,547,565**	**1,544,620**	**(2,945)**
Cost of Capital (notional)	480,847	501,247	20,400
Total	**2,028,412**	**2,045,867**	**17,455**

* Spring Budget Revision figures

Spending is categorised under two headings depending on budgetary source. These are capital and resource, with resource being further sub-divided into net investment in infrastructure and resource for consumption.

Transport Scotland has a significant resource infrastructure investment programme which allocates funding to our major rail and major road projects as well as ongoing maintenance costs in the existing road and rail infrastructure.

Actual expenditure in 2007/08, excluding cost of capital, is analysed below by operational area within Transport Scotland.



Almost all of Transport Scotland's budget is spent, either directly or indirectly, with private sector companies. Less than 1% of the budget is utilised on the ongoing Agency running costs (contained within administration operating costs).

The total asset value of Transport Scotland is £14.4 billion, almost all of which relates to the trunk road network asset.

FUTURE SPENDING PLANS

The 2007 Comprehensive Spending Review has set annual spending plans from 2008/09 to 2010/11. The plans are intended to give more focus on long-term outcomes for Scotland and will result in no significant changes to the activities or objectives of Transport Scotland over the period. The Scottish Budget Spending Review outcome for Transport Scotland is:

	2008/09	2009/10	2010/11
Resource – Operating Costs	797,000	817,700	809,300
Resource – Investment	534,800	616,000	595,800
Capital	108,900	184,000	242,700
Total	**1,440,700**	**1,617,700**	**1,647,800**
Cost of Capital (notional)	546,500	595,500	649,100
Total	**1,987,200**	**2,213,200**	**2,296,900**

Source: SR07 (as amended)

RELATIONSHIP WITH SUPPLIERS

Transport Scotland is committed to prompt payment of bills for goods and services received, and aims to settle all undisputed invoices within contract terms. During 2007/08, 93.9% of undisputed invoices were paid within agreed terms. No interest was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

CONCESSIONARY FARES SCHEME

The statutory budget limit for the Older & Disabled Persons Concessionary Travel Scheme was set at £163m for the financial year 2007/08. In February 2008 the forecast model for total payments indicated a small over-run and it was necessary to scale down the overall payments to avoid exceeding the statutory limit for this scheme. Transport Scotland advised the bus operators and adjusted the final payments accordingly.

BOARD MEMBERS' INTERESTS

Board members' interests are recorded in a "Register of Interests" maintained on the Scottish Government electronic HR system. A copy of this Register is available on request. The 2007/08 assurance letter on internal control, which all directors completed, confirmed that no conflict of interest arose in the exercise of their duties.

The Director of Finance and Corporate Services has both shares and share options in First Group plc due to his previous role as Finance Director of the UK Bus Division within First Group plc. It was therefore necessary to implement additional practices as Transport Scotland and First Group plc have contractual relationships through the ScotRail Franchise and the concessionary travel schemes.

APPOINTED AUDITORS

The accounts for 2007/08 are audited by auditors appointed by the Auditor General for Scotland. Audit Scotland carried out this audit and the notional fee for this service was £175k, which related solely to the provision of the statutory audit service.

FREEDOM OF INFORMATION

The Freedom of Information (Scotland) Act 2002 aims to make information held by public authorities more accessible. The Agency is obligated to act in the spirit of openness, to provide information (unless exempt) within 20 working days, to provide advice and assistance to the applicants, and to proactively publish information under its Publication Scheme.

SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

To date there have been no significant events since the end of the financial year.

Malcolm Reed CBE
Chief Executive
22 October 2008

REMUNERATION REPORT

REMUNERATION POLICY

The remuneration of senior civil servants is set in accordance with the rules set out in chapter 7.1, Annex A of the Civil Service Management Code and in conjunction with independent advice from the Review Body on Senior Salaries (SSRB). In reaching its recommendations, the SSRB is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

Performance based pay awards are based on an assessment of performance against objectives agreed between the individual and line manager at the start of the reporting year. Performance will also have an effect on any bonus element awarded.

Further information about the work of the SSRB can be found at www.ome.uk.com

SERVICE CONTRACTS

Civil service appointments are made in accordance with the Civil Service Commissioner's Recruitment Code, which requires appointment to be made on merit and on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age. The retirement age for the Senior Civil Service rose from 60 to 65 from 1 October, 2006 in line with the implementation of the Employment Equality (Age) Regulations 2006. However, once an individual's pension becomes payable, from age 60, that employee can choose to leave work and draw his or her pension at any time, subject only to compliance with the basic notice requirements.

The rules for termination are set out in chapter 11 of the Civil Service Management Code. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.org

There were no changes to the Corporate Board members during the year.

Independent non-executive directors bring an external perspective to the consideration of corporate management issues. Non-executive directors are appointed by the Chief Executive for an initial period of three years following an open competition. Such appointments can be terminated at one month's notice period. There is no provision for compensation for early retirement. The non-executive directors do not participate in the Civil Service pension scheme.

REMUNERATION GROUP

For senior civil servants, Transport Scotland's remuneration committee is the Scottish Government's Remuneration Group. This Remuneration Group has six members, two of whom are non-executive directors. Their remit is to consider:

- annual pay proposals for chief executives and board members and make recommendations to Ministers.
- annual guidelines for flat rate increases for chief executives and board members and the Public Sector Pay policies which will apply for the annual pay round and make recommendations to Ministers.
- pay remits which look at pay proposals for public bodies in Scotland.

The Remuneration Group, will as a minimum, report annually to the Strategic Board.

The following section of the Remuneration Report pertaining to salaries and pensions is subject to audit.

SALARY

Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Where a director has joined or left the Corporate Board during the year, their salary reflects only that which they received whilst a member of the Board. Where an individual has been a member of the Board for only part of the year but they have been employed by the Agency throughout the year, their annual salary has been reported on a "days served" basis as well as the full year equivalent salary.

Any amounts payable on early termination of a contract will be in accordance with the individual's circumstances.

BENEFITS IN KIND

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. Benefits in kind include relocation costs incurred in relocating staff from Edinburgh to the new Glasgow head office in 2006/07.

FEES

Non-executive directors receive fees for regular attendance at monthly board meetings and quarterly Transport Scotland Audit Committee meetings. Expenses incurred in attending these meetings are also reimbursed.

The fees of the non-executive directors of Transport Scotland are as follows:

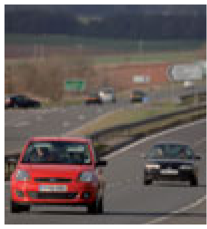
	£000
Dr Jacqueline Redmond	5.4
Dr Iain Docherty	5.4

EXECUTIVE DIRECTOR SALARY INFORMATION

The salary and the value of any taxable benefits in kind of the Corporate Board members were as follows:

	2007/08 *Salary & Performance Related Pay (excl Pension Contributions) £000	2007/08 Benefits in Kind (To nearest £100) £	2006/07 Salary & Performance Related Pay (excl Pension Contributions) £000	2006/07 Benefits in Kind (To nearest £100) £
Chief Executive				
Malcom Reed	125 – 130	Nil	125 – 130	Nil
Directors				
Jim Barton	75 – 80	Nil	75 – 80	Nil
Frances Duffy	75 – 80	Nil	75 – 80	Nil
Guy Houston (joined 22.5.06)	90 – 95	Nil	80 – 85	Nil
John Howison (retired 28.2.07)	–	–	75 – 80	1,800
Ainslie McLaughlin (appointed 1.3.07)	65 – 70	Nil	5 – 10	600
Bill Reeve	95 – 100	Nil	90 – 95	Nil

* 2007/08 salaries include actual Performance Related Pay (PRP) for 2006/07 as the 2007/08 PRP has yet to be finalised.

PENSIONS

Accrued pension represents the director's total future entitlement to benefits payable from the Civil Service pension schemes based on reckonable service at 31 March 2008. The accrued pension includes service previous to becoming board members and/or service in other departments.

The cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves the scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures, and from 2003/04, the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in CETV quoted in the table below represents the real increase funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of period.

The Chief Executive and all Directors, except Bill Reeve, are members of the Principal Civil Service Pension Scheme (PCSPS) which provides benefits on a final salary basis at the normal retirement age. Transport Scotland's contributions to the scheme in respect of the Management Board amounted to £97,961 for the year to 31 March 2008. Bill Reeve is a member of the Railways Pension Scheme and Transport Scotland's contributions to that scheme were £16,209 for the year to 31 March 2008.

The pension entitlements of the Executive Directors of Transport Scotland are shown in the following table.

	Lump Sum at age 60 as at 31 March 2008 £000	Real Increase in Lump Sum at age 60 £000	Accrued Pension at age 60 as at 31 March 2008 £000	Real Increase in Pension at age 60 £000	CETV as at 31 March 2008 £000	CETV as at 31 March 2007 £000	Real Increase in CETV in 2007/08 £000
Malcolm Reed	–	–	0 to 5	0 to 2.5	102	60	35
Jim Barton	75 to 80	0 to 2.5	25 to 50	0 to 2.5	549	469	12
Frances Duffy	55 to 60	0 to 2.5	15 to 20	0 to 2.5	384	321	12
Guy Houston	–	–	0 to 5	0 to 2.5	29	12	13
Ainslie McLaughlin	70 to 75	7.5 to 10	20 to 25	2.5 to 5	489	371	63
Bill Reeve	25 to 30	0 to 2.5	30 to 35	0 to 2.5	406	427	Nil

Calculated on age 60 or current age if over 60

The CETV calculation for 2006/07 has been re-assessed and there may be a slight difference between the final period CETV for 2006/07 and the beginning of 2007/08.

The above pensions data was supplied to Transport Scotland from the Department of Work & Pensions (DWP) for all of the directors with the exception of Bill Reeve for whom information was supplied by the Railway Industry Pension Scheme.

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice-pensions.gov.uk

No compensation was paid in 2007/08 to former senior managers.

Malcolm Reed CBE
Chief Executive
22 October 2008

STATEMENT ON BOARD'S AND ACCOUNTABLE OFFICER'S RESPONSIBILITIES

In accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, the Scottish Ministers have directed Transport Scotland to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction. The Accounts Direction is reproduced as an appendix, Annex A to these financial statements.

The accounts are prepared on an accruals basis and must show a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts, the Agency is required to:

- observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state where applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Transport Scotland will continue in operation.

The Principal Accountable Officer for the Scottish Administration has designated the Chief Executive of Transport Scotland as the Accountable Officer for the Agency. His relevant responsibilities as the Accountable Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Memorandum to Accountable Officers issued by the Scottish Government.

STATEMENT REGARDING DISCLOSURE OF INFORMATION TO THE AUDITORS

As Accountable Officer I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that Audit Scotland have been made aware of that information in connection with their audit. Insofar as I am aware there is no relevant audit information of which Audit Scotland is unaware.

Appropriate actions are in place to address any weaknesses identified and to ensure the continuous improvement of the system.

STATEMENT ON INTERNAL CONTROL

SCOPE OF RESPONSIBILITY

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Transport Scotland's policies, aims and objectives set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned. This is in accordance with the Scottish Public Finance Manual (SPFM) issued by Scottish Ministers to provide guidance on the handling of public funds.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve Transport Scotland's policies, aims and objectives. I can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise these risks, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, economically and effectively. The system of internal control has been in place in Transport Scotland for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts. It is in accordance with the guidance from Scottish Ministers.

THE RISK AND CONTROL FRAMEWORK

I have established a framework of responsibility for risk management, in accordance with the SPFM, with appropriate support, guidance and procedures from all parts of the Agency's business:

- the Transport Scotland Corporate Board reviews strategic and operational risks to the Agency's business and this is a regular agenda item at the monthly Corporate Board meeting.
- managers identify and evaluate risks to successfully deliver the Agency's operation and control objectives when they prepare and monitor directorate and business management plans.
- I hold regular meetings with Ministers where both strategic and operational risks are discussed.
- my staff work closely with their counterparts in the Scottish Government's Transport Directorate to ensure that risk management systems are compatible, there is clear accountability for managing risks, joint action is taken where appropriate to manage risks, and the Scottish Government is kept informed of risks as appropriate.

Transport Scotland has established an Audit Committee which is chaired by one of the non-executive Directors, Dr Jacqueline Redmond, and it is within the remit of the Transport Scotland Audit Committee to review the risk management and strategy adopted across the organisation.

REVIEW OF EFFECTIVENESS

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. This is informed by the work of the internal auditors, the executive managers within the Agency, the Audit Committee and the external auditors in their management letter and other reports.

Assurance on the maintenance and review of internal control systems is provided by each of the Directors within Transport Scotland who submit an annual certificate of assurance covering their areas of responsibility to myself as Accountable Officer.

Transport Scotland's Internal Auditors (whose work is undertaken to Government Internal Audit Standards) submit regular reports to the Audit Committee which provide an independent opinion on the adequacy and effectiveness of the organisation's system of internal control together with recommendations for improvement. The three categories of assurance used in these reports are substantial, reasonable and limited assurance.

On the basis of the Internal Audit activities for 2007/08 financial year, Internal Audit were able to provide substantial assurance in respect of the Agency's risk management, control and governance arrangements.

The internal Audit Plan for 2007/08 consisted of six main audits and four follow-up reviews from 2006/07 plus one from 2005/06. One main audit, the Major Public Transport Projects Review, was postponed with the Audit Committee's agreement due to Audit Scotland carrying out broadly similar work and will be taken forward in 2008/09. Details of the remaining five main audits are noted below:

	Audit Area and Scope	Outcome
1	Trunk Road Scheme Construction	**Assurance Provided: Substantial** Risk management, control and governance arragements the directorate have in place to manage the construction of road schemes are, in general, robust.
2 3	Trunk Road Maintenance & Related Governance	**Assurance Provided: Substantial in both areas**. The risk, control and governance arrangements in place to manage and maintain the trunk road network and the directorate running costs were good.
4	Minor Rail Infrastructure Projects	**Assurance Provided: Substantial** Controls were sound with some scope to further develop risk management and project management processes.
5	Trunk Road Accident Investigation & Prevention	**Assurance Provided: Substantial** Risk and control arrangements in place over the systems to manage accident investigation and prevention projects and the associated budget within the directorate were found to be good. In particular, Internal Audit were impressed by the Strategic Road Safety Plan.

Follow-up reviews from 2006/07 were Network Rail Funding, Concessionary Fares, First Scotrail Franchise and Corporate Governance Arrangements with a follow-up from 2005/06 on the M74 completion.

The Performance Audit Group (Halcrow working in association with Pricewaterhouse Coopers and Scott Wilson Plc) perform an external assurance role for all trunk road maintenance work.

During the year we have worked to strengthen control processes across the delivery of the Older and Disabled Persons National Concessionary Fares Scheme. These actions are in line with the recommendations raised by the 2006/07 Internal Audit review and the subsequent work of a Control Review Project Team as identified in my 2007 statement. These actions have resulted in a demonstrable and clear improvement in control level by 31 March 2008. In particular we have:

- formalised risk profiling into a key process supporting survey and inspection.
- improved reporting on concessionary fares activity to senior management.

Quarterly updates are submitted to the Audit Committee.

I have also set objectives for the Executive Directors within Transport Scotland to undertake a regular review process to ensure that improvement to the assurance and control environment within Transport Scotland is monitored closely.

Malcolm Reed CBE
Chief Executive
22 October 2008

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to Transport Scotland, the Auditor General for Scotland and the Scottish Parliament.

I have audited the financial statements of Transport Scotland (the Agency) for the year ended 31 March 2008 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to Agency Board Members or officers, in their individual capacities, or to third parties.

RESPECTIVE RESPONSIBILITIES OF THE AGENCY, CHIEF EXECUTIVE AND AUDITOR

The Agency and Chief Executive are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there under by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and that part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there under by the Scottish Ministers. I report to you whether, in my opinion, the information which comprises the Management Commentary and the section Who We Are And What We Do included in the Annual Report, is consistent with the Financial Statements. I also report whether in all material respects:

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

In addition, I report to you if, in my opinion, the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with Scottish Government guidance and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Introduction, Our People, Delivery Against Our Aims and Business Plan 2007/08 Targets and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

OPINION

FINANCIAL STATEMENTS

In my opinion

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made there under by the Scottish Ministers, of the state of affairs of Transport Scotland as at 31 March 2008 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there under by the Scottish Ministers; and
- information which comprises the Management Commentary and the section Who We Are And What We Do included in the Annual Report is consistent with the financial statements.

REGULARITY

In my opinion in all material respects:

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Alastair Swarbrick
Assistant Director
Audit Scotland
30 October 2008

Osborne House
1 Osborne Terrace
Edinburgh
EH12 5HG

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

note	2	3&4	5	31 Mar 2008	31 Mar 2007
	Staff costs £000	Other £000	Income £000	Total £000	Total £000
Administration Costs					
Staff Costs	10,752	0	0	10,752	8,991
Other Administration Costs	0	5,219	0	5,219	5,172
Total Administration Costs	**10,752**	**5,219**	**0**	**15,971**	**14,163**
Programme Costs					
Motorways and Trunk Roads	0	768,063	(2,545)	765,518	756,911
Rail Services in Scotland	0	678,118	0	678,118	649,582
Concessionary Fares	273	174,001	0	174,274	161,721
Rail - Major Public Transport Projects	253	257,902	0	258,155	173,804
Total Programme Costs	**526**	**1,878,084**	**(2,545)**	**1,876,065**	**1,742,018**
Net Operating Costs	**11,278**	**1,883,303**	**(2,545)**	**1,892,036**	**1,756,181**

All income and expenditure is derived from continuing activities.

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2008

	note	2007/08	2006/07
		£000	£000
Net gain/(loss) in revaluation of tangible fixed assets	13	1,083,669	631,955
Addition to donated asset reserve	12	0	636
Net gain/(loss) relating to prior years		(28,169)	2,734
Recognised Gain/(Loss) for the Financial Year		**1,055,500**	**635,325**

The notes on pages 62 to 86 form part of these accounts

BALANCE SHEET FOR THE YEAR ENDED 31 MARCH 2008

	note	31 Mar 2008	31 Mar 2007
		£000	£000
FIXED ASSETS			
Tangible Assets	6	14,672,146	13,489,529
Intangible Assets	7	3	19
Debtors > 1 year	8	3,379	7,750
CURRENT ASSETS			
Debtors	8	39,713	31,849
Cash		0	0
Creditors < 1 year	9	(142,785)	(139,481)
NET CURRENT LIABILITIES		(103,072)	(107,632)
TOTAL ASSETS LESS CURRENT LIABILITIES		14,572,456	13,389,666
Creditors > 1 year	9	(114,563)	(118,521)
Provisions for Liabilities and Charges	10	(66,900)	(54,807)
		14,390,993	**13,216,338**
TAX PAYERS EQUITY			
General Fund	11	7,930,197	7,834,712
Donated Asset Reserve	12	1,045	1,122
Revaluation Reserve	13	6,459,751	5,380,504
		14,390,993	**13,216,338**

Malcolm Reed CBE
Chief Executive
22 October 2008

The notes on pages 62 to 86 form part of these accounts

CASHFLOW FOR THE YEAR ENDED 31 MARCH 2008

	note	31 Mar 2008	31 Mar 2007
		£000	£000
Net Cash Outflow from Operating Activities	14	(1,391,658)	(1,210,408)
Capital Expenditure and Financial Investment	14	(136,376)	(156,060)
Financing	14	1,528,034	1,366,468
Net (Decrease)/Increase in Cash in year		**0**	**0**

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The accounting policies adopted are described below and have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention, modified where appropriate for the revaluation of fixed assets.

1.2 TRUNKINGS/DETRUNKINGS

The trunking or detrunking of roads from or to local authorities is treated as a transfer from or to other government departments. Roads and structures detrunked are effectively dealt with as disposals in accounting terms at nil consideration. The associated profit or loss is processed through the general fund.

1.3 PRIOR YEAR ADJUSTMENTS

Material adjustments relating to prior periods and arising from changes in accounting principles or from the correction of material errors are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the preceding period are restated.

1.4 TANGIBLE FIXED ASSETS

Tangible fixed assets are categorised into infrastructure (including assets under construction) and non-infrastructure assets. Infrastructure assets consist of roads, land and building within the highway perimeter, bridges, other structures and roadside communications. Non-infrastructure assets include land and buildings, information and technology equipment, software licences and other specifically identified ring-fenced projects. Title to the freehold land and buildings shown in the accounts of Transport Scotland is held by the Scottish Ministers.

Capitalisation Policy

The road network is capitalised to the extent that it leads to an increase in the capacity of the network. Expenditure on road building schemes is capitalised when it is reasonably certain that the scheme will proceed. Where a scheme is subsequently withdrawn, all cumulative costs are written off to the Operating Cost Statement. Any retained land or buildings are transferred to land and building held for resale and valued at market rates.

All other categories of tangible fixed asset are capitalised if the expenditure is greater than:

Land and Buildings	£10,000
Information and Communications Technology (ICT)	£1,000
Plant and Machinery	£5,000

Items falling below these limits are charged as an expense and shown in the Operating Cost Statement. Furniture and fittings are not capitalised unless part of a specially identified ring-fenced project such as a major relocation project.

Major rail projects, which are capital in nature, are funded by Transport Scotland but as control of the economic benefit of the asset ultimately sits with Network Rail, the assets are not on the balance sheet of the Agency.

Valuation

Infrastructure Assets – the road network

The road network is valued at depreciated replacement cost as it is deemed to be specialist in nature. It is valued using a standard costing system, uplifted annually for indexation and periodically updated when new schemes become available as comparators.

The indexation used is:

Roads and structures	Baxter's Index, published on a quarterly basis by the Department of Trade and Industry (DTI)
Land	Land indices produced by the Valuation Office Agency (VOA)

The estimated unexpired life of all fixed assets is re-assessed annually and the valuation adjusted where necessary.

Assets Under Construction

Road building schemes in the course of construction are capitalised at actual cost with no indexation.

Land and Buildings

Land and property released from road schemes and now deemed surplus to requirements is re-valued at open market value for disposal purposes.

Information Technology

Information technology assets are stated at historical cost with no indexation applied.

1.5 DEPRECIATION

Infrastructure Assets – the road network

Roads and associated street furniture have condition calculations done annually and the resultant increase or decrease in condition is reflected in the net asset value.

Structures and communications assets are depreciated on a straight line basis over the expected useful life of the asset, normally 20 to 120 years.

Land is considered to have an indefinite life and is not depreciated.

	Life in Years
Road surface, sub-pavement layer, fencing, drainage and lighting	20 to 50
Road bridges, tunnels and underpasses	20 to 120
Culverts, retaining walls and gantries	20 to 120
Road communications assets	15 to 50
Assets under construction	no depreciation

Non-Infrastructure Assets

With the exception of surplus land and properties awaiting resale, non-infrastructure assets are depreciated on a straight line basis over the expected life of the particular asset category as follows:

	Life in Years
Freehold buildings	5 to 100
Leasehold buildings	shorter of length of lease or specific asset life
Surplus property awaiting resale	no depreciation
IT Equipment	3 to 10

1.6 DONATED ASSETS

Donated tangible fixed assets are capitalised at their valuation on receipt and this value is credited to the valuation reserve. Any subsequent revaluations are also accounted for through this reserve. Each year an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Operating Cost Statement.

1.7 INTANGIBLE FIXED ASSETS

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. These are valued at historic cost and amortised on a straight line basis over the expected life of the asset.

1.8 RESOURCE NET INVESTMENT

Resource expenditure is split and is recognised as true resource spend and net investment. Resource net investment acknowledges that spend may be capital in nature although results in no asset being added to the Transport Scotland balance sheet as the economic benefit for the asset does not reside with the Agency.

The Agency has a significant resource net investment programme which allocates funding to major rail and major roads projects.

1.9 OPERATING INCOME

Operating income relates directly to the operating activities of Transport Scotland. It principally comprises fees and charges for services provided on a full-cost basis to external customers in both the public and private sectors. It includes not only income appropriated in aid of the estimate but also income due to the Consolidated Fund, which in accordance with the FReM is treated as income. Operating income is stated net of VAT.

1.10 ADMINISTRATION AND PROGRAMME EXPENDITURE

The Operating Cost Statement is analysed between administration and programme income and expenditure. This classification of income and expenditure between administration and programme follows the definition of administration costs as defined by HM Treasury.

Administration costs reflect the costs of running the Agency and include administration staff costs as well as accommodation, communications and office supplies.

Programme costs reflect the costs of operating, maintaining, managing and improving the road and rail infrastructure in Scotland over which Transport Scotland has power.

1.11 CAPITAL CHARGE

A charge reflecting the cost of capital utilised by Transport Scotland is included in the Operating Cost Statement. The charge is calculated based on the average value over the year for all assets less liabilities at the real rate set by HM Treasury (currently 3.5%). Donated assets are excluded from this calculation.

1.12 PENSIONS

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), more details of which can be found in note 2. The PCSPS is an unfunded multi-employer defined benefit scheme. Transport Scotland's contributions are recognised as a cost in the year. This complies with FRS 17.

1.13 PRIVATE FINANCE INITIATIVE (PFI) TRANSACTIONS

PFI transactions are accounted for in accordance with *Technical Note No 1 (Revised), How to account for PFI Transactions*, as required by FReM.

Transport Scotland currently has two existing PFI schemes (see note 17 for more details). In both cases the balance of risks and rewards has been found to rest with the PFI operator and consequently the PFI unitary charge payments are treated as an operating cost.

Where at the end of the PFI contract, all or part of the asset reverts back to Transport Scotland ownership, the expected fair value of the asset at the balance sheet date is reflected as an asset under construction. This allows the proper allocation of payments between the cost of services and the acquisition of the residual asset.

1.14 GRANTS PAYABLE

Grants payable are recorded as expenditure in the period that the underlying activity giving entitlement to the grant occurs.

Where necessary obligations in respect of grant schemes are recognised as liabilities.

1.15 LAND AND PROPERTY ACQUISITION

Land and property acquisition provision relates primarily to the estimates made at the point of taking entry to compulsory purchased land. A valuation provided by the Valuation Office Agency is charged to the project at the point of taking entry to the land.

1.16 PROVISIONS

Transport Scotland provides for legal and constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best professional estimate available. Provisions are charged to the Operating Cost Statement unless they will be capitalised as part of additions to fixed assets.

Transport Scotland is required to meet the additional cost of benefits for those employees who retire early until they reach the age of 60 at which point the liability is assumed by the PCSPS. The cost of these benefits are provided in full when the employee retires.

1.17 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In accordance with FRS 12, where there is a risk of a liability arising as a result of a past event but the amount and/or timing of the event is uncertain, estimates are included in the provisions or contingent liabilities based on an assessment of risk. This holds true for contingent assets as well.

1.18 VAT

Most of the activities of Transport Scotland fall outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is non-recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

Transport Scotland is not separately registered for VAT. The quarterly VAT return is completed centrally by the Scottish Government.

2. STAFF NUMBERS AND COSTS

Staff costs comprise:	2007/08			2006/07		
	Permanent Staff £000	Others £000	Total £000	Permanent Staff £000	Others £000	Total £000
Wages & salaries costs	7,392	1,144	8,536	6,525	654	7,179
Social Security costs	598	0	598	558	0	558
Other pension costs	1,618	0	1,618	1,254	0	1,254
Total Costs	**9,608**	**1,144**	**10,752**	**8,337**	**654**	**8,991**
Staff costs in programme	526	0	526	820	0	820
Total net staff costs	**10,134**	**1,144**	**11,278**	**9,157**	**654**	**9,811**

Average numbers of persons employed						
	Permanent Staff	Others	Total	Permanent Staff	Others	Total
Finance & Corporate Services	59	15	74	47	9	56
Major Transport Infrastructure Projects	52	5	57	47	3	50
Rail Delivery	65	17	82	72	6	78
Strategy & Investment	30	6	36	25	0	25
Trunk Roads: Network Management	49	2	51	50	11	61
Total average staff numbers	**255**	**45**	**300**	**241**	**29**	**270**

Permanent staff are civil servants who have an employment contract with the Agency.

Wages & Salaries include gross salaries, performance pay or bonuses received in year, overtime, London weighting or London allowances, recruitment and retention allowances, private office allowances, ex-gratia payments and any other allowance to the extent that it is subject to UK taxation. The payment of legitimate expenses is not part of salary.

Four members of staff took early retirement during the year and the appropriate provision has been included in the accounts. No staff retired early on ill-health grounds in 2007/08.

In 2006/07 wages & salaries costs included £0.6m of one-off migration costs incurred as a result of the relocation of the former Scottish Executive Roads Departments from Edinburgh to Transport Scotland in Glasgow in 2006/07. A further provision of £0.2m was required in 2007/08. The provision for these costs covers a 5 year timeline. This is consistent with the relocation policy of the Scottish Government and provisions accounting set out in Financial Reporting Standard 12.

PENSION COSTS

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Transport Scotland is unable to identify its share of the underlying assets and liabilities. The scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk.

For 2007/08, employers' contributions of £1.6m were payable to the PCSPS at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006/07 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The 2008/09 salary bands have been revised but the rates remain the same.

The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution.

Employer's contributions of £4,250 were paid to two appointed stakeholder pension providers.

Contributions are paid monthly in arrears. Contributions that Transport Scotland was due to pay to partnership pension providers at 31 March 2008 totalled £1,600. At 31 March 2008, no contributions were paid to partnership pension providers that Transport Scotland did not need to pay until after the end of the reporting year. Employer contributions are age related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of 0.8% of pensionable pay were payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

From 1 October 2002, civil servants could be in one of three statutory based "final salary" defined benefit schemes (Classic, Premium and Classic Nuvos Plus). The Classic and Classic Plus schemes are now closed to new members. Civil servants joining from 30 July 2007 may be in one of two statutory-based schemes (Premium or Nuvos).

Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Retail Price Index. New entrants may alternatively opt to join a stakeholder pension with employer contribution (Partnership Pension Account).

(A) CLASSIC SCHEME

Benefits accrue at the rate of 1/80th of pensionable pay for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings.

(B) PREMIUM SCHEME

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic scheme, there is no automatic lump sum, but members can commute some of their pension to provide a lump sum. Members pay contributions of 3.5% of pensionable earnings.

(C) CLASSIC PLUS PENSION SCHEME

This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

(D) NUVOS PENSION ACCOUNT

Like the Premium Scheme there is no automatic lump sum, but members can commute some of their pension to provide a lump sum. Members pay contributions of 3.5% of pensionable earnings.

(E) PARTNERSHIP PENSION ACCOUNT

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers may also contribute a further 0.8% of pensionable salary to cover the cost of the future provision of lump sum.

3. OTHER ADMINISTRATION COSTS

	note	2007/08	2006/07
		£000	£000
Rent, rates & building costs		2,380	2,536
Office furniture		56	0
Communications		764	710
Travel		656	638
Consultancy		384	345
Audit fee		175	175
Training		111	151
Information Technology		115	145
Recruitment		138	132
Subscriptions		48	56
Other		392	284
Total administration costs		5,219	5,172
Non-cash items included in the above are:			
Depreciation	6 & 7	535	431
Audit fee	21	175	175
Amortisation on donated assets reserve	12	(77)	(39)
Total non-cash administration costs		**633**	**567**

4. OTHER PROGRAMME COSTS

	note	2007/08	2006/07
		£000	£000
Roads			
Capital Maintenance		116,804	93,066
Current Maintenance		132,056	184,955
Payment on PFI contracts	17	35,648	28,302
Roads Capital Charge		483,058	451,111
Other		496	12
Rail			
ScotRail Franchise		294,333	284,523
Rail Infrastructure in Scotland Capital*		232,957	217,522
Rail Infrastructure in Scotland Resource**		132,075	133,896
Rail Small Projects		12,216	12,757
Other		6,537	453
Concessionary Fares			
Smartcard Applications		9,433	5,525
Concessionary Fares		164,568	155,958
Other Public Transport			
Major Public Transport Projects - Rail		250,640	171,244
Transport Information		1,026	977
Strategic Projects Review		6,236	1,583
Other		0	0
Total other programme costs		1,878,084	1,741,884

* The Rail Infrastructure in Scotland Capital figure of £233m was paid directly to Network Rail.

** The Rail Infrastructure in Scotland Resource figure of £132m was paid to Network Rail via DfT as part of a transitional arrangement until the end of the current Control Period on 31 March 2009.

	note	2007/08	2006/07
		£000	£000
Non-cash items included in the above are:			
Roads			
Capital charge	21	483,058	451,111
Depreciation	6	11,908	40,378
Asset valuation adjustment		(3,723)	4,082
Other asset adjustments		0	1,328
Rail			
SQUIRE Depreciation	6	153	0
Concessionary Fares			
Depreciation	6	411	377
Total other programme costs – non-cash		491,808	497,276

5. OPERATING INCOME

	2007/08	2006/07
	£000	£000
Programme income		
Rental income - properties	1,058	599
Rental income - land	0	18
Erskine Bridge Tolls	0	69
Erskine Bridge Damage Claim	1,484	0
Sale of land	3	0
Total programme income	2,545	686

Operating income principally arises from:

- rental income from land and properties acquired for road schemes and now surplus to requirements.
- toll income from Erskine Bridge (physical collection of tolls ceased as of 31 March 2006).
- Erskine Bridge Damage Claim income in 2007/08 represents settlement of a damage claim in excess of the debtor recorded (£3.4m) in previous years relating to an oil rig collision in 1996.

6. TANGIBLE FIXED ASSETS

	Road Network	Assets under Construction	Land & Buildings	IT	Leasehold Improvements	Total
	£000	£000	£000	£000	£000	£000
At replacement cost or valuation						
At 1 April 2007	15,144,524	410,124	1,200	3,180	3,989	15,563,017
Detrunkings	0	0	0	0	0	0
Capital Additions	0	136,291	0	85	0	136,376
Disposals	0	0	0	0	0	0
Revaluation	1,249,403	9,032	133	(1)	268	1,258,835
Current year activity valuation adjustments	3,550	0	0	0	0	3,550
Other adjustments	(42,341)	0	0	0	0	(42,341)
Transfers and reclassifications	870	(1,406)	0	731	(195)	0
Balances at 31 March 2008	**16,356,006**	**554,041**	**1,333**	**3,995**	**4,062**	**16,919,437**
Accumulated Depreciation						
At 1 April 2007	2,072,594	0	0	584	311	2,073,489
Detrunkings	0	0	0	0	0	0
Charge for the year	11,908	0	0	677	407	12,992
Disposals	0	0	0	0	0	0
Revaluation	175,138	0	0	0	25	175,163
Current year activity valuation adjustments	(100)	0	0	0	0	(100)
Other adjustments	(14,172)	0	0	0	(81)	(14,253)
Transfers and reclassifications	0	0	0	0	0	0
Balances at 31 March 2008	**2,245,368**	**0**	**0**	**1,261**	**662**	**2,247,291**
Net Book Value at 31 March 2008	14,110,638	554,041	1,333	2,734	3,400	14,672,146
Net Book Value at 31 March 2007	13,071,930	410,124	1,200	2,596	3,679	13,489,529
Asset Financing						
Owned	14,110,638	396,365	1,333	2,734	3,400	14,514,469
PFI reversionary Interest*	0	157,676	0	0	0	157,676
Net Book Value at 31 March 2008	14,110,638	554,041	1,333	2,734	3,400	14,672,145

*The reversionary interest is based on the current net book value of the schemes with the balance being built up and indexed over the life of the contract until they revert back to Transport Scotland ownership.

THE ROAD NETWORK

Revaluation indices are applied to the road network as it is valued at depreciated replacement cost. In year this amounted to £1,249m gross, £1,074m net. The net revaluation is reflected in the revaluation reserve (note 13).

Valuation adjustments may arise on the transfer of assets under construction to the completed road network. In addition there are other adjustments to reflect amendments to the records held on Transport Scotland's road asset databases. These arise from better information becoming available, such as more accurate measurement of the dimensions of roads, bridges or other structures. The main components are reflected in the accounts as follows:

OPERATING COST ADJUSTMENTS

£3.6m has been accounted for through the OCS for adjustments to assets added to the roads databases after 31 March 2002, the date from which resource accounting applies.

GENERAL FUND ADJUSTMENTS

£28.2m has been accounted for through the General Fund, representing adjustments to the Road Network valuation of £42.3m, less road network depreciation adjustment of £14.2m. These adjustments relate to changes to the underlying database for assets added before 1 April 2002.

The depreciation charge for the year totalled £11.9m. Transfers and reclassifications totalled £870k which relates to the addition of two new bridges and a wall to the road network database during the course of the year transferred in from assets under construction.

ASSETS UNDER CONSTRUCTION

As at 31 March 2008 land within assets under construction was valued at £204m of which £15.6m is held for schemes where construction has not yet been approved. The capital element of the two PFI schemes has been revalued upwards in year by £3.3m.

INFORMATION TECHNOLOGY

IT capital additions for the year totalled £0.1m. Transfers and reclassification during the course of the year totalled £0.7m. £0.5m relates to the development of the SQUIRE Software System, which has been transferred in from assets under construction. £0.2m is a reclassification of IT assets.

LEASEHOLD IMPROVEMENTS

Buchanan House leasehold improvements are being depreciated over the life of the lease (15 years). The furniture capitalised as part of this ring-fenced relocation project are being depreciated over 5 years. The landlord of Buchanan House donated part of the fit out costs and this has been treated as a donated asset. The total of this contribution is £1.2m. Depreciation for leasehold improvements has been decreased on the Operating Cost Statement by the unwinding of the donated asset reserve which sums to £0.1m in 2007/08.

7. INTANGIBLE FIXED ASSETS

	Software Licences
	£000
At replacement cost or valuation	
At 1 April 2007	53
Capital additions	0
Disposals	0
Transfers and reclassifications	0
Balances at 31 March 2008	53
Accumulated Amortisation	
At 1 April 2007	34
Charge for the year	16
Additions	0
Disposals	0
Transfers and reclassifications	0
Balances at 31 March 2008	50
Net Book Value at 31 March 2008	3
Net Book Value at 31 March 2007	19

8. DEBTORS

8a Analysis by type	as at 31/03/08	as at 31/03/07
	£000	£000
Amounts falling due after more than one year:		
Other Debtors of which:		
Damage Claims	2,532	6,200
Land for resale	853	1,402
Other	(6)	148
	3,379	7,750
Amounts falling due within one year:		
Trade debtors	25	20
VAT*	0	7,784
Prepayments & accrued income	39,603	23,943
Other	85	102
	39,713	31,849

*From 2007/08 VAT is accounted for centrally by the Scottish Government.

8b Intra-Government Balances	Amounts falling due within 1 year		Amounts falling due after more than 1 year	
	as at 31/03/08	as at 31/03/07	as at 31/03/08	as at 31/03/07
	£000	£000	£000	£000
Other central government bodies	4	7,765	(155)	0
Local authorities	24,792	3,350	429	429
Public corporations and trading funds	0	0	0	0
Intra-Government Balances	**24,796**	**11,115**	**274**	**429**
Balances with bodies external to government	**14,917**	**20,734**	**3,105**	**7,321**
Total Debtors	**39,713**	**31,849**	**3,379**	**7,750**

9. CREDITORS

9a	Analysis by type	as at 31/03/08	as at 31/03/07
		£000	£000
	Amounts falling due after more than one year:		
	Other Creditors of which:		
	PFI – excess reversionary interest in year one of contract	109,546	114,055
	Retentions on road schemes	2,915	3,151
	Other	2,102	1,315
		114,563	118,521
	Amounts falling due within one year:		
	Trade creditors	2,337	10,460
	Accruals and deferred income	135,939	124,607
	PFI – excess reversionary interest in year one of contract	4,509	4,414
		142,785	139,481

9b	Intra-Government Balances	Amounts falling due within 1 year		Amounts falling due after more than 1 year	
		as at 31/03/08	as at 31/03/07	as at 31/03/08	as at 31/03/07
		£000	£000	£000	£000
	Other central government bodies	(3)	14	0	0
	Local authorities	11,765	20,851	21,441	22,044
	Public corporations and trading funds	0	0	0	0
	Intra-Government Balances	11,762	20,865	21,441	22,044
	Balances with bodies external to government	131,023	118,616	93,122	96,477
	Total Creditors	142,785	139,481	114,563	118,521

10. PROVISIONS FOR LIABILITIES AND CHARGES

	Land and Property Acquisition	Major Projects	Migration and Other	Damages	Total
	£000	£000	£000	£000	£000
Balance as at 1 April 2007	49,889	3,400	629	890	54,807
Provided in year	48,323	1,201	1,066	505	51,094
Provisions not required written back	(34)	0	(18)	0	(52)
Provisions utilised in year	(37,141)	(1,100)	(252)	(456)	(38,949)
Reclassifications	0	0	0	0	0
Balance as at 31 March 2008	61,037	3,500	1,424	939	66,900

11. GENERAL FUND

The General Fund represents the total assets less total liabilities, to the extent that the total is not represented by other reserves and financing items.

	note	2007/08	2006/07
		£000	£000
Balance at 1 April 2007		7,834,712	7,760,256
Net Parliamentary funding	14	**1,528,034**	**1,366,468**
Net operating cost for the year	14	**(1,892,036)**	**(1,756,181)**
Non-cash charges:			
Auditors remuneration	3	175	175
Cost of capital charge	4	483,058	451,111
In year adjustments relating to prior year transactions			
Detrunkings		0	(31,950)
Adjustment to infrastructure fixed assets		(28,169)	22,032
Adjustment to non-infrastructure fixed assets		0	2,009
Adjustment to PFI assets		0	10,643
Realised element of the revaluation reserve	13	4,422	10,149
Balance as at 31 March 2008		7,930,197	7,834,712

12. DONATED ASSET RESERVE

The donated asset reserve represents assets not paid for but owned by Transport Scotland.

	£000
Gross Value	
Balance at 1 April 2007	1,161
Additions in year	0
Balance at 31 March 2008	1,161
Amortisation	
Balance at 1 April 2007	39
Amortisation in year	77
Balance at 31 March 2008	116
Net Book Value at 31 March 2008	1,045

13. REVALUATION RESERVE

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	note	£000
Balance at 1 April 2007		5,380,504
Net gain/(loss) on revaluation		0
In year adjustments relating to prior year transactions		
Adjustment to infrastructure fixed assets	6	1,083,669
Realised element of the revaluation reserve	11	(4,422)
Balance as at 31 March 2008		6,459,751

14. NOTES TO THE CASH FLOW STATEMENT

	note	2007/08	2006/07
		£000	£000
Reconciliation of operating cost to operating cash flows			
Net operating cost		(1,892,036)	(1,756,181)
Adjustment for non-cash transactions	3 & 4	492,441	497,842
In year adjustment on IT hardware depreciation		(9)	0
(Increase)/Decrease in debtors	8	(3,493)	(20,514)
(Decrease)/Increase in creditors	9	(654)	41,617
(Decrease)/Increase in provisions	10	12,093	26,828
Net cash outflow from operating activities		(1,391,658)	(1,210,408)
Analysis of capital expenditure and financial investment			
Tangible fixed asset additions - investment in network assets	6	(136,376)	(158,646)
Adjustment for donated asset	12	0	636
Adjustment for prior year capitalisations		0	1,950
Net cash outflow from investing activities		(136,376)	(156,060)
Analysis of financing			
From the consolidated fund – current year		1,528,034	1,366,468
Net Financing		1,528,034	1,366,468

15. CAPITAL COMMITMENTS

These relate to Transport Scotland's commitment to make future capital payments on major road schemes. The main works contract has been awarded and the commitment has not been reflected elsewhere in the accounts.

	as at 31/03/08	as at 31/03/07
	£000	£000
Total contracted capital commitments for which no provision has been made	539,418	96,746

16. COMMITMENTS UNDER OPERATING LEASES

As at 31 March 2008 Transport Scotland was committed to making the following payments during the next year in respect of operating leases:

	as at 31/03/08	as at 31/03/07
	£000	£000
	Land & Buildings	Land & Buildings
Rentals due within 1 year	0	0
Rentals due within 2-5 years	0	0
Rentals due thereafter	1,444	1,000
Total	1,444	1,000

17. COMMITMENTS UNDER PFI INITIATIVES

Transport Scotland has entered into the following off-balance sheet PFI contracts:

a) M6 (M74) – the contract covers the design, construction, financing and operation of 28.3km of the new Scottish motorway as well as the operation and maintenance of 90km of new and existing Scottish motorway. Payments are made under a shadow toll regime. The toll period began in July 1997 and expires in July 2027. The estimated capital value of the asset is £236m. Included in assets under construction is an amount of £121m representing the reversionary interest of the asset.

b) M77 – this is a joint Public Private Partnership (PPP) entered into by the Scottish Government, East Renfrewshire and South Lanarkshire Councils. The project covers the design, construction, financing and operation of 15km of the new Scottish motorway and a new 9km local link road between the new motorway and the A726 trunk road. Payments are made under a shadow toll regime. The toll period began in April 2005 and expires in April 2035. The estimated current capital value of the asset is £95m. Included in assets under construction is an amount of £37m representing the reversionary interest of the asset.

The total amount charged to the Transport Scotland Operating Cost Statement in respect of these schemes is:

	2007/08	2006/07
	£000	£000
M6 (M74)	35,268	27,761
M77	8,060	8,010
Total	43,328	35,771

Imputed finance lease obligations under off-balance sheet PFI contracts due during the next year, analysed between those periods where the commitment expires:

	M6(M74)	M77	Total
	£000	£000	£000
Rentals due within 16 to 20 years	31,872	0	31,872
Rentals due within 26 to 30 years	0	8,768	8,768
Total	31,872	8,768	40,640

The amount charged to the operating cost statement excludes any adjustments for the capital element of the unitary charge.

18. FINANCIAL INSTRUMENTS

Financial Reporting Standard 13 (FRS 13) "Derivatives and Other Financial Instruments" requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government departments and agencies are financed, Transport Scotland is not exposed to the same degree of financial risk faced by most other business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Transport Scotland has limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency.

LIQUIDITY RISK

Transport Scotland's net revenue resource requirements are mainly financed by resources voted annually by the Scottish Parliament. Transport Scotland is therefore not exposed to significant liquidity risks.

INTEREST RATE RISK

All of Transport Scotland's financial assets and liabilities carry nil or fixed rates of interest and the Agency is therefore not exposed to significant interest rate risk.

EXCHANGE RATE RISK

Transport Scotland is not exposed to significant exchange rate risks.

19. CONTINGENT LIABILITIES

Contingent Liabilities under FRS12 are defined as past events where it is possible that transfer of economic benefits will be required to settle but no reliable estimate can be made.

19a Contingent Liabilities disclosed under FRS12

	as at 31/03/08	as at 31/03/07
	£000	£000
Transport Scotland have guarantees in place, effectively to the EU in relation to grant payments to other bodies for the Edinburgh Airport Rail Link (EARL) and the Glasgow Airport Rail Link (GARL).	1,475	1,360

19b Possible contingent liabilities not required under FRS12 but included for parliamentary reporting and accountability purposes

Transport Scotland has provided the following:

- operating agreement with indemnity dated 2005 to tie Limited for the promotion of the EARL Project
- operating agreement (ScotRail Franchise Agreement) with indemnity dated 2004 to First ScotRail
- letter of underwriting to Edinburgh Airport Limited (subsidiary of BAA) dated 2006 for the EARL Project being promoted by tie Limited

None of these is a contingent liability within the meaning of FRS12 since the likelihood of a transfer of economic benefits is considered too remote.

20. RELATED PARTY TRANSACTIONS

Transport Scotland is an Agency of the Scottish Government. The Scottish Government is regarded as a related party with which the Agency had various material transactions during the year. Transport Scotland also had significant transactions with local authorities during the year.

Board members had no interests in related party transactions. All interests declared by members of the Transport Scotland Board are of a minor nature and have no impact on the awarding of contracts and commissions.

21. NOTIONAL CHARGES

The following notional charges have been included in the accounts:

	2007/08	2006/07
	£000	£000
Cost of capital charges	483,058	451,111
Auditors remuneration	175	175
	483,233	451,286

The cost of capital is calculated as 3.5% of assets less liabilities over the year, excluding donated assets and any cash balances.

ANNEX A

TRANSPORT SCOTLAND
DIRECTION BY THE SCOTTISH MINISTERS

IN ACCORDANCE WITH SECTION 19(4) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

1. The statement of accounts for the financial year ended 31 March 2007 and subsequent years shall comply with the accounting principles and disclosure requirements of the edition of the Government *Financial Reporting Manual* (FReM) which is in force for the year for which the statement of accounts are prepared.

2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

3. This direction shall be reproduced as an appendix to the statement of accounts.

Alyson Stafford

Signed by the authority of the Scottish Ministers

Dated 17 January 2006

Further copies of this document are available, on request, in audio and large print formats and in community languages, please contact:

اس دستاویز کی مزید کاپیاں آڈیو کیسیٹ پر اور بڑے حروف کی چھپائی میں اور کمیونٹی کی
زبانوں میں طلب کیے جانے پر دستیاب ہیں، براۓ مہربانی اس پتہ پر رابطہ کریں:

এই ডকুমেন্ট-এর (দলিল) অতিরিক্ত কপি, অডিও এবং বড়ো ছাপার অক্ষর আকারে এবং
সম্প্রদায়গুলোর ভাষায় অনুরোধের মাধ্যমে পাওয়া যাবে, অনুগ্রহ করে যোগাযোগ করুন:

Gheibhear lethbhreacan a bharrachd ann an cruth ris an èistear, ann an clò mòr agus ann an cànain coimhearsnachd. Cuir fios gu:

इस दस्तावेज़/काग़ज़ात की और प्रतियाँ, माँगे जाने पर, ऑडियो टैप पर और बड़े अक्षरों में तथा कम्यूनिटी भाषाओं में मिल सकती हैं, कृपया संपर्क करें:

ਇਸ ਦਸਤਾਵੇਜ਼/ਕਾਗ਼ਜ਼ਾਤ ਦੀਆਂ ਹੋਰ ਕਾਪੀਆਂ, ਮੰਗੇ ਜਾਣ ’ਤੇ, ਆੱਡਿਓ ਟੇਪ ਉੱਪਰ ਅਤੇ ਵੱਡੇ ਅੱਖਰਾਂ ਵਿਚ ਅਤੇ ਕੰਮਿਊਨਿਟੀ ਭਾਸ਼ਾਵਾਂ ਦੇ ਵਿਚ ਮਿਲ ਸਕਦੀਆਂ ਹਨ, ਕ੍ਰਿਪਾ ਕਰਕੇ ਸੰਪਰਕ ਕਰੋ:

此文件有更多備份，如果需要，語音版本和大字體版本及少數種族語言版本也可提供，請聯絡：

يمكن أن تطلب النسخ الأخرى من هذا المستند كالتسجيل الصوتي والخط المكبر
ونسخ بلغات أخرى، يرجى الإتصال على:

Aby otrzymać niniejszy dokument w innej wersji językowej, na kasecie lub w wersji z powiększonym drukiem, prosimy o kontakt:

info@transportscotland.gsi.gov.uk or phone **0141 272 7100**

www.transportscotland.gov.uk

This document is also available on the Transport Scotland website: www.transportscotland.gov.uk

RR Donnelley B56762 11/08

Further copies are available from
Blackwell's Bookshop
53 South Bridge
Edinburgh
EH1 1YS

Telephone orders and enquiries
0131 622 8283 or 0131 622 8258

Fax orders
0131 557 8149

Email orders
business.edinburgh@blackwell.co.uk

ISBN 978-1-906006-39-6