COMHDHAIL ALBA TRANSPORT SCOTLAND

TRANSPORT SCOTLAND

ANNUAL REPORT AND ACCOUNTS for the year ended 31 March 2012

TRANSPORT SCOTLAND
ANNUAL REPORT AND ACCOUNTS 2011-12

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Laid before the Scottish Parliament by the Scottish Ministers
September 2012
SG/2012/141

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, and 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.

ANNUAL REPORT 2011-12

CHIEF EXECUTIVE'S INTRODUCTION

The 2011-12 year has involved a wide range of activity and progress with our development as an organisation. The Agency continued its core functions of delivering transport investment and projects, and providing advice and support to Scottish Ministers on national transport policies and issues. The Scottish Government's purpose of increasing sustainable economic growth remains the focus of our work, and we have continued to work closely with Ministers in developing their ambition and vision for transport policies and projects, and in connecting all of the communities of Scotland in a modern effective and efficient transport system.

The report details our spending of over £1.8 billion in investment and support across Scotland on a range of transport services. The economic climate is a challenging backdrop to our work, but the report shows how we have remained focussed on the objectives and commitments Ministers have set for us, and in delivering them efficiently and effectively. We ensure that this work is driven by our key strategic priorities, and targets. We set out in the Annual Report how we measure against these key delivery priorities, and in meeting the specific targets and outputs in our Business Planning process.

We also move forward as an organisation. This reporting year is the first full financial year of our integrated role in advising and delivering on all of our national transport policies programmes and projects on behalf of Scottish Ministers. We believe this process has developed successfully in providing a clear focal point in working with Ministers, and also for the many key stakeholders we work with across Scotland. This fits well also with the high level of transparency and accountability which is expected of Agencies, and provides a coherent structure for our operation, and in accounting for how funds for transport in Scotland are spent.

Finally, I should like to recognise the excellent support and advice provided by all Transport Scotland staff across our expanded remit. Our staff provide skill and expertise in transport issues and in the business of government, in a stimulating and fast moving policy and project environment. The Agency has become a well established part of the public sector landscape in Scotland with a reputation for delivering on its objectives. This is a positive reflection on the professionalism and commitment of the Directors and staff involved.

David Middleton
Chief Executive
Transport Scotland

WHO WE ARE AND WHAT WE DO

Role

Transport Scotland was created in 2006 as an Executive Agency of the Scottish Government, accountable to Parliament and the public through Scottish Ministers.

The Agency role covers all of the Scottish Government's national transport policy and project responsibilities. These include overseeing the operation and improvement of the trunk road, ferry, inland waterway and railway networks in Scotland; the air passenger facilities and routes in the Highlands and Islands; the national concessionary travel schemes and for the provision of travel information services. We also support Ministers in prioritising future transport policy and investments and promoting sustainable transport and road safety.

Strategy and Planning

The Scottish Government's purpose is to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth, and this provides the focus for our work. Our delivery priorities - improved connections across Scotland; better journey times, better reliability; greener transport alternatives, reduced emissions; and increased safety, more innovation – are all set in that context. We are refreshing our commitment to them as part of our ongoing business planning process. This provides a clear focus to enable us to develop and deliver efficient, effective and sustainable transport infrastructure and services for Scotland.

Our detailed delivery outcomes are drawn from our Corporate Plan and annual Business Plan covering the past year. Delivery against our targets for 2011-12 is summarised on pages 15 – 17.

Governance

The Chief Executive is the Accountable Officer for the Agency. This role is supported by a Board comprising the Chief Executive and six executive directors as shown below. The Accountable Officer is also supported by an Audit and Risk Committee chaired by a non executive member Alex Smith, and including two further external members Dorothy Fenwick and Alan Thompson.

Current Directors

David Middleton	Chief Executive
Roy Brannen	Trunk Road and Bus Operations
Donald Carmichael	Transport Policy
Frances Duffy	Rail (until February 2012)
Aidan Grisewood	Rail (from February 2012)
Sharon Fairweather	Finance and Analytical Services
Ainslie McLaughlin	Major Transport Infrastructure Projects
Alastair Wilson	Aviation, Maritime, Freight and Canals

Richard Scott served as Director of Business Improvement and Corporate Services until retiring from the Agency on 30 June 2011.

DELIVERY AGAINST OUR PRIORITIES

Annual Review

The Agency publishes a separate Annual Review document, and the 2012 version is available on the Agency website http://www.transportscotland.gov.uk. The Review document provides a user friendly and accessible guide to our activities in 2011-12, although it is not formally part of the Annual Report.

Improved Connections

Improving transport connections and services across Scotland and internationally is vital in opening up new markets, increasing access to employment and helping to build a critical mass of business that drives up competiveness and delivers sustainable economic growth. In delivering an efficient transport system for Scotland, we aim to ensure that everyone in Scotland benefits by providing effective links between people and between communities, both in rural areas and in parts of our larger cities which might otherwise face a degree of isolation.

Construction started on the **Forth Replacement Crossing (FRC)**, Scotland's biggest infrastructure project for a generation following the completion of a two-year procurement process that has delivered significant savings on the previously estimated cost. The lower costs of these contracts means the revised estimated total out-turn cost of delivering the FRC project is now £1.45 billion to £1.60 billion, a substantial reduction on the previous estimate of £1.7 billion to £2.3 billion. In addition contracts for the Fife Intelligent Transport System and M9 Junction 1A improvements were awarded to John Graham (Dromore) Limited and Sisk Roadbridge Civil Engineering Limited respectively. Both contracts were also awarded at prices below the low end of the estimated cost range. The project remains on schedule and on budget to deliver a new crossing across the Forth by 2016.

The re-opened **Airdrie to Bathgate rail link** resulted in a large boost in passenger numbers along the route. The full frequency of four trains per hour was introduced in May and usage figures at the new stations at Armadale, Blackridge and Caldercruix are all on target to meet their initial annual forecasts. ScotRail also introduced more services between Inverness and the central belt on the Highland mainline as well as Edinburgh – Dunbar and Glasgow - Dundee routes.

The **Craighouse-Tayvallich** community-run passenger ferry service recommenced for summer 2012 with joint funding support from Transport Scotland and Argyll and Bute Council.

Transport Scotland worked with Strathclyde Partnership for Transport (SPT) to finalise the business case for the **Fastlink project**. This culminated in the Scottish Government providing funding of up to £40 million for the project. Fastlink will provide fast access to jobs, services and communities along a key development corridor, including healthcare services at the new South Glasgow Hospitals, and improve transport links for the Commonwealth Games. It will also contribute to the Scottish Government's aim of supporting long term economic growth by acting as a catalyst for regeneration and better land use. The final business case specifies that the Fastlink core scheme will incorporate the three main transport hubs in Glasgow city centre (Glasgow Central Station, Glasgow

Queen Street Station and Buchanan Bus Station) in addition to the route from the SECC to the new South Glasgow Hospital Campus in Govan.

Construction of both the **Aberdeen Western Peripheral Route (AWPR)** and **A90 Balmedie to Tipperty** continue to be delayed due to the on-going legal challenge against the scheme. The AWPR will provide substantial benefits across the whole of the North East: boost the economy; increase business and tourism opportunities; improve safety; cut congestion; as well as increasing opportunities for improvements in public transport facilities.

Ministers remain committed to the target project delivery date of December 2014 for the **Borders Railway**. Transport Scotland is working with Network Rail to deliver the project and its benefits for the local communities and businesses in the Borders.

The **Paisley Corridor Improvements (PCI)** project achieved substantial completion in February 2012, with work ongoing to develop further train service enhancements in the December 2012 timetable. The project will improve services to Ayrshire and Inverclyde and has already delivered increased capacity at Glasgow Central, the busiest station in the UK outside London.

Transport Scotland worked with Strathclyde Partnership for Transport (SPT) to finalise the business case for the **Glasgow Subway Modernisation programme** and the Scottish Government subsequently announced that it will provide up to £246 million funding contribution for the scheme, estimated to cost £287.5 million in total. The substantial upgrade will deliver: new bespoke trains; refurbished stations; an upgrade of signals; integrated smartcard ticketing; and improved accessibility for passengers. This will provide an economic boost to Scotland's biggest city, link to other transport infrastructure improvements and contribute to the city's regeneration.

We have continued to work with airlines and airport operators and with other Scottish Government agencies on the development of direct international routes to Scotland to foster inward investment, business and inbound tourism traffic.

Further notable achievements:

- Procurement of the **M8 M73 M74 Motorway Improvements Project** moved forward with the publication of the notice for the main works contract in the Official Journal of the European Union (OJEU) on 30 March 2012.
- The **M80 Stepps to Haggs** project opened in September 2011, on time and on budget and is bringing real benefits to businesses and the community.

<u>Better Journey Times, Better Reliability</u>

Making journey times more reliable is one of the main ways in which transport can help build and sustain growth in the economy.

In addition to the introduction of new **Edinburgh Glasgow Improvement Programme (EGIP)** services on the Edinburgh Glasgow via Shotts Line Transport Scotland, working in partnership with Network Rail, has delivered a number of key infrastructure improvements including the electrification at Haymarket Tunnel. In January 2012 Network Rail announced a £55 million package of contract awards in respect of route clearance works in advance of route electrification and the redevelopment of Haymarket Station.

Transport Scotland's **Incident Management Summit** was held in Glasgow on 14 March 2012, marking the crucial first step in working to reduce closure times and the associated disruption that unplanned incidents cause on the trunk road network by identifying opportunities for improvement and creating a collaborative forum to track progress. The event included a keynote speech from Minister for Housing and Transport, Keith Brown MSP, presentations from key incident management personnel, and themed workshops, with strong representation from key incident management responders, including Police, Transport Scotland, Fire and Rescue Services, Traffic Scotland, Recovery Agencies, Operating Companies and the Scottish Environmental Protection Agency.

In the spring of 2011, following the worst period of severe cold weather for over 30 years and the coldest months in Scotland since records began, the Transport Minister commissioned an exercise to test Scotland's winter plans. Transport Scotland's resilience team led **Exercise Polar Storm** on 7 September 2011 with over 200 delegates from across the transport sector, the emergency services and Local Authorities. This exercise examined the consequences of sustained pressure from severe weather, considering the impact on services reliant on the road network, and was extremely well received by all who attended. The report from the exercise was published as part of the Scottish Government's **Ready for Winter** week in October last year.

Transport Scotland worked with key stakeholders, particularly Edinburgh, Aberdeen and Glasgow City Councils, to implement legislation to allow civil **enforcement of bus lanes** by camera. The introduction of these powers should lead to improved enforcement of bus lane restrictions by motorists as a means of avoiding congestion. This, in turn, should result in improved journey times and better reliability of public transport, making the bus a more attractive option, leading to a reduction in local emissions. These powers are supplementary to existing police enforcement and any charges will accrue to the local authority and be used for the purpose of facilitating delivery of local transport strategy.

Transport Scotland recently carried out essential repairs to the **A92 Edenbank Bridge** to strengthen and refurbish to current standards, offering improved safety for central Fife trunk road users. During a planned inspection in 2010, the structure was found to be suffering from deterioration and further special investigations determined that the structure was deteriorating rapidly and could no longer carry modern traffic loads. The bridge was temporarily propped to act as a safeguard until the strengthening work was carried out, to enable it to remain open to the public. Work started on site on 14 September 2011 with a planned contract duration of 12 weeks and was completed 5 weeks ahead of schedule at the end of October 2011. The improvements will ensure Edenbank Bridge's future durability.

Road Safety Scotland launched a new online resource in October 2011 entitled **'Get into Gear'**, offering support for people who deliver Young Driver Interventions leading to an Scottish Qualifications Authority (SQA) accredited award, which forms part of a broader road safety qualification for Scotland.

Through the Scottish Government's **investment in rail services**, ScotRail provides around 2,300 train services every day in Scotland. In the past year over 80 million passenger journeys were made on First ScotRail services, an increase of over 30% over the last eight years. ScotRail completed its commitment to Scottish Ministers to invest £40 million with around £20 million delivering **front line passenger facilities** including new lifts at Haymarket, ticket office refurbishments, new toilets, platform shelters, customer help points and CCTV. Significant investment in **new class 380 trains** has delivered around 7,500 extra seats on routes in Ayrshire, Inverclyde and Lothian in the last year. This has allowed a further cascade of existing rolling stock to provide additional capacity on peak services on routes in and out of Glasgow, delivering more than 1,100 extra seats for passengers.

The A83 trunk road at the **Rest and Be Thankful** in Argyll is an area prone to risk from landslides which can be started by periods of heavy rain. This led to the A83 being closed twice in 2011-12, in December 2011 and February 2012. The first closure was due to a landslide on the road, which required removal of mud and boulders and also included drain cleaning and installing a temporary concrete barrier. The second closure was due to a slip that occurred further up the hillside but had not reached the road.

Since previous landslides in 2007 and 2009, we have invested approximately £700,000 in prevention and early warning systems to advise motorists of severe weather warnings from the Met Office and the increased risk of landslides and a new culvert. Landslide patrols operate at high risk locations when heavy rain is forecast. In February the Minister for Housing and Transport, Keith Brown MSP announced further investment worth £1 million to develop additional contingencies and mitigation work in addition to the study investigating the feasibility of longer term options on the A83 trunk road. We are also working closely with Forestry Commission Scotland to explore options for making emergency use of forest roads and using vegetation cover to help reduce the risk of landslips and this with the installation of additional protective netting is planned for constructions in the summer of 2012.

Further notable achievements:

- Work was completed, on time and on budget, on a £10 million dualling scheme on the **A9 at Crubenmore**;
- In January 2012 the new £31.5 million **A96 Fochabers to Mosstodloch Bypass** opened to traffic early and on budget;
- Draft road orders were published for £11 million improvement works on the **A82 at Pulpit Rock** to remove the temporary signals and allow two way traffic;
- The **A77 Parkend to Bennane** overtaking lane scheme opened on 6 June 2011;
- Preparation of the **Balmedie to Tipperty** project took a significant step forward with the making of the Orders;
- Work has begun on the **Highland Main Line Improvements** project with the introduction of two additional services in December 2011, which increases the number of trains from 9 to 11 per day.

Greener Transport Alternatives

The Scottish Government is committed to delivering environmental sustainability and a low carbon economy and transport. Transport Scotland plays its part in meeting these challenges towards securing sustainable economic growth and a greener Scotland. The environmental impacts of all new transport projects and of the management and maintenance of the trunk road network are considered in the context of the **Climate Change (Scotland) Act 2009** challenging target of reducing emissions by 80% (from 1990 levels) by 2050.

Transport has a major role in helping to meet Scotland's climate change targets. The **Climate Change (Scotland) Act 2009** set long-term targets to reduce emissions in Scotland by 42% by 2020 and 80% by 2050 from a 1990 base year figure of 72 $MtCO_2e$ and annual targets are set for the period 2010-2027. In March 2011 the publication *Low Carbon Scotland: Meeting the Emissions Reduction Targets 2010-2022* set out a series of proposals for reducing emissions from the transport sector. This commitment drives much of Transport Scotland's work around Sustainable Transport and Low Carbon Vehicles.

Our delivery of low carbon, active and sustainable transport aspirations involves a very wide range of activity around widening travel choices; reducing the need to travel; and decarbonising vehicles.

During the year our future ambitions for **Low and Ultra Low Carbon Vehicles** were set out in a progress report. A contract was also awarded for the purchase of two new low-carbon hybrid ferries combining diesel and electric battery power which will reduce fossil fuel consumption and carbon emissions.

Working in partnership with stakeholders we are continuing to promote cycling and support the development of cycling infrastructure, through on-the-ground delivery by Sustrans in partnership with local authorities across Scotland, to enhance both local networks and the National Cycle Network. Over 40 million trips per year are now undertaken on the National Cycle Network. We continue to work with Cycling Scotland to deliver the **Bikeability Scotland** school cycle training programme, and to increase the proportion of children receiving on-road training. Delivery of the local cyclist-awareness **'Give Me Cycle Space'** campaigns aimed at drivers continues through Cycling Scotland working with a growing number of Local Authorities and schools. The first full year report on the implementation of the Cycling Action Plan for Scotland (CAPS) will be published in summer 2012.

A second round of the **Scottish Green Bus Fund** will build on the success of the previous round. It also aims to reduce the cost of low carbon vehicles by encouraging economies of scale, making the vehicles more commercial. The fund of £1.8 million was set up to deliver a further 26 new Low Carbon Vehicles (LCVs) by March 2013. The investment will also stimulate demand for green technology in Scotland.

Transport Scotland also provides grant funding to **Carplus** to support the development of the car club network across Scotland. Ten car clubs have so far received support, with the introduction of eight new car clubs since 2010. There are now over 5,000 car club members in Scotland using over 120 car club vehicles, and work is ongoing to expand this network.

The **"Choose Another Way"** website, operated by the Energy Saving Trust (EST) for Transport Scotland, continues to provide free travel planning advice. Transport Scotland is also working in partnership with the Public Sector Climate Action Group to develop organisations' approaches to low carbon transport.

The **"Smarter Choices, Smarter Places"** demonstration programme has operated since 2008 in seven communities, in partnership with CoSLA to encourage people to adopt travel patterns that save them money, make them healthier and reduce transport emissions. This has been delivered through four main themes: branding and social marketing; travel plans and personalised travel planning; infrastructure provision and associated promotion; and public transport improvements. A final tranche of investment was provided in 2011-12 to enable the projects to build on the early impacts and lessons learned from ongoing monitoring and evaluation. This has also allowed communities to explore new delivery models for travel planning, as well as supporting them to build closer links with local businesses. A full evaluation is under way and will be completed later in 2012 to inform future policy development.

We also fund the **Energy Saving Trust (EST)** to support organisations and businesses to make the transition to low carbon transport through ‘smarter measures’ including fuel efficient driving. In 2011-12, around 3,000 drivers benefited from subsidised training. In addition, EST set up a pilot Low Carbon Transport Loan Fund funded by Transport Scotland. This offers interest-free funding for workplace travel plan measures such as cycle storage and video-conferencing technology to enable cost-savings on international travel. In 2011-12, 18 loans were provided to applicants totalling £360,000 and 2012-13 will see continuation of the loan fund.

Electric Vehicles (EVs) are a central part of the Scottish Government's commitment to decarbonisation of road transport by 2050. In 2011-12, the Scottish Government invested over £4 million in electric vehicles and infrastructure for the public sector in Scotland in addition to £4 million in 2010-11. This has led to Scotland’s public services buying 270 low carbon vehicles, including cars, vans and street sweepers, and installation of 315 charging points, with a further 170 to be installed in 2012-13, in homes, workplaces and in publicly accessible locations.

In March 2012 we launched the **E-cosse partnership** which brings together Transport Scotland with car manufacturers, power companies, local authorities and WWF Scotland to advance wholesale adoption of EVs.

Further notable achievements:

- We published a **Carbon Toolkit** under the Freight Best Practice programme. This provides links to programmes and advice available to help freight operators save fuel and reduce emissions;
- Two **Freight Facilities Grants** totalling £0.4 million were awarded to JST (Floating Piers) Limited and Ferguson Transport Limited which will remove 230,000 lorry miles from Scotland's roads.

Improved Safety, More Innovation

Transport Scotland’s roll-out of **smart enabled ticket machines** to the entire Scottish bus fleet has enabled the capture and transmission of key information on each individual concessionary travel journey. Consequently, before making payments to operators for concessionary journeys, we are now able to apply enhanced validation and analytical techniques to reimbursement claims. In addition to the significant financial savings resulting from this increased scrutiny, the outputs are used to inform the robust application of our fraud strategy. We also now have powers to report suspicions of fraud directly to the Crown Office and in 2011-12 we were successful in obtaining three convictions due to the wrongful recording of concessionary journeys, with several other cases still progressing through the court system. Recent publicity on our proactive and sophisticated anti-fraud measures will act as a further deterrent, as well as raising further public awareness and vigilance.

In April 2011, following a comprehensive procurement process, Transport Scotland selected specialist ticketing systems provider Applied Card Technologies Limited (ACT) to implement its next generation **'ITSO HOPS' ticketing transaction service**. The new system will deliver greater stability, a more secure environment, enhanced performance and fraud prevention measures, together with innovative ticketing features to support Transport Scotland's progressive strategy.

In December 2011 we concluded a **review of speed limits** on trunk roads. The review centres around a desire to improve driver behaviour and the main aim was to ensure that speed limits are consistent, understood by drivers and appropriate for their environment and circumstances for their use. The evidence takes into consideration a number of factors appropriate to the character and function of the road and the review was undertaken by our operating companies and completed in December 2011. The outcomes of this review are currently being considered and we expect to publish them on our website later this year.

We published the report of our **National Debate on the safety of young drivers** containing 17 recommendations over a range of issues. The report highlighted a lack of evidence of what works in young driver interventions. Many of the recommendations therefore call for further evaluation and pilots of initiatives such as post test training and graduated licensing schemes.

Reported **road casualty statistics** for 2010 showed that Scotland again has the lowest road casualty figures since records began, with a continuing downward trend over the past decade, including:

- fatal accidents down by 36%, from 297 to 189;
- fatal and serious accidents down by 43%, from 3,304 to 1,897;
- accidents (all severities) down 32%, from 15,131 to 10,293.

We supported the **UN Decade of Action for Road Safety** by holding an event in central Edinburgh under the Junior Road Safety Officer (JRSO) All Together for Road Safety banner which won a Prince Michael of Kent International Road Safety award in December 2011. A poster competition used the 10 winning posters from primary schools across Scotland to promote the decade of action in Scotland over the coming years. Distribution of the **Early Years resource** via Education Scotland has been progressed considerably and the website, www.gosafewithziggy.com launched in September is showing an encouraging number of visits to the site. A competition on the website "Go Safe In Space" was also developed around "Ziggy".

Two integrated social marketing campaigns were undertaken this year: the **drink-driving campaign** saw the extension of the vehicle forfeiture scheme and, the **rural roads campaign** featured in cinema, TV and radio adverts and on digital platforms with the core message advising drivers, "If you don't have time to read the road, you don't have time to react".

Since the **Erskine Bridge** crossing the River Clyde between Erskine and Old Kilpatrick opened in 1971, there have been several incidents of people climbing the parapets and jumping. Following a number of such incidents in 1983-84, a series of flat vertical fine mesh panels were erected in front of the parapet rails. However the fence height was found to be insufficient to discourage people and the panels were raised in height in 1994-95. Following an increase in incidents since 2009, Transport Scotland decided to investigate extension to the existing parapets. Following successful trials and testing, the decision was taken to replace the existing parapets with higher galvanised steel ones. Work is now complete to install new 2.4m high, curved pedestrian parapets on the east and west sides.

Further notable achievements:

- We developed **Winter Planning Guidelines** under the Freight Best Practice programme for HGVs, in collaboration with industry. These were sent to all HGV operators in Scotland.
- The information on lorry parking in the **Freight Scotland website** was added to the Traffic Scotland mobile service.

<u>Continuously improving performance and organisation</u>

Transport Scotland aims to continuously improve its performance as an organisation. We continue to work with our partners and stakeholders to develop and implement Scotland's transport priorities. We work within Scottish Government drawing from its Business Strategy imperatives. We seek to develop our expertise, creativity and leadership to earn respect for our professional judgement and advice, and in delivering our objectives.

Transport Scotland carried out a wide ranging **consultation into rail passenger services**, the results of which will inform decisions on the next ScotRail franchise and future funding arrangements for Network Rail. The Rail 2014 consultation ran from November 2011 through to February 2012 and involved meetings and events across the country. It generated considerable interest and over 1,200 responses were received.

A **Draft Ferries Plan** for consultation was issued on 21 December 2011. The closing date was 30 March 2012 and over 2,000 responses were received. A final Ferries Plan will be published later this year and will set out the strategic way forward for all of Scotland's ferry services.

A **Road Equivalent Tariff (RET) pilot** which ran in the Western Isles, Coll and Tiree from October 2008 ended this spring. Ministers announced on 29 November 2011 that they would roll out RET to other routes across the network.

We undertook necessary preparatory work to enable British Waterways Scotland to operate on a self-standing basis, as **Scottish Canals**, after the UK Government transfer of the assets and functions of British Waterways in England and Wales to the new waterways charity The Canals and Rivers Trust. This involved close co-operation with British Waterways and with the Department for Environment, Food and Rural Affairs.

The **Road Expo event** at The Royal Highland Centre, Ingliston, in November 2011 included a free Transport Scotland / SCOTS conference on achieving value for money, working with greater efficiency and operating in new and innovative ways. The conference featured sessions on Bridges, The National Road Maintenance Review, Resilience and Risk Management & Safety.

The main driver for changes to the **Bus Service Operators Grant** was to replace fuel factors specific to each operator with a standard factor for the whole of Scotland. This aims to prevent additional grant in respect of increased fuel usage and deliver a reasonable and moderate change to the grant to improve outputs. It will use the same method of calculation for all operators in Scotland, incorporating incentives to use fuel more efficiently, complemented by Scottish Green Bus Fund and incentives for running low carbon vehicles, both of which favour urban areas where air pollution due to fuel use is more of a problem. A continuing use of mileage as a basis for payment supports bus routes and the bus network and encourages increased service frequency in urban areas and a redistribution of 10% to longer routes, generally in rural areas is also reflected.

Amendments to the Public Service Vehicles (Registration of Local Services) (Scotland) Regulations 2001 and the Bus Service Operators Grant (Scotland) Regulations 2002 are due to come into force from 1 April 2012. These will allow fully flexible services that are available to the general public to be registered as local bus services. These services will also be able to claim Bus Services Operator Grant (BSOG) and Concessionary Travel payments from this date. We have also set up a **Bus Stakeholder Group** as a consultative body to take forward bus policy development and implementation, with representatives from across the sector including regulators, operators, transport authorities, community transport and bus users. The Group’s first meeting was chaired by the Minister for Housing & Transport, Keith Brown MSP, on 3 April 2012.

In 2014 both the current ScotRail franchise and the funding arrangements for Network Rail are to be renewed. Following the publication of the McNulty Rail Value for Money Study in May 2011 the Office of the Rail Regulator launched their Periodic Review programme which will help determine the outputs that Network Rail delivers in Scotland over the period 2014 to 2019 and the level of funding required to support these. As part of this process the rail industry published its Initial Industry Plan (IIP) for Scotland in September 2011. The Scottish Ministers published their **High Level Output Specification (HLOS)** for Network Rail in June 2012.

Transport Scotland worked with four local authorities this year - East Renfrewshire, South Ayrshire, East Ayrshire and Fife Councils - to enable **Decriminalised Parking Enforcement** in their areas to enable them to administer their own parking penalty schemes and retain penalties collected to finance those schemes and fund general traffic management and public transport within their areas. The other significant difference with a decriminalised scheme is that parking rules are enforced by parking attendants employed either directly by, or under contract to, the local authority rather than by traffic wardens employed by the police.

Two sets of secondary legislation were laid in Parliament which made some changes to the eligibility criteria for a **Blue Badge** scheme and moved from medical assessment by a GP to independent mobility assessments which focus on the ability to walk rather than the specific medical condition. The legislation also brings into the eligibility criteria disabled personnel and war veterans and makes it more difficult to use a blue badge fraudulently by changing the design of the badge. It also allows local authorities to withdraw badges following a single conviction in relation to misuse and a new national electronic system has been introduced for processing online applications. This Blue Badge Improvement Service (BBIS) is currently shortlisted for a national award for projects that have used an innovative model or financial structure. We have also produced a “Code of Practice” for local authorities on the Blue Badge scheme, a “Can I get a Blue Badge?” leaflet for potential applicants and a “Rights and Responsibilities of a Blue Badge holder” leaflet. We have also created the new “Blue Badge Scotland” public facing website for Blue Badge holders, applicants and potential users and detailed “Travel information for people with mobility difficulties” in the accessible travel section of the Transport Scotland website.

Transport Scotland has **worked together** with First ScotRail and Network Rail to ensure they are better equipped to keep rail disruption to a minimum during severe weather and improve the communication to staff and customers. This has been secured through a substantial package of investment in excess of £2.2 million.

Following extensive testing ScotRail went live on 27 March 2012 with on-line retail of its **Edinburgh – Glasgow Smartcard** ticket. Smartcard customers now have the facility to purchase their weekly, monthly, periodic or annual, ticket on-line on ScotRail’s website. If booked before 6pm the night before travel customers are able to collect their ticket the next morning at a ticket gate, ticket vending machine or platform validator on the route. Previously, Smartcard customers could only purchase their tickets at ticket vending machines.

The new steps and escalators at Edinburgh’s **Waverley Station** were opened to the public on Monday 30 January 2012, improving access at the station for passengers with mobility impairments, prams and luggage. The refurbished steps provide a much cleaner, safer and modern environment for Scotland’s capital city’s main station. The Scottish Government has spent £7 million to date on phase one of the accessibility improvements which are expected to cost up to £16 million in total.

BUSINESS PLAN 2011-12 KEY ACHIEVEMENTS

Our Business Plan for the year to 31 March 2012 committed Transport Scotland to delivering a number of key achievements as follows:

Improved connections across Scotland and Internationally	
Design and develop a replacement Forth Crossing	Achieved
Work with colleagues in Scottish Government and with Local Authority partners to improve the integration of transport and land use planning	Achieved
Following completion of the Strategic Transport Projects Review and its Strategic Environmental Assessment, develop a future programme of investment in key transport projects, road, rail and other public transport across Scotland to be delivered 2012-2022	Achieved
Sponsor Network Rail's delivery of the Paisley Corridor Improvements works	Achieved
Deliver a new, electrified railway between Edinburgh and Glasgow linking Bathgate and Airdrie and allowing for direct rail services to run from Lanarkshire to Edinburgh and West Lothian to Glasgow	Achieved
Deliver a new interchange between the rail and tram networks providing connections to Edinburgh Airport and the West Edinburgh Development Area	Due to delays in the Edinburgh tram project this has not yet been delivered
Support the delivery of the Edinburgh Tram Project	Achieved
On the A90 continue to progress the Aberdeen Western Peripheral Route and the dual carriageway from Balmedie to Tipperty	Construction has been delayed to both schemes due to the legal challenges that were submitted against the AWPR.
Continue construction of the railway to the Borders	Achieved
Enhance rail and road connections in the Highlands including key connections to Inverness and planning for the dualling of the A9 between Perth and Inverness	Achieved
Continue to develop and improve railway stations	Achieved
Complete the statutory procedures on a range of schemes and prepare them for implementation	Achieved
Progress the M8 Baillieston to Newhouse, M8 Associated Networks Improvements and M74 Raith Interchange	Achieved

Better journey times, better reliability	
Invest in the maintenance and improvement of the trunk road network, targeting improvements to reduce congestion and investing in new technology to improve journey reliability	Achieved
Complete construction of the Motorway Network	Achieved
Work with Network Rail and First ScotRail to reduce rail journey times and improve train service frequencies	Achieved
Take forward the Edinburgh-Glasgow Improvements Programme to enhance the rail network in the Central Belt	Achieved
Extend and enhance the systems underpinning Traffic Scotland and Traveline Scotland to improve the delivery of travel information and trunk road traffic control	Achieved
Take forward "smarter" integrated ticketing	Achieved

Greener transport alternatives reduced emissions	
Provide more sustainable public transport alternatives to the private car and maximise the use of the national concessionary travel schemes	Ongoing
Increase electrification of the rail network	Achieved
Improve rail journey times between our main cities	Achieved
Encourage the move of freight from roads and work in partnership to increase the efficiency and sustainability of freight movements through the supply chain	Achieved
Enhance the efficiency, effectiveness and environmental performance of rolling stock	Achieved
Lead the way in reducing emissions and adapting to climate change	Achieved

Increased safety, more innovation	
Continue to improve the safety of Scotland's road network by addressing road policy issues and delivery of the Strategic Road Safety Plan	Achieved
Introduce and develop innovative ways of improving the transport networks, for example overtaking lanes and flyover junctions	Achieved
Provide a range of safety enhancements on the A9 and on the A75 and A77 routes serving the key ferry terminals to Ireland	Achieved
Enable customers to use the latest smart technology in order to travel as seamlessly as possible by fitting all 6,100 buses in Scotland with new ticket machines	Achieved

Strive for excellence in everything we do	
Work closely with partners including all Scottish Local Authorities and Regional Transport Partnerships to deliver integrated transport solutions which support the local and national outcomes as set out in Single Outcome Agreements	Achieved
Work with UK Government and wider rail industry bodies to ensure efficient and affordable outcomes for Scotland for both devolved and reserved issues, including accessibility, European and safety policy	Achieved
Work with key stakeholders to deliver a Review of Roads Maintenance in Scotland that will focus on doing more with less to deliver efficiently managed roads for all	Achieved
Manage delivery of the National Transport Strategy	Achieved
Manage and monitor the delivery of transport services through appropriate contractual mechanism	Achieved
Ensure effective and appropriate sponsorship of British Waterways in Scotland	Achieved
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
Improve transport capacity and resilience	Achieved
Improve business processes	Achieved
Ensure that equalities and cultural issues underpin all of Transport Scotland's activities	Achieved
Develop and deliver a programme of Transport statistics collection, analysis and publication.	Achieved
Develop, manage and deliver the 2011-2014 Transport Social and Economic Research Programme.	Achieved
Deliver an evidence base to inform the development of effective Scottish transport policy.	Achieved
Deliver efficiency savings in line with Efficient Government targets	Achieved

Management Commentary

Financial Statements

The financial statements cover the period from 1 April 2011 to 31 March 2012. They have been prepared in accordance with the Accounts Direction given by the Scottish Ministers in pursuance of the Public Finance and Accountability (Scotland) Act 2000, and in accordance with The HM Treasury 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.

The Accountable Officer authorised these financial statements for issue on 9 August 2012.

Transport Scotland's Annual Review and Accounts are published on the agency website 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**
  The road network is valued on the basis of current replacement cost, adjusted to reflect the current condition of the road component and the depreciation of structures and communications assets. 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 (WS Atkins) and uses a series of standard costs to value the individual components of the network asset and indices to revalue these 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 required to be made relating to the estimated cost of land acquisition and compensation claims that are based on a variety of data sources and experience.

- **Private Public Partnerships (PPP) – the balance of control**
  Transport Scotland has three Private Public Partnerships (PPP) agreements (M77, M74/M6 and the M80 Stepps to Haggs) for the provision of the related road infrastructure and its ongoing maintenance. These contracts are for fixed terms, typically thirty years. The overall control of the related assets has been judged to lie with Transport Scotland, so these are accounted for on Transport Scotland's Statement of Financial Position (SFP) to reflect this, according to the relevant IFRS Accounting guidance (IFRIC 12).

Rail infrastructure in Scotland

Transport Scotland has responsibility for specifying and funding rail infrastructure in Scotland. First ScotRail has been operating rail services under the Franchise Agreement since August 2004 and has been exceeding contract performance benchmarks. In April 2008, Scottish Ministers activated a provision under the terms of the original agreement to extend the First Scotrail Franchise by 3 years. In extending the contract to 2014, Scottish Government is providing continuity for the ongoing delivery and improvement of rail services in Scotland.

In October 2008 the Office of the Rail Regulator (ORR) published its final determination for the control period 1 April 2009 to 31 March 2014. This sets out what Network Rail will need to deliver and the funding that it will receive for doing this.

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 assets in question are accounted for on Network Rail's balance sheet/Statement of Financial Position.

Edinburgh Trams

Transport Scotland has paid grant to the City of Edinburgh Council as agreed in respect of work done on the Edinburgh Trams project in accordance with the grant agreement. To the end of 2011-12, Transport Scotland has paid £450 million of the agreed funding. Going forward, Transport Scotland will provide expertise to the City of Edinburgh Council (who will retain contractual responsibility for the project) to assist them to bring the project to a satisfactory conclusion.

Funding

Resources to fund Transport Scotland's day-to-day costs and capital investment programme were allocated in accordance with the Scottish Government Spending Plans and Draft Budget 2011-12 which authorised both the Scottish Government's and Transport Scotland's spending plans for the financial year 2011-12.

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

Rail major projects may also be funded by borrowing through Network Rail. This is a recognised method for funding rail projects and it will play an increasing part in the rail programme for Transport Scotland during the contractual period ending in 2014.

Financial performance and use of resources

Transport Scotland was allocated resources by the Scottish Ministers, within the Spending Review 2010, of £2,091 million for 2011-12. Of this, £1,768 million was funded from the Scottish Government Departmental Expenditure Limit (DEL); (£7 million) represents Annually Managed Expenditure (AME) in respect of provisions released relating to land compensation and damage claims in respect of the road network; with the remaining £330 million representing funding for expenditure charged outwith DEL in respect of PFI/PPP projects.

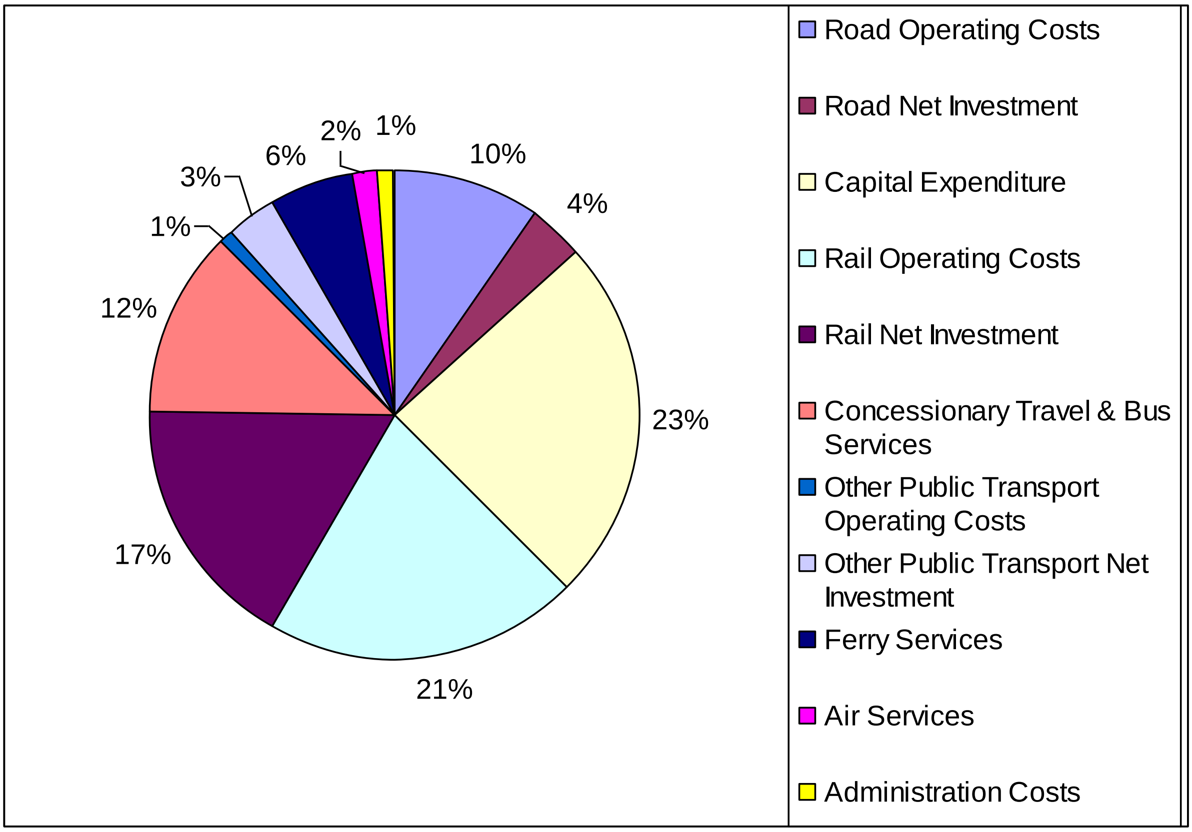
The final outturn for the year against the individual budget areas is shown below. These budgets formed part of the overall budget of the Scottish Government Infrastructure and Capital Investment portfolio. The outturn against DEL represents a variance of 2%. The overall underspend of £35.681 million represents approximately 2% of the overall budget.

Transport Scotland 2011-12	***Actual £million***	***Budget £million***	***Variance £million***
Resource - Operating Costs	*935.293*	*915.168*	*20.125*
Resource – Investment	*506.585*	*475.300*	*31.285*
Non-Cash	*63.320*	*80.600*	*(17.280)*
Capital	*224.608*	*296.700*	*(72.092)*
DEL total	***1,729.806***	***1,767.768***	***(37.962)***
AME	*(4.993)*	*(6.850)*	*1.857*
Expenditure on PFI schemes (ODEL)	*330.343*	*329.919*	*0.424*
Total	***2,055.156***	***2,090.837***	***(35.681)***

Spending is categorised as either capital or resource with separate budgetary cover for each. Resource is further sub-divided into investment in infrastructure (which although it may be capital in nature cannot be accounted for as such within Transport Scotland's accounts) and resource for consumption (operating costs).

Transport Scotland has a significant 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 2011-12, 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. Only 1% of the budget is utilised on the ongoing Agency running costs.

The total asset value of Transport Scotland is £20 billion, almost all of which relates to the trunk road network asset. Additions to the value of the asset in year reflect the completion of the M74, M80, Crubenmore (A9), Parkend (A77) and Fochabers (A96) schemes and the transfer in from Local Authorities in respect of the approach roads to the Forth Road Bridge.

Future Spending Plans

The *Scottish Budget Spending Review 2012-13 to 2014-15* (SR 2011), provides detail of how our spending plans over the next three years will help deliver sustainable economic growth. Transport spending lies within the Government's Infrastructure and Capital Investment portfolio. After the announcement of the Spending Review, the Westminster government set out movements in UK spending that generated Barnett consequentials for Scotland. As a result, Transport Scotland received additional capital allocations totalling around £85m across the three spending review years, principally for roads projects such as A75 Dunragit Bypass, A77 Symington to Bogend Toll and A737 Dalry Bypass, but also including £13m for Sustainable and Active travel. The additional budget for the year 2012-13 was £5.2m. These additions are included in the table below for the coming financial year.

	2012/13* £million
Resource – Operating Costs	*948.2*
Resource – Investment	*440.63*
Non-Cash	*89.0*
Capital	*340.4*
Total	***1818.2***
ODEL	*74.5*
Total	***1892.7***

Source- SR2011

Financial Instruments

In relation to financial instruments, an indication of the financial risk management objectives and policies and exposure to price, credit, liquidity and cash flow risks is provided in note 18 to the accounts. This information is not considered material for Transport Scotland.

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 and also in line with the Scottish Government 10 day payment policy. In 2011-12 Transport Scotland settled an average of 88% of invoices within this timescale.

The aggregate amount owed to trade creditors at the year end as a proportion of the aggregate amount invoiced by suppliers during the year, represented 1.8 days in proportion to the total number of days in 2011-12 and 2.1 days in proportion to the total number of days in 2010-11.

Employment of Disabled Persons

Transport Scotland follows Civil Service good practice guidance on the employment of disabled people and is a Job Centre Plus Disability Symbol user. As such, Transport Scotland ensures that there is no discrimination on the grounds of disability and that access to employment and career advancement is based solely on merit, competence and suitability for the work.

The average number of disabled employees employed by Transport Scotland over the year to 31 March 2012 was 15 (2010-11: 15).

Staff Relations and Equal Opportunities

Transport Scotland is an equal opportunities employer. Policies are in place to guard against discrimination and to ensure that there is no unfair or illegal discriminatory treatment or any barriers to employment or advancement in Transport Scotland.

Transport Scotland gives a high priority to the development of all its staff. Training, development and learning in Transport Scotland is quality assured through its commitment to the Investor in People (IiP) Scheme as part of the Scottish Government. The latest review of The Scottish Government IiP status was in June 2010. Transport Scotland is committed to a programme of continuous improvement in relation to the Scottish Government implementation of the IiP standard.
The Department for Work and Pensions is responsible for developing, formulating and promulgating equal opportunities guidance for the Civil Service as a whole, but operational responsibility rests with individual Departments. Transport Scotland has access to the Scottish Government Equal Opportunities Officer who is responsible for developing and promulgating equal opportunities and diversity policies.

Transport Scotland recognises that the success of any organisation depends largely on the effective performance and full attendance of all its employees. People are a valued resource, as well as an expensive one. Therefore, as an employer Transport Scotland's Attendance Management procedures are designed to maintain a happy, well-motivated and healthy workforce. The procedures are aimed to:

- be supportive and positive;
- promote fair and consistent treatment for everyone;
- encourage, assist and make it easy for people to return to and stay in work; and
- explain employees' entitlements and the roles and responsibilities of HR.

In 2011-12 an average of 5.6 working days (2010-11: 5.8) were lost due to sickness absence per staff year for Transport Scotland.

Transport Scotland Equal Opportunities policy is that all staff should be treated equally irrespective of their sex, marital/civil partnership status, age, race, ethnic origin, sexual orientation, disability or religion or belief, work pattern, employment status, gender identity (transgender), caring responsibility or trade union membership. Employment and promotion are solely on merit. Staff who work full time and those who work an alternative pattern are assessed on exactly the same basis.

Transport Scotland follows the Scottish Government Diversity Delivery Plan, published in 2008, which supports the wider Civil Service Diversity Strategy drive to mainstream equality and diversity. This is further supported by our Fairness at Work Policy. This includes changing behaviours and culture to create a fully inclusive Civil Service, confident in its diversity; promoting strong leadership and clear accountability for delivering diversity; attracting, keeping and developing talent from all areas of society; and becoming representative of the society we serve, at all levels.

Employees and Social and Community Issues
Transport Scotland staff use the Scottish Government 'Skills for Success' framework which is a skills based approach to learning, development and career planning. All of which is designed to help staff manage their skills and career across the wider organisation.

We have embarked on a programme of education engagement, where staff use their skills and experience of work to help young people in the surrounding area prepare for employment.

In procuring major contracts, Transport Scotland is at the forefront of delivering community benefits beyond those of the normal contract requirements. An example of this is the benefits to the community being delivered through the Forth Replacement Crossing project. The main contract will provide an average of 112 employment opportunities each year over the six year duration of the contract. This is broken down into 45 vocational training positions, 21 professional body training places and 46 positions for the long term unemployed. The contract also provides scope to maximise the number of Modern Apprenticeship opportunities.

Environmental Matters
Transport makes a key contribution to Scotland's well being: economically, environmentally and socially. An efficient transport system is essential for enhancing productivity and delivering faster, more sustainable growth in a low carbon economy. Ongoing investment in networks connects regions and individuals to economic opportunities, creating a more cohesive Scotland with increased social equity.

Transport Scotland invests almost all of its allocated resources in maintaining and improving Scotland's strategic transport networks, supporting over 25% of civil engineering contracts in Scotland. Investment across road and rail, and in operation, maintenance and specific infrastructure construction supports around 11,000 jobs. Transport Scotland is also seeking to embed sustainability in every aspect of construction works and is committed to recycling materials and works with contractors to identify opportunities to minimise materials imported/exported from construction sites. Transport Scotland plans and performance in terms of sustainability throughout the year are included in the Annual Report section.

Concessionary Travel Scheme
Within the 2011-12 Concessionary Travel budget of £185 million, the statutory budget limit for the Scotland Wide Free Bus Concessionary Travel Scheme for Older and

Disabled People, as negotiated with the Confederation of Passenger Transport, was set at £180 million. As bus operator claims within the free scheme in 2011-12 totalled approximately £190 million, bus operator payments for the final 2011-12 claim period were capped by approximately £10 million pro rata over all operators.

Directors and Non Executive / External Members Interests

Directors and Non Executive / External 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 2011-12 assurance letters on internal control, which all directors in post as at 31 March 2012 completed, also confirmed that no conflict of interest arose in the exercise of their duties.

Appointed Auditors

The accounts for 2011-12 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 £188,000 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 acts 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.

Future Developments

In 2008 Transport Scotland undertook a Strategic Transport Projects Review to set out investment priorities for the next 20 years. This is targeted at facilitating better movement of people and goods to increase wealth and enable more people to share fairly in that wealth. It identified 4 priority projects: The Forth Replacement Crossing, the Edinburgh to Glasgow Rail Improvements Programme, Highland Main Line and Aberdeen to Inverness Rail Line improvement and 25 other smaller projects. In addition Transport Scotland will continue to progress with the Borders Railway and the M8 Improvement projects. Transport Scotland will also procure replacement aircraft for the provision of air services to Barra. Scottish Ministers have also committed to the Aberdeen Western Peripheral Road, pending resolution of the current legal challenge. In addition Ministers have announced their intention to complete the dualling of the A9 to Inverness and the A96 between Inverness and Aberdeen.

Forth Replacement Crossing (FRC)

Transport Scotland made an advance payment of £50 million to the FRC contractor in respect of mobilisation and design work required in the early stages of the contract. This is covered by an advance payment bond and the value will reduce when Transport Scotland has paid 50% of the contract price to the contractor in respect of the value of work completed pursuant to the contract. This is expected to happen in April 2014.

Risks and Uncertainties

The principal risks and uncertainties facing Transport Scotland relate to the major contracts that it has entered into in relation to the provision of rail, ferry, bus and air services, the maintenance of the road, rail and the Highlands and Islands air networks and the procurement of major infrastructure such as the Forth Replacement Crossing. The inherent risks relate to performance by contractors which can also be affected by outside factors such as adverse weather. Transport Scotland has focussed its efforts in particular on improving winter resilience on the trunk road network. Transport Scotland manages the related financial risks on these contracts by providing financial support, including monthly reporting to budget holders, directors and the Scottish Government.

Personal data related incidents

There were no personal data related incidents in the year within Transport Scotland.

Significant events since the end of the financial year

During the period from April to July 2012 Transport Scotland, on behalf of Scottish Ministers, awarded the contract for the provision of ferry services to the Northern Isles from July 2012 to Serco Limited. The contract replaces the service previously provided by Northlink Limited over the following six years with a total subsidy amounting to £234 million.

David Middleton
Chief Executive
9 August 2012

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 Senior Salaries Review Body (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/Senior_Salaries_Review_Body

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commission's Recruitment Principles, which requires appointment to be made on merit 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 of leave 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

From 3 August 2009 to 31 March 2011, Sharon Fairweather was seconded from Deloitte to fill the position of Director of Finance. Following an open competition, she was appointed to the post on a permanent basis from 1 April 2011.

Transport Scotland covers all of the Scottish Government's transport responsibilities for all aspects of transport policy and delivery covering road, rail, bus, maritime, canal and air services and infrastructure. All Transport Scotland executive directors are included within this report.

Following the decision in 2010 not to retain the previous Board structure Transport Scotland no longer has non executive directors. However external members were appointed to the Audit and Risk Committee at the end of 2010 (Alex Smith and Dorothy Fenwick) and a further external member (Alan Thompson) was appointed towards the end of 2011 to ensure the organisation continued to benefit from independent oversight and challenge.

Remuneration Group

Remuneration for Transport Scotland's senior civil servants is considered by 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 consider the Public Sector Pay policies which will apply for the annual pay round and make recommendations to Ministers; and
- pay remits which look at pay proposals for public bodies in Scotland.

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

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

Salary

Salary and allowances covers both pensionable and non-pensionable amounts and includes: gross salaries; overtime; recruitment and retention allowances; private-office allowances or other allowances to the extent that they are subject to UK tax. It does not include employers' pension contributions or amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties or employers' national insurance.

Where a director has joined or left Transport Scotland during the year, their salary reflects only that which they received whilst a member of the senior management team. Where an individual has been a member of the senior management team 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.

Bonuses
Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to performance in the previous year, therefore, bonuses paid in 2011-12 are based on 2010-11 performance and bonuses paid in 2010-11 are based on 2009-10 performance. No bonuses were paid in 2011-12.

Fees
External members of the Audit and Risk Committee were entitled to receive fees for regular attendance at Audit and Risk Committee meetings. External members expenses incurred in attending these meetings are also reimbursed.

The fees which the external members of the Audit and Risk Committee are entitled to for 2011-12 are as follows:

Alex Smith	£232 daily rate
Dorothy Fenwick	£232 daily rate
Alan Thompson	£232 daily rate

This is in line with core Scottish Government remuneration of external members

Executive Director Salary Information
The salary and the value of any taxable benefits in kind of the executive directors for the year 2011-12 along with comparative figures are shown in the table overleaf.

It should however, also be noted that, in accordance with the FReM, reporting bodies are now required to disclose the relationship between the remuneration of the highest paid director in the organisation and the median remuneration of the organisations workforce. This information is shown at the bottom of the table.

The banded remuneration of the highest paid director in Transport Scotland, in the financial year 2011-12 was £100k-£105k (2010-11 £100-105k). This was 3.0 times (2010-11 3.3 times) the median remuneration of the workforce, which was £34,230 (2010-11 £31,136). Total remuneration includes salary, non-consolidated performance related pay and benefits in kind. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The remuneration of the highest paid director within Transport Scotland has not changed from the previous year. The ratio has however decreased and this is a result of an increase in the median remuneration of the workforce in year as a consequence of salary increments in year.

	2011-12	2011-12	2011-12	2010/11	2010/11	2010/11
	Salary	**Benefits in Kind (To nearest £100)**	**Bonus Payment £000**	**Salary**	**Benefits in Kind (To nearest £100)**	**Bonus Payment £000**
	Bands of £5,000	**£**		**Bands of £5,000**	**£**	
Chief Executive						
David Middleton	100 - 105	Nil	Nil	100 - 105	Nil	Nil
Directors						
Jim Barton (1)	Nil	Nil	Nil	65 -70	Nil	0 - 5
Roy Brannen (2)	65 - 70	Nil	Nil	Nil	Nil	Nil
Frances Duffy (3)	55 - 60	Nil	Nil	65 -70	Nil	Nil
Ainslie McLaughlin	70 - 75	Nil	Nil	70 - 75	Nil	0 – 5
Aidan Grisewood (4)	5- 10	Nil	Nil	Nil	Nil	Nil
Richard Scott (5)	15 - 20	Nil	Nil	65 - 70	Nil	Nil
Bill Reeve (6)	Nil	Nil	Nil	65 - 70	Nil	0 - 5
Sharon Fairweather (7)	80 - 85	Nil	Nil	Nil	Nil	Nil
Alastair Wilson	65 – 70	Nil	Nil	65 - 70	Nil	0 - 5
Donald Carmichael	65 - 70	Nil	Nil	65- 70	Nil	Nil
	YEAR 2011-12			**YEAR 2010-11**		
Highest Paid Director's Total Remuneration	100 - 105			100 - 105		
Median Total (£)	34,230			31,136		
Ratio	3.0			3.3		

(1) Jim Barton left Transport Scotland on 31 March 2011 under Approved Early Retirement terms.

(2) Roy Brannen took up post on 1 April 2011. The figure quoted covers the period from 1 April 2011 until 31 March 2012.

(3) Frances Duffy left Transport Scotland on 27 January 2012. The figure quoted is for the period 1 April 2011 until 27 January 2012. The full year equivalent banding is £70k-£75k.

(4) Aidan Grisewood joined Transport Scotland on 27 February 2012 and the figure quoted is for the period 27 February 2012 until 31 March 2012. The full year equivalent banding is £65-£70k,

(5) Richard Scott left Transport Scotland in 30 June 2011. The figure quoted covers the period 1 April 2011 until 30 June 2012.

(6) Bill Reeve served as an executive member of the Board until November 2010. The figure quoted for the year 2010-11 relates to the period 1 April 2010 until 30 November 2010. The full year equivalent banding for that year was £120-£125k

(7) Sharon Fairweather joined Transport Scotland as Finance Director on a full time basis on 1 April 2011. In 2010-11 she was on secondment from Deloitte. The cost paid to Deloitte excluding irrecoverable VAT for the period 1 April 2010 to 31 March 2011 was £150,000.

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 2011. 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 payment is 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 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 increase that is funded by the employer. It does not include the increase in accrued pension due to inflation, or contributions paid by employees (including the value if any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Transport Scotland's contributions to the scheme in respect of the Senior Management Team amounted to £131,789 for the year to 31 March 2012. The external members of the Audit and Risk Committee do not participate in the Civil Service pension scheme.

Further details on the different schemes available to employees can be found in note 3 to the accounts.

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 2012	Real Increase in Lump Sum at age 60	Accrued Pension at age 60 as at 31 March 2012	Real Increase in Pension at age 60	CETV as at 31 March 2012	CETV as at 31 March 2011	Real Increase in CETV in 2011-12
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
David Middleton	135 - 140	0	45 - 50	0	915	861	0
Roy Brannen	50 - 55	2.5 - 5.0	15 - 20	0 - 2.5	271	230	21
Frances Duffy	70 - 75	0	20 - 25	0	461	434	0
Alastair Wilson	40 - 45	0	20 - 25	0 - 2.5	387	349	7
Donald Carmichael	65 - 70	0	20 - 25	0	448	420	0
Ainslie McLaughlin	85 - 90	0	25 - 30	0	601	566	0
Aidan Grisewood	15 - 20	0	10 - 15	0 - 2.5	147	141	0.5
Sharon Fairweather	0	0	0 - 5	0 - 2.5	14	0	11
Richard Scott	25 - 30	0 - 2.5	5 - 10	0 - 2.5	202	197	2

Calculated on age 60 where pension entitlement due at that age or current age if over 60
***The actuarial factors used to calculate CETVs were changed in 2010-11. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors for consistency.**

The above pension data was supplied to Transport Scotland by the Department of Work & Pensions (DWP) for all of the directors.

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

David Middleton
Chief Executive
9 August 2012

Governance Statement

Governance Framework

Transport Scotland was created in 2006 as an Agency of the Scottish Government, accountable to Parliament and the public through the Scottish Ministers.

Its role is to oversee the operation and improvement of the trunk road, ferry, inland waterway and railway networks in Scotland; the air passenger facilities and routes in the Highlands and Islands; the national concessionary travel schemes and for the provision of travel information services. It also supports Ministers in prioritising future transport policy and investments and promoting sustainable transport and road safety.

The Chief Executive is the Accountable Officer for the Agency. This role is supported by a senior management team of six Directors and an Audit and Risk Committee chaired by one Scottish Government non executive member and including two further external members.

The Audit and Risk Committee meets on a quarterly basis. In addition, the Senior Management Team within the Agency, comprising of the Chief Executive and all six executive directors, meet on a weekly basis to discuss and take forward operational and financial issues. The Chief Executive, as Accountable Officer, has responsibility for maintaining a robust 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 he is responsible. This is in accordance with the Scottish Public Finance Manual (SPFM) issued by Scottish Ministers to provide guidance on the handling of public funds.

Principles of Corporate Governance in Transport Scotland

Corporate governance is the system by which organisations are directed and controlled and is concerned with the structures and processes for decision-making and accountability. Transport Scotland, in line with all public bodies, must have at their head, a group which is responsible for:

- giving leadership and strategic direction;
- defining control mechanisms to safeguard public resources;
- supervising the overall management of the body's activities; and
- reporting on stewardship and performance.

Within Transport Scotland, that group is the Senior Management Team who adhere closely to robust principles of Corporate Governance, namely:

> Performance Review
>
> All members of the Senior Management Team are subject to an annual objective setting exercise and year end performance appraisal, which are both formally recorded. The arrangements for governance and the prevention and detection of fraud are also assessed on an annual basis by Audit Scotland.

Accountability
The Transport Scotland Senior Management Team ensures that the principles of best practice contained with the Scottish Public Finance Manual are closely adhered to in all areas and also ensures that appropriate arrangements are in place to ensure that the public funds they are responsible for are properly safeguarded and used economically, efficiently and effectively.

Delegated Authority
The Chief Executive, as Accountable Officer for Transport Scotland, formally delegates financial management responsibilities to each Director for the propriety, regularity and good financial management of expenditure within their Directorate. This delegation is formally recorded and reviewed each year and is subject to audit scrutiny.

Financial Management
The Management Team reviews financial performance across the Agency on a monthly basis as well as overseeing the timely production, on an annual basis, of an Annual Report and Accounts, confirming that it has complied with relevant standards of Corporate Governance.

Best Value
The duty of Best Value applies to all public bodies in Scotland, and is a formal duty on Accountable Officers. Achieving Best Value is about ensuring sound governance, good management, public reporting on performance and a focus on improvement. Transport Scotland’s aim is to drive improved value for money, ensure tight management of funds and sound asset management. Subsequent efficiencies will assist with the support of the Investment Programme.

During the year 2011-12, Transport Scotland conducted two Best Value Service Reviews; one on Financial Management and one on Governance and Accountability. Both these reviews highlighted that Transport Scotland is operating efficiently in these areas and can demonstrate best practice. These areas will however be reviewed in the new financial year with a view to continuous improvement. In addition, it is the intention to conduct two further Best Value reviews within other areas of the business, again with a view to driving continuous improvement within the organisation.

Audit & Risk Committee
Transport Scotland also has an Audit and Risk Committee comprising three external members to bring independent judgement and challenge to the governance of the agency.

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. Consequently, reasonable and not absolute assurance of its effectiveness can be provided. The system of internal control is based on an ongoing process designed to identify and prioritise risks, to evaluate the likelihood and impact of them being realised, and to manage them efficiently, economically and effectively. This system of internal control has been in place in Transport Scotland for the year ended 31 March 2012 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

There is a robust framework of responsibility for risk management within Transport Scotland. This is in accordance with the SPFM, and has appropriate support, guidance and procedures from all parts of the Agency's business. The system for assessment and control of risk within the agency is as follows:

- the Chief Executive, in conjunction with the Directors, reviews the strategic and operational risks to the Agency's business throughout the year, and this is a regular item at the monthly Management Team meetings;
- the Audit and Risk Committee has provided oversight of the Agency's risk management processes and strategy and Corporate Risk Register throughout the year;
- 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; and
- the Chief Executive holds regular meetings with Ministers where both strategic and operational risks are discussed.

A high level Risk Strategy is in place, which sets out a consistent approach to the implementation of risk management within Transport Scotland at strategic, programme and project levels. The Transport Scotland Risk Management Group is responsible for developing and maintaining the Corporate Risk Register and for facilitating the ongoing production and management of risk registers within project teams and Directorates and for enhancing the management of risk across all areas of the business.

Review of effectiveness

The Accountable Officer has responsibility for reviewing the effectiveness of the system of internal control. This is informed by the work of the internal auditors, the managers within the Agency, the Audit and Risk Committee and the external auditors in their 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 the Accountable Officer.

Risks to information are managed and controlled and the Agency is meeting the mandatory requirements set out in the Security Policy Framework developed by the Cabinet Office.

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

Follow up work is carried out to deal with the points raised in the audits where a rating of less than substantial assurance has been awarded.

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.

Internal Audit Reports 2011-12

	Audit Area & Scope	Outcome
1	Accounts Payable	**Assurance Provided: Reasonable** In general, controls were adequate where applied. In addition, Transport Scotland had completed further work aimed at improving the Agency's achievement of payment targets. Internal Audit found that there was no single reason for delays in payment performance although it was advised that, in a number of cases, the main problem lay with certain disputed invoices. In a number of other cases, however, Business Units could give no particular reason for the delays.
2	Scotrail Franchise Arrangements	**Assurance Provided: Substantial** Controls were good. In particular, Internal Audit was impressed by a number of franchise management areas including the Service Quality Inspection Regime (SQUIRE), budgetary and payment processes and risk management procedures. It had, however, some concerns surrounding franchise performance incentive payments and in particular the issues which have arisen in respect of timetable changes and the allocation of delay minutes between Network Rail and ScotRail. Transport Scotland had, however, already identified these matters and had taken appropriate corrective action to address these.
3.	Sponsorship Arrangements across Transport Scotland	**Assurance Provided: Substantial** Internal Audit's review covered all main Transport Scotland funded bodies including those bodies in receipt of Section 70 grants.
4	Standing Financial Instructions	**Advisory Work** At the request of Transport Scotland Internal Audit reviewed a range of revised financial instructions developed following an audit review of this area in 2010-11. It made some suggestions for a few revisions but in overall terms the revised instructions were found to be good.
5	Assurance Mapping Exercise	**Advisory Work** Internal Audit found no major gaps in the assurance map although it has included a cross Agency review of post project evaluation work in its proposed coverage for 2012-13. This was an area where audit considered further assurance work was needed.

In addition to the above reports, Internal Audit completed follow-up reviews on the following audits:

- Key Performance Targets – 2009-10 audit
- Forth Estuary Transport Authority (FETA) and Tay Road Bridge Joint Board (TRBJB) (Bridge Authorities) grants.– 2010-11 audit
- Edinburgh and Glasgow Improvement Programme – 2010-11 audit
- Land Valuations – 2010-11 audit
- Evaluation of Management of Minor Roads – 2010-11 audit

These follow-up reviews highlighted that all extant recommendations identified in the initial reviews had been implemented as agreed.

Programme and Project Management
Transport Scotland adopts a comprehensive approach to programme and project management. All projects are overseen by a Project Board, chaired by the Project Sponsor. This includes the Forth Replacement Crossing, the Borders Railway, the M8/M73/M74 Improvements Programme and the Edinburgh to Glasgow Improvements Programme. The Project Boards incorporate a range of expertise including procurement, legal, technical and financial at a senior level. Their role is to oversee the delivery of the projects, including associated risk management, to ensure completion on time and budget. This includes the development and approval of associated business cases in line with the requirements of the Scottish Financial Reporting Manual.

Gateway reviews and other appropriate external reviews are undertaken at relevant stages to ensure that projects are capable of delivering their stated objectives.

As Accountable Officer, the Chief Executive is the Investment Decision Maker. He is supported by an Investment Decision Making Board, made up of senior managers, in reviewing and approving the key stages in all of Transport Scotland's major projects and procurements.

The Chief Executive has set objectives for the 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 and, where appropriate, actions are in place to address any weaknesses identified to ensure the continuous improvement of the system.

David Middleton
Chief Executive
9 August 2012

Statement of Chief Executive'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 at 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, changes in taxpayers' equity 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. The Accountable Officer's relevant responsibilities, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, 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.

David Middleton
Chief Executive
9 August 2012

Independent Auditors' 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 for the year ended 31 March 2012 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the statement of comprehensive net expenditure, the statement of financial position, the cash flow statement, the statement of changes in taxpayers' equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and international financial reporting standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2011/12 government financial reporting manual (the 2011/12 FReM).

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 125 of the code of audit practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of accountable officer and auditor

As explained more fully in the statement of the chief executive's responsibilities, the accountable officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and international standards on auditing (UK and Ireland) as required by the code of audit practice approved by the Auditor General for Scotland. Those standards require me to comply with the auditing practices board's ethical standards for auditors. I am also responsible for giving an opinion on the regularity of expenditure and income.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and income in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the accountable officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on 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 directions made thereunder by the Scottish ministers of the state of the body’s affairs as at 31 March 2012 and of its net operating costs for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 FReM; and
- have been prepared in accordance with the requirements of the public finance and accountability (Scotland) act 2000 and directions made thereunder by the Scottish ministers.

Opinion on regularity

In my opinion in all material respects:

- the expenditure and income 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.

Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with the public finance and accountability (Scotland) act 2000 and directions made thereunder by the Scottish ministers; and
- the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

- I am required to report to you if, in my opinion:
- adequate accounting records have not been kept; or
- the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or

- the governance statement does not comply with guidance from the Scottish ministers.

I have nothing to report in respect of these matters.

Brian Howarth, ACMA, CGMA
Assistant Director
Audit Scotland
7th Floor Plaza Tower
East Kilbride
G74 1LW

Date: 9 August 2012

TRANSPORT SCOTLAND ANNUAL ACCOUNTS 2011-12

Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

	note	Staff Costs £'000	Other Cost £'000	Income £'000	2011-12 £'000 Total	2010-11 £'000 Total
Administration costs						
Staff costs	3	13,461			13,461	15,634
Other administration costs	4		4,807		4,807	5,504
Total administration costs					18,268	21,138
Programme costs						
Staff costs	3	4,282			4,282	5,089
Programme costs	5		1,537,435		1,537,435	1,523,602
Income	6			(2,662)	(2,662)	(2,623)
Total programme costs					1,539,055	1,526,068
Totals		17,743	1,542,242	(2,662)	1,557,323	1,547,206
Net operating costs					**1,557,323**	**1,547,206**

Other Comprehensive Expenditure

	note	2011-12 £'000	2010-11 £'000
Net (gain)/loss on revaluation of Property, Plant and Equipment	7	(306,130)	(909,930)
Net (gain)/loss on revaluation of Intangibles		0	0
Net (gain)/loss on revaluation of available for sales financial assets		0	0
Total Comprehensive Expenditure for the year ended 31 March 2012		**1,251,193**	**637,276**

All income and expenditure is derived from continuing activities.

Statement of Financial Position as at 31 March 2012

	note	£'000	31 March 2012 £'000	£'000	Restated 31 March 2011 £'000	£'000	Restated 31 March 2010 £'000
Non-current assets							
Property, plant & equipment	7	17,420,710		16,502,905		15,377,492	
Intangible assets	8	358		14		13	
Financial assets	9	79,362		75,320		66,556	
Other receivables	10	50,971		971		3,259	
Total non-current assets			17,551,401		16,579,210		15,447,320
Current assets							
Trade and other receivables	10	27,097		95,779		61,505	
Cash & cash equivalents		0		0		0	
Financial assets	9	3,018		2,038		2,038	
Assets held for sale	10	312		442		0	
Total current assets			30,427		98,259		63,543
Total assets			17,581,828		16,677,469		15,510,863
Current liabilities							
Provisions	12	(28,584)		(32,025)		(31,314)	
Trade payables	11	(30)		(38,804)		(9,014)	
Other payables	11	(127,095)		(142,237)		(184,719)	
Financial liabilities	11	(8,674)		(4,710)		(4,377)	
Total current liabilities			(164,383)		(217,776)		(229,424)
Total assets less current liabilities			17,417,445		16,459,693		15,281,439
Non-current liabilities							
Provisions	12	(31,714)		(43,822)		(37,900)	
Other payables	11	(3,215)		(13,325)		(9,189)	
Financial liabilties	11	(460,625)		(195,164)		(199,875)	
Total non-current liabilities			(495,554)		(252,311)		(246,964)
Assets less liabilities			16,921,891		16,207,382		15,034,475
Taxpayers' equity							
General fund	SoCTE		8,672,755		8,264,375		8,001,398
Donated asset reserve	SoCTE		0		0		0
Revaluation reserve	SoCTE		8,249,136		7,943,007		7,033,077
Total taxpayers' equity			16,921,891		16,207,382		15,034,475

David Middleton
Chief Executive
9 August 2012

The notes on pages 45 to 77 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2012

	note	2011-12 £'000	2010-11 £'000
(A) Cash flows from operating activities			
Net operating cost	SoCNE	(1,557,323)	(1,547,206)
Adjustments for non-cash transactions	4/5	63,507	44,588
Decrease / (Increase) in trade and other receivables	13	18,812	(32,427)
Increase / (Decrease) trade and other payables	13	(64,026)	(8,557)
Use in provisions	13	(15,549)	6,634
Adjustment for the interest element of the PFI contract	5	27,250	14,949
Net cash outflow from operating activities		(1,527,329)	(1,522,020)
(B) Cash flows from investing activities			
Purchase of property, plant and equipment	7	(492,510)	(216,021)
Purchase of intangible assets	8	(350)	(17)
Transfer of PPE to Assets Held For Sale		0	441
Loss on disposal of property, plant and equipment	4	49	0
Capital element of land provision		0	(44,278)
Voted loans	9	(5,022)	(8,764)
Net cash outflow from investing activities		(497,833)	(268,639)
(C) Cash flows from financing activities			
Funding from the Scottish Government	SoCTE	1,782,987	1,809,985
Capital element of payments in respect of finance leases and on balance sheet PFI contracts	13	269,425	(4,377)
Interest element of the PFI contracts	5	(27,250)	(14,949)
Net Financing		2,025,162	1,790,659
Net Increase/ (Decrease) in cash and cash equivalents in the period		0	0
Cash and cash equivalents at the beginning of the period		0	0
Cash and cash equivalents at the end of the period		0	0

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

	note	Restated General Fund £'000	Revaluation Reserve £'000	Donated Asset Reserve £'000	Restated Total Reserves £'000
Balance at 31 March 2010 as previously reported		**8,000,508**	**7,033,077**	**890**	**15,034,475**
Prior year adjustments for changes in accounting policy and material errors		890		(890)	
Restated balance at 1 April 2010		**8,001,398**	**7,033,077**	**0**	**15,034,475**
Changes in taxpayers' equity for 2010-11					
Realised element of the revaluation reserve		0	0		0
Net gain on revaluation of property, plant and equipment		0	909,930		909,930
Non-cash charges - auditors remuneration	4	198	0		198
Non-current assets adjustments		0	0		0
Net operating cost for the year	SoCNE	(1,547,206)	0		(1,547,206)
Total recognised income and expense for 2010-11		(1,547,008)	909,930	0	(637,078)
Funding from Scottish Government		1,809,985	0		1,809,985
Balance at 31 March 2011		8,264,375	7,943,007	0	16,207,382
Changes in taxpayers' equity for 2011-12					
Net gain on revaluation of property, plant and equipment	7	0	306,129		306,129
Non-current assets adjustments		45,852	0		45,852
Roads transfer from local authority		136,676	0		136,676
Realised element of the revaluation reserve		0	0		0
Non-cash charges - auditors remuneration	4	188	0		188
Net operating cost for the year	SoCNE	(1,557,323)	0		(1,557,323)
Total recognised income and expense for 2011-12		(1,374,607)	306,129	0	(1,068,478)
Funding from Scottish Government		1,782,987	0		1,782,987
Balance at 31 March 2012		8,672,755	8,249,136	0	16,921,891

1. Statement of Accounting Policies

In accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 (reproduced at page 78) these accounts have been prepared in compliance with the principles and disclosure requirements of the Government Financial Reporting Manual, which follows Generally Accepted Accounting Practice as defined by International Financial Reporting standards (IFRS) as adopted by the European Union and reflected in the Companies Act 2006 to the extent that it is meaningful and appropriate in the public sector context. The particular accounting policies applied by Transport Scotland are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The accounts are prepared using accounting policies, and, where necessary, estimation techniques which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles, set out in International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors. Changes in accounting policies which do not give rise to a prior year adjustment are reported in the relevant note.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified where appropriate for the revaluation of property, plant and equipment, intangible assets, and, where material, current asset investment to fair value as determined by the relevant accounting standard.

1.2 Trunkings / Detrunkings

Transport Scotland accounts reflect ownership of the trunk road network which it has responsibility to maintain. Transfers of the responsibility for maintaining sections of the road as part of the trunk road network from or to the local authority network are referred to as ‘trunkings’ or detrunkings’ respectively. 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 policies or from the correction of fundamental 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. The effect of any such adjustments on prior year comparatives is also separately disclosed in the notes to the accounts.

1.4 Property, Plant and Equipment (PPE)

All PPE assets will be accounted for as non-current assets unless they are deemed to be held-for-sale (see 1.6)

Non-infrastructure assets include land and buildings, information & technology equipment and software licences. Title to the freehold land and buildings shown in the accounts of Transport Scotland is held by Scottish Ministers.

Capitalisation Policy

The trunk road network is recognised as a single infrastructure asset in accordance with the applicable guidance outlined in the Financial Reporting Manual. However it comprises four distinct elements that are accounted for differently: Land; the Road Pavement; Structures (such as bridges and culverts); and Communications (such as variable message signs).

Subsequent expenditure is capitalised where it adds to the service potential or replaces the existing elements of assets that were previously identified in the Road Asset Valuation system employed.

Expenditure that does not replace or enhance service potential will be expensed as a charge to the Statement of Comprehensive Net Expenditure.

Pre contract advance work is capitalised once a road scheme has been approved to proceed, and subsequent expenditure after contract award is capitalised for all road construction projects. Where a scheme is subsequently cancelled the capital costs are written off to the Statement of Comprehensive Net Expenditure. Any retained land or building assets are transferred to the land and buildings category where it is not currently possible to market them for sale or to Assets Held for Sale where they are being marketed for sale. Assets held for sale are stated at market values.

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

Land & Buildings	£10,000
Information & Communication Technology (ICT)	£1,000
Plant & Machinery	£5,000

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

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 Statement of Financial Position of the Agency.

Valuation
Land and Buildings and Dwellings are held at current market values assessed by the VOA. Other items of property, plant and equipment are held at depreciated historic cost. From 1 April 2007 these assets were no longer revalued using indices as the movement in these indices was considered to be negligible and the economic lives of the assets so short that the relative value of any potential adjustment was not likely to be significant.

Infrastructure Assets - the road network
The road network is valued at its depreciated replacement cost in terms of the guidance in the Financial Reporting Manual for specialist assets for which market valuations are not available. Land is valued by rates supplied by the Valuation Office Agency (VOA).

The road pavement element is valued using agreed rates determined to identify the gross replacement cost of applicable types of road on the basis of new construction on a greenfield site. These rates are re-valued annually using indices to reflect current prices and are also updated when new construction costs become available as comparators to the costs previously identified for specific road types.

Structures are valued using agreed rates determined to identify the replacement cost of applicable types of structure on the basis of new construction on a greenfield site where these are available but special structures, which tend to be one off by their nature, are valued using specific costs that are updated to current prices.

Communications are valued using agreed rates determined to identify the replacement cost of applicable types of communications.

Depreciation is accounted for in respect of the road pavement by reference to the service potential assessed by condition surveys that are carried out over the whole network as part of a rolling programme that covers every section of road at least every five years. The Structures and Communications elements are depreciated using the straight line method applied to the revalued replacement costs, and also inspected every five years to identify any other changes. Land is not depreciated.

The indexation factors applied are:

Road Pavement and Structures	Baxter Index, published quarterly by the Department for Business, Innovation and Skills
Communications	Traffic Scotland provide new gross and calculated depreciated values each year.
Land	Land indices produced by VOA

Upwards movements in value are taken to the revaluation reserve. Downward movements in value are set off against any credit balance held in the revaluation reserve until the credit is exhausted and thereafter expensed in the Statement of Comprehensive Net Expenditure. Historic Valuation adjustments in respect of minor corrections to prior year measurements and valuations of the road network are separately identified in the Statement of Changes in Taxpayers' Equity and Property Plant and Equipment note and not treated as prior year adjustments.

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 transferred to, and accounted for, as Assets Held For Sale (see Note 1.6).

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 are surveyed over a five year rolling period to assess their estimated remaining useful lives and the resultant assessment is used to determine their valuation, with any changes reflected as a condition variance. The variance is valued according to the rates applied to the respective sections of road.

The useful economic lives of elements of the road valuation are assessed according to the following design lives:

	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

The annual depreciation charge for the road surface is the value of the service potential replaced through the maintenance programme plus, or minus the annual condition variance.

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.

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
IT Equipment	3 to 10

1.6 Assets Held For Sale

A property is derecognised and held for sale according to the requirements of IFRS5 when all of the following requirements are met:

- it is available for immediate sale;
- a plan is in place, supported by management, and steps have been taken to conclude the sale; and
- it is actively marketed and there is an expectation that the sale will be made in less than 12 months.

Assets held for sale are those which Transport Scotland expects to sell within one year. Assets classified as held for sale are measured at the lower of their carrying amounts and their fair value less cost of sale. Assets classified as held for sale are not subject to depreciation or amortisation.

1.7 Intangible Non-Current Assets

Intangible Non-Current assets are capitalised where expenditure of £1,000 or more is incurred in acquiring them. These are valued at historic cost and amortised on a straight line basis over the expected life of the asset.

1.8 Financial Instruments

Transport Scotland measures and presents financial instruments in accordance with IAS32, IAS39, and IFRS7 as interpreted and adapted by the Government Financial Reporting Manual (FReM). IAS39 requires the classification of financial instruments into separate categories for which the accounting treatment is different. Transport Scotland has classified its financial instruments as follows:

Financial Assets:

- Cash and cash equivalents, trade receivables, short term loans, accrued income relating to EU funding, amounts receivable and shares and loans will be reported in the 'Loans and Receivables' category.
- Shares held in and loans advanced to public sector bodies will be reported in a separate category.

Financial Liabilities:

- Borrowings, trade payables, accruals, payables, bank overdrafts and financial guarantee contracts are classified as 'Other Liabilities'.

Financial instruments are initially measured at fair value with the exception of 'Shares held in and loans advanced to public sector bodies' which are held at historic cost. The fair value of the financial assets and liabilities is determined as follows:

- the fair value of cash and cash equivalents and current non-interest bearing monetary financial assets and financial liabilities approximate their carrying value; and

- the fair value of other non current monetary financial assets and financial liabilities is based on market values where a market exists, or has been determined by discounting expected cash flows by the current interest rate for financial assets and liabilities with similar risk profiles.

Financial instruments subsequent measurement depends on their classification:

- all financial instruments that are held at fair value with any changes going through the Statement of Comprehensive Net Expenditure.
- loans and receivables and other liabilities are held at amortised cost and not revalued unless they are included in a fair value hedge accounting relationship. Any impairment losses are charged to the Statement of Comprehensive Net Expenditure.
- shares held in and loans advanced to public sector bodies are held at historic cost less impairment with any impairment losses going through the Statement of Comprehensive Net Expenditure.

1.9 Other Infrastructure Expenditure

Other infrastructure expenditure is differentiated between capital and resource. The capital expenditure relates to infrastructure expenditure that is capital in nature, but the asset created or enhanced is reflected by either CMAL, HIAL, Network Rail or other external body rather than Transport Scotland. The capital expenditure reflects both direct activity in the year and the costs, in terms of capital and interest, of financing projects undertaken by Network Rail and recovered over a 30 year period.

1.10 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 retained but also income due to the Consolidated Fund, in accordance with the FReM. Operating income is stated net of VAT.

1.11 Administration and Programme Expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure, in line with the definition of administration costs by HM Treasury.

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

Programme costs reflect the costs of operating, maintaining, managing and improving the road, rail, aviation and maritime infrastructure in Scotland for which Transport Scotland has responsibility, as well as expenditure incurred in delivering transport policies such as concessionary fares and grants and subsidies to contribute to the provision of bus, ferry and air services.

1.12 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.

1.13 Pensions

Past and present employees are mainly covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), more details of which can be found in note 3. 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 IAS26.

1.14 Private Finance Initiative (PFI) Transactions

PFI transactions are accounted for in accordance with the IFRS based FReM. PFI contracts that meet the definition of service concession arrangements are accounted for in accordance with IFRIC12.

Transport Scotland currently has 3 existing completed PFI schemes (see note 16 for more details). In each case these assets are examples of service concessions under IFRIC12. The private sector operator is contractually obliged to provide the services related to the infrastructure on behalf of the Scottish Government.

The infrastructure is recognised as a non-current asset when it comes into use.

The unitary payment is divided into 3 elements, namely service charge, repayment of the capital element of the contract obligation and the interest expense on it (using the interest rate implicit in the contract).

1.15 Leases

At their inception, leases are classified as operating or finance leases, based on the extent to which the risks and rewards of ownership lie with the Agency. In making the classification, the Agency considers whether the land and buildings elements of arrangements which cover both elements need to be separately accounted for.

Arrangements whose fulfilment is dependent on the use of a specific asset or which convey a right to use an asset, are assessed at their inception to determine if they contain a lease. If an arrangement is found to contain a lease, that lease is then classified as an operating or finance lease.

Rentals under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease. Where the arrangement includes incentives, such as rent-free periods, the value is recognised on a straight-line basis over the lease term. Where the substantial risks and rewards of ownership are borne by the Agency, the asset is recorded as property, plant and equipment and a liability to the lessor is recorded of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Statement of Comprehensive Net Expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

1.16 Provisions

Transport Scotland provides for legal and constructive obligations that are of uncertain timing or amount in the Statement of Financial Position at 31 March 2012 on the basis of the best estimate available. Provisions are charged to the Statement of Comprehensive Net Expenditure unless they will be capitalised as part of additions to non-current assets.

Major Projects

Major projects provision relates to compensation claims made in respect of work done under the projects that have not yet been fully settled.

1.17 Contingent Liabilities

Contingent Liabilities are recognised in respect of:

- possible obligations arising from past events whose existence will be confirmed by the occurrence of uncertain future events outwith Transport Scotland's control; or
- present obligations arising from past events where it is not likely that resources will be required to settle the obligation or it is not possible to measure it reliably.

1.18 VAT

Most of the Transport Scotland input VAT on purchases is non-recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non current assets. To avoid the distortion of competition, VAT can be recovered on certain categories of expenditure under s41 of the VAT Act 1994. Output VAT is charged on any taxable outputs.

Transport Scotland is not separately registered for VAT but is part of the overall Scottish Government VAT registration. The quarterly VAT return is completed centrally by the Scottish Government.

Apart from minor amounts arising from timing differences any outstanding VAT balances are accounted for by the Scottish Government.

1.19 Segmental Reporting

IFRS8 Segmental Reporting requires operating segments to be identified on the basis of internal reports about components of Transport Scotland that are regularly reviewed by the accountable officer who is deemed to be the chief operating decision maker in order to manage their financial performance.

1.20 Trade Receivables

Trade receivables are valued at their carrying amount. A provision for impairment is made where there is objective evidence that Transport Scotland will not be able to collect all amounts due according to the original terms of the receivables.

1.21 Trade Payables

Trade payables are valued at their carrying amount.

1.22 Employee Benefits

A short term liability and expense is recognised for leave entitlement, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for leave earned but not taken.

2. Prior Year Adjustments

Donated Asset Reserve

The FReM accounting policy for assets financed by government grant and donations was changed in 2011-12. Previously the value of the financing provided by grant or donation was taken to a government grant reserve or donated asset reserve respectively and released to the Statement of Comprehensive Net Expenditure over the life of the asset.

FRAB (100) 04, which proposed amending the treatment of government grants and donated assets to align more closely with IAS 20, was adopted in the 2011-12 FReM. This change in accounting policy was also implemented to achieve consistent accounting of capital non-exchange transactions between central and local government for inclusion within the Whole of Government Accounts from 2011-12.

In accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, this is treated as a change in accounting policy and therefore prior year comparatives balances have been restated for three financial years. The Donated Asset Reserve and Government Grant Reserves no longer exist and the opening balances have been restated to reflect this, with the balances transferred between the General Fund and Revaluation Reserve.

Table 1 opposite illustrates the impact of this change on the comparative figures for the Statement of Financial Position at 31 March 2011 and 31 March 2010. Table 2 overleaf illustrates the impact of this change on the comparative figures for the Statement of Comprehensive Net Expenditure for the year ended 31 March 2011.

TABLE 1

Statement of Financial Position as at 31 March 2011
Adjustment for change in accounting policy for Donated Assets Reserves

	Previous Accounts £'000	Donated Assets £'000	Restated at 31/3/11 £'000
Non-current assets			
Property, plant & equipment	16,502,905	0	16,502,905
Intangible assets	14	0	14
Financial assets	75,320	0	75,320
Other receivables	971	0	971
Total non-current assets	16,579,210	0	16,579,210
Current assets			
Trade and other receivables	96,221	0	96,221
Cash & cash equivalents	0	0	0
Financial assets	2,038	0	2,038
Total current assets	98,259	0	98,259
Total assets	16,677,469	0	16,677,469
Current liabilities			
Provisions	(32,025)	0	(32,025)
Trade payables	(38,804)	0	(38,804)
Other payables	(142,237)	0	(142,237)
Financial liabilities	(4,710)	0	(4,710)
Total current liabilities	(217,776)	0	(217,776)
Total assets less current liabilities	16,459,693	0	16,459,693
Non-current liabilities			
Provisions	(43,822)	0	(43,822)
Other payables	(13,325)	0	(13,325)
Financial liabilties	(195,164)	0	(195,164)
Total non-current liabilities	(252,311)	0	(252,311)
Assets less liabilities	16,207,382	0	16,207,382
Taxpayers' equity			
General fund	8,263,562	813	8,264,375
Donated asset reserve	813	(813)	0
Revaluation reserve	7,943,007	0	7,943,007
Total taxpayers' equity	16,207,382	0	16,207,382

Statement of Financial Position as at 31 March 2010
Adjustment for change in accounting policy for Donated Assets Reserves

	Previous Accounts £'000	Donated Assets £'000	Restated at 31/3/10 £'000
Non-current assets			
Property, plant & equipment	15,377,492	0	15,377,492
Intangible assets	13	0	13
Financial assets	66,556	0	66,556
Other receivables	3,259	0	3,259
Total non-current assets	15,447,320	0	15,447,320
Current assets			
Trade and other receivables	61,505	0	61,505
Cash & cash equivalents	0	0	0
Financial assets	2,038	0	2,038
Total current assets	63,543	0	63,543
Total assets	15,510,863	0	15,510,863
Current liabilities			
Provisions	(31,314)	0	(31,314)
Trade payables	(9,014)	0	(9,014)
Other payables	(184,719)	0	(184,719)
Financial liabilities	(4,377)	0	(4,377)
Total current liabilities	(229,424)	0	(229,424)
Total assets less current liabilities	15,281,439	0	15,281,439
Non-current liabilities			
Provisions	(37,900)	0	(37,900)
Other payables	(9,189)	0	(9,189)
Financial liabilties	(199,875)	0	(199,875)
Total non-current liabilities	(246,964)	0	(246,964)
Assets less liabilities	15,034,475	0	15,034,475
Taxpayers' equity			
General fund	8,000,508	890	8,001,398
Donated asset reserve	890	(890)	0
Revaluation reserve	7,033,077	0	7,033,077
Total taxpayers' equity	15,034,475	0	15,034,475

TABLE 2

Statement of Comprehensive Net Expenditure for the year ended 31 March 2011
Adjustment for change in accounting policy for Donated Assets Reserves

	Previous Accounts £'000	Donated Assets £'000	Restated at 31/3/11 £'000
Administration Costs			
Staff costs	13,873	0	13,873
Other administration costs	5,703	0	5,703
Operating income	(77)	77	0
Total administration costs	19,499	77	19,576
Programme costs			
Staff costs	4,121	0	4,121
Programme costs	1,632,296	0	1,632,296
Income	(2,281)	0	(2,281)
Total programme costs	1,634,136	0	1,634,136
Totals	1,653,635	77	1,653,712
Net operating costs	1,653,635	77	1,653,712

3. Staff Numbers and Costs

Staff costs comprise:

	2011-12			2010-11		
	Permanently Employed Staff £'000	**Others £'000**	**Total £'000**	**Permanently Employed Staff £'000**	**Others £'000**	**Total £'000**
Administration:						
Wages and salaries costs	9,491	553	10,044	10,400	1,234	11,634
Social security costs	788	0	788	819	0	819
Other pension costs	1,843	0	1,843	1,970	0	1,970
Early Retiral Costs	786	0	786	1,211	0	1,211
	12,908	**553**	**13,461**	**14,400**	**1,234**	**15,634**
Programme:-						
Wages and salaries costs	3,274	61	3,335	3,699	92	3,791
Social security costs	283	0	283	372	0	372
Other pension costs	664	0	664	926	0	926
	4,221	**61**	**4,282**	**4,997**	**92**	**5,089**
Total staff costs	17,129	614	17,743	19,397	1,326	20,723

Permanent staff are civil servants who have an employment contract with Transport Scotland. Others are agency staff.

Wages & salaries include gross salaries, performance pay or bonuses received in year, overtime, 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.

During 2011-12 an agency restructure resulted in the Strategy & Investment directorate being subsumed into other directorates. This has been reflected in staff numbers.

Within Transport Scotland, 18 staff accepted voluntary exit under the Civil Service Compensation Scheme rules in 2011-12. This compares with 2010-11 when 9 staff were granted early retirement and 21 granted early severance under the flexible early retirement and flexible early severance terms of the Civil Service Compensation Scheme. No staff retired early on ill-health grounds.

Reporting of Civil Service and other compensation scheme - exit packages

	2011-12			2010-11		
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
less than £10,000	0	1	1	0	3	3
£10,000 to £25,000	0	7	7	0	9	9
£25,000 to £50,000	0	6	6	0	7	7
£50,000 to £100,000	0	3	3	0	9	9
£100,000 to £150,000	0	1	1	0	1	1
£150,000 to £200,000	0	0	0	0	1	1
over £200,000	0	0	0	0	0	0
Total Number of exit packages	0	18	18	0	30	30
Total Resource cost (£'000)	£0	£695	£695	£0	£1,211	£1,211

Early Retiral costs include the elements actually paid in year.

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 liabilities. The scheme Actuary valued the scheme liabilities as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

From 30 July 2007, new civil servants may join one of two schemes, either Nuvos or Partnership. Nuvos is a career average defined benefit scheme and Partnership is a defined contribution arrangement (Partnership Pension Account).

For 2011-12, employers' contributions of £1,843k were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands (the rates were unchanged from 2010-11). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

(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.

Average numbers of persons employed:

	2011-12			Re-stated 2010-11		
	Permanent Staff	Others	Total	Permanent Staff	Others	Total
Trunk roads major projects	84	1	85	58	4	62
Trunk road maintenance	110	5	115	110	8	118
Rail	64	2	66	83	14	97
Strategy & investment	0	0	0	41	0	41
Finance and other	73	3	76	62	6	68
Aviation, maritime, freight & canals	25	0	25	26	0	26
Transport policy	45	0	45	47	0	47
Total average staff numbers	401	11	412	427	32	459

The above figures exclude consultants.

4. Other Administration Costs

	note	2011-12 £'000	2010-11 £'000
Rentals under operating leases		1,207	1,097
Accommodation		1,189	1,546
Office costs and supplies		1,198	973
Hospitality		40	53
Travel		484	971
Training		77	90
Consultancy		8	43
Non-cash items			
Depreciation	7/8	378	533
Loss on disposal of Non Current Assets		38	0
Prior year depreciation adjustment		0	0
Auditors remuneration and expenses - external	22	188	198
Total administration costs		4,807	5,504

5. Programme Costs

		note	2011-12 £'000	2010-11 £'000
	Other programme expenditure			
	Roads			
	Capital maintenance		54,627	77,076
	Current maintenance		100,126	130,552
	Forth Replacement Crossing		0	18,889
	Other		348	215
	PFI Interest charges		27,250	14,949
	PFI service charges		26,375	21,419
	Rail			
***	ScotRail franchise		305,318	290,121
*	Rail infrastructure in Scotland capital		281,786	257,688
**	Rail Infrastructure in Scotland resource		120,100	126,000
	Other		952	487
	Concessionary travel			
	Smartcard applications		2,956	9,279
	Concessionary travel schemes		183,439	175,576
	Other public transport			
	Major public transport projects - rail		68,763	74,722
	Transport information		1,635	1,163
	Strategic projects review		983	2,647
	Ferry services in Scotland		119,109	107,369
	Air services in Scotland		33,807	33,067
	Bus services in Scotland		60,728	62,932
	Other transport directorate programmes		43,485	34,514
	Central government grants to local authorities		42,706	41,080
	Non-cash items			
	Depreciation	7/8	62,942	43,857
	Total other programme costs		1,537,435	1,523,602

* The Rail infrastructure in Scotland capital figure of £281,786k was paid directly to Network Rail
** The Rail infrastructure in Scotland resource figure of £120,100k was paid to Network Rail via DfT
*** Payments to Scotrail Franchise in 2011-12 totalled £305,329k as per note 17.

This included depreciation costs totalling £11k which are included within the Depreciation charges (under non-cash items) as required by the International Financial Reporting Standards (IFRS).

6. Operating Income

	2011-12 £'000	2010-11 £'000
Programme income		
Interest receivable - loans	(2,418)	(2,199)
Rental income - land & properties	(234)	(344)
Sale of land and property	0	(80)
Ports income	(10)	0
Total operating income	(2,662)	(2,623)

Operating income principally arises from:

- interest receivable from loans to Caledonian Maritime Assets Limited (CMAL);
- rental income from land and properties acquired for road schemes and now surplus to requirements;
- sale of land and property which is surplus to the requirements of the road or rail scheme;
- port income fees for authorising works to ports and harbours.

7. Property, Plant and Equipment

2011-12	Road Network	Land	Buildings	IT	Leasehold Improvements	Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1st April 2011	18,398,495	1,969	3,227	4,253	1,508	804,317	19,213,769
Detrunkings							0
Capital additions	294,684			360		197,466	492,510
Disposals		(44)		(11)			(55)
Revaluation	967,373	130	120				967,623
Current valuation adjustments	(373,287)		0				(373,287)
Historic valuation adjustments	51,125						51,125
Transfers and reclassifications	870,476	2,893	1,700			(738,393)	136,676
Transfers to assets held for sale							0
Balance at 31st March 2012	20,208,866	4,948	5,047	4,602	1,508	263,390	20,488,361
Depreciation							
At 1st April 2011	2,705,665	0	884	3,152	1,163	0	2,710,864
Detrunkings							0
Charge for the year	62,518		185	506	105		63,314
Disposals				(6)			(6)
Revaluation	182,101		39				182,140
Current valuation adjustments	106,066						106,066
Historic valuation adjustments	5,273						5,273
Transfers and reclassifications							0
Balance at 31st March 2012	3,061,623	0	1,108	3,652	1,268	0	3,067,651
Net Book Value at 31st March 2012	17,147,243	4,948	3,939	950	240	263,390	17,420,710
Net Book Value at 31st March 2011	15,692,830	1,969	2,343	1,101	345	804,317	16,502,905
Asset Financing							
Owned	15,710,658	4,948	3,126	950	240	263,390	15,983,312
Finance Leased	0	0	0	0	0	0	0
On Balance Sheet PFI	1,436,585	0	0	0	0	0	1,436,585
Donated	0	0	813	0	0	0	813
Net Book Value at 31st March 2012	17,147,243	4,948	3,939	950	240	263,390	17,420,710

2010-11	Road Network	Land	Buildings	IT	Leasehold Improvements	Assets under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1st April 2010	17,317,126	1,450	1,198	4,170	4,167	580,971	17,909,082
Detrunkings	(29,334)	0	0	0	0	0	(29,334)
Capital additions	36,830	0	0	118	0	223,351	260,299
Disposals	0	0	0	0	0	0	0
Revaluation	1,124,050	116	169	0	0	0	1,124,335
Current valuation adjustments	(50,177)	0	0	0	0	0	(50,177)
Historic valuation adjustments	0	0	0	0	0	0	0
Transfers and reclassifications	0	835	1,860	(35)	(2,659)	0	1
Transfers and reclassifications	0	(432)	0	0	0	(5)	(437)
Balances at 31st March 2011	18,398,495	1,969	3,227	4,253	1,508	804,317	19,213,769
Depreciation							
At 1st April 2010	2,527,459	0	5	2,586	1,540	0	2,531,590
Detrunkings	(29,334)	0	0	0	0	0	(29,334)
Charge for the year	43,353	0	182	590	249	0	44,374
Disposals	0	0	0	0	0	0	0
Revaluation	183,480	0	45	0	0	0	183,525
Current valuation adjustments	(19,293)	0	0	0	0	0	(19,293)
Historic valuation adjustments	0	0	0	0	0	0	0
Transfers and reclassifications	0	0	652	(24)	(626)	0	2
Balances at 31st March 2011	2,705,665	0	884	3,152	1,163	0	2,710,864
Net Book Value at 31st March 2011	15,692,830	1,969	2,343	1,101	345	804,317	16,502,905
Net Book Value at 1st April 2010	14,789,667	1,450	1,193	1,584	2,627	580,971	15,377,492
Asset Financing							
Owned	15,131,471	1,969	1,453	1,101	345	804,317	15,940,656
Finance Leased	0	0	0	0	0	0	0
On Balance Sheet PFI	561,359	0	0	0	0	0	561,359
Donated	0	0	890	0	0	0	890
Net Book Value at 31st March 2011	15,692,830	1,969	2,343	1,101	345	804,317	16,502,905

Detrunkings reflect transfer of road assets to local authorities, with the corresponding entry flowing through the General Fund (SoCTE).

WS Atkins LLP (RICS Regulated) carry out an annual valuation of the trunk road network.

Revaluation is based on Baxter's indexation for all road network assets apart from land. Land is valued at market rates based on information supplied by the Valuation Office Agency. All revaluation movement is reflected through the revaluation reserve (SoCTE).

8. Intangible Assets

2011-12	**Software Licences £'000**
At replacement cost or valuation	
At 1st April 2011	111
Capital additions	350
Disposals	0
Historic valuation adjustments	0
Transfers and reclassifications	0
Balance at 31st March 2012	461
Accumulated Amortisation	
At 1st April 2011	97
Charge for the year	6
Revaluations	0
Disposals	0
Historic valuation adjustments	0
Transfers and reclassifications	0
Balance at 31st March 2012	103
Net Book Value at 31st March 2012	358

2010-11	**Software Licences £'000**
At replacement cost or valuation	
At 1st April 2010	96
Capital additions	17
Disposals	0
Historic valuation adjustments	0
Transfers and reclassifications	(2)
Balance at 31st March 2011	111
Accumulated Amortisation	
At 1st April 2010	83
Charge for the year	16
Revaluations	0
Disposals	0
Historic valuation adjustments	0
Transfers and reclassifications	(2)
Balance at 31st March 2011	97
Net Book Value at 31st March 2011	14

Purchased computer software licences are capitalised as intangible non-current 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.

9. Financial Assets

2011-12	Interests in Nationalised Industries & Limited Companies	Voted Loans	Total
	£'000	£'000	£'000
Balance at 1 April 2011	20,550	54,770	75,320
Add element reported w ithin current assets	0	2,038	2,038
Advances and acquisitions			
Cash advances	0	7,550	7,550
Repayments and disposals	0	(2,528)	(2,528)
Balance at 31 March 2012	20,550	61,830	82,380
Loans repayable w ithin 12 months transferred to current assets	0	(3,018)	(3,018)
Balance at 31 March 2012	20,550	58,812	79,362

2010-11	Interests in Nationalised Industries & Limited Companies	Voted Loans	Total
	£'000	£'000	£'000
Balance at 1 April 2010	20,550	46,006	66,556
Add element reported w ithin current assets	0	2,038	2,038
Advances and acquisitions			
Cash advances	0	10,802	10,802
Repayments and disposals	0	(2,038)	(2,038)
Balance at 31 March 2011	20,550	56,808	77,358
Loans repayable w ithin 12 months transferred to current assets	0	(2,038)	(2,038)
Balance at 31 March 2011	20,550	54,770	75,320

Financial Assets have been measured and presented in accordance with IAS32, IAS39 and IFRS7 as modified by the FReM (see note 1.8).

As at 31 March 2012, the Scottish Ministers, represented by Transport Scotland, are the sole shareholder in Caledonian Maritime Assets Limited, David MacBrayne Limited and the Highlands and Islands Airports Limited. The Scottish Ministers hold the following investments:

Caledonian Maritime Assets Limited	1,500,000 ordinary shares of £10 each
David MacBrayne Limited	5,500,002 ordinary shares of £1 each
Highlands and Islands Airports Limited	50,000 ordinary shares of £1 each

These organisations are operated and managed independently of the Scottish Government, and do not fall within the Departmental Accounting boundary. The companies publish an annual report and accounts. The net assets and results of the above bodies are summarised below.

	Highlands and Islands Airports Ltd	Caledonian Maritime Assets Ltd	David MacBrayne Ltd
	£m	£m	£m
Net assets as at 31 March 2012	(2.6)	69.4	24.4
Turnover	17.2	19.3	201.6
Profit/(Loss) for the financial year	(0.4)	(5.1)	3.7

All results are draft as final accounts have yet to be published. The deficit in Caledonian Maritime Assets Limited relates to agreed additional expenditure from accumulated reserves.

Highlands and Islands Airports Limited (HIAL)
The Scottish Ministers are the sole shareholders in HIAL. The company's purpose is to maintain the safe operation of its airports to support economic and social development in the Highland and Islands. HIAL currently operates 10 airports in the Highlands and Islands of Scotland. In December 2007, HIAL assumed responsibility for the operation of Dundee Airport and now operates it via a wholly owned subsidiary company, Dundee Airport Limited.

Caledonian Maritime Assets Limited (CMAL)
Following a restructure of the Caledonian MacBrayne group in 2006, Caledonian MacBrayne Limited became known as Caledonian Maritime Assets Limited (CMAL) and CalMac Ferries Limited (CFL) was incorporated. CFL took over operation of the Clyde & Hebrides Ferry Services as successor to Caledonian MacBrayne Limited. CMAL retained ownership of all vessels and ports, which it leases to the operator of the Clyde & Hebrides Ferry services (currently CFL). CMAL remains wholly owned by Scottish Ministers.

David MacBrayne Limited
Scottish Ministers previously owned 2 shares of £1 in a dormant company, David MacBrayne Limited. In the course of the restructuring of the Caledonian MacBrayne group in 2006, Scottish Ministers' shareholding in David MacBrayne Limited was increased by 5,500,000 shares to 5,500,002 ordinary shares of £1. David MacBrayne Limited is now the holding company for the ferry operating companies CalMac Ferries Limited, Argyll Ferries Limited and NorthLink Ferries Limited and for the dormant companies Cowal Ferries Limited and Rathlin Ferries Limited.

Other Interests: Voted Loans
Transport Scotland provides loans to Caledonian Maritime Assets Limited to be used for the construction of new shipping, for harbour improvements and to Independent Harbour Trusts.

10. Trade Receivables and Other Assets

10a Analysis by classification	as at 31/03/12	as at 31/03/11	as at 31/03/10
	£'000	£'000	£'000
Amounts falling due within one year:			
Trade and other receivables			
Trade and other receivables	307	2,451	934
Damage claims	2,770	327	0
Other assets	0	0	666
Prepayments and accrued income	24,020	93,001	59,905
	27,097	95,779	61,505
Assets held for sale	312	442	0
	27,409	96,221	61,505
Amounts falling due after more than one year:			
Other receivables	50,971	971	3,259
	50,971	971	3,259

Trade receivables are shown net of a provision for impairment as follows:

	as at 31/03/12	as at 31/03/11	as at 31/03/10
	£'000	£'000	£'000
At 1 April	107	404	404
Charge for the year	0	93	0
Unused amount released	93	390	0
Utilised during the year	1	0	0
At 31 March	13	107	404

10b Intra-government balances	as at 31/03/12	as at 31/03/11	as at 31/03/10
	£'000	£'000	£'000
Amounts falling due within one year:			
Intra-government balances			
Other central government bodies	107	102	100
Local authorities	580	44,394	34,672
Public corporations and trading funds	7,691	6,614	5,603
	8,378	51,110	40,375
Balances with bodies external to government	19,031	45,111	21,130
Total receivables	27,409	96,221	61,505
Amounts falling due after more than one year:			
Intra-government balances			
Other central government bodies	0	0	0
Local authorities	0	0	0
Public corporations and trading funds	0	0	0
	0	0	0
Balances with bodies external to government	50,971	971	3,259
Total receivables	50,971	971	3,259

11. Trade Payables and Other Liabilities

11a Analysis by classification	**as at 31/03/12**	**as at 31/03/11**	**as at 31/03/10**
	£'000	**£'000**	**£'000**
Amounts falling due within one year:			
Trade payables	30	38,804	9,014
Other payables	127,095	142,237	184,719
Financial liabilities - PFI	8,674	4,710	4,377
	135,799	185,751	198,110
Amounts falling due after more than one year:			
Other payables	3,215	13,325	9,189
Financial liabilities - PFI	460,625	195,164	199,875
	463,840	208,489	209,064

11b Intra-government balances	**as at 31/03/12**	**as at 31/03/11**	**as at 31/03/10**
	£'000	**£'000**	**£'000**
Amounts falling due within one year:			
Intra-government balances			
Other central government bodies	2,818	1,228	1,632
Local authorities	42,024	34,062	37,603
Public corporations and trading funds	461	11,977	8,628
	45,303	47,267	47,863
Balances with bodies external to government	90,496	138,484	150,247
Total payables	135,799	185,751	198,110
Amounts falling due after more than one year:			
Intra-government balances			
Other central government bodies	0	0	0
Local authorities	115,905	128,397	120,695
Public corporations and trading funds	0	0	0
	115,905	128,397	120,695
Balances with bodies external to government	347,935	80,092	88,369
Total payables	463,840	208,489	209,064

12. Provisions for Liabilities and Charges

12a Provisions for liabilities and charges	**Land and Property Acquisition**	**Major Projects**	**Other**	**Total**
2011-12	**£'000**	**£'000**	**£'000**	**£'000**
Balance as at 1 April 2011	51,446	16,848	7,553	75,847
Provided in year	1,975	0	95	2,070
Provisions not required w ritten back	0	(1,500)	(1,008)	(2,508)
Provisions utilised in year	(8,477)	(2,332)	(4,302)	(15,111)
Balance as at 31 March 2012	44,944	13,016	2,338	60,298
2010-11				
Balance as at 1 April 2010	40,370	18,731	10,112	69,213
Provided in year	15,572	0	2,101	17,673
Provisions not required w ritten back	145	0	(2,988)	(2,843)
Provisions utilised in year	(4,641)	(1,883)	(1,672)	(8,196)
Balance as at 31 March 2011	51,446	16,848	7,553	75,847
Balance as at 1 April 2010	40,370	18,731	10,112	69,213

12b Analysis of expected timing of discounted flows	Land and Property Acquisition	Major Projects	Other	Total
	£'000	£'000	£'000	£'000
In the remainder of the period to 2013	19,396	8,292	896	28,584
Between 2014 and 2017	19,533	4,125	1,051	24,709
Between 2018 and 2022	6,015	599	391	7,005
Thereafter	0	0	0	0
Balance as at 31 March 2012	44,944	13,016	2,338	60,298
In the remainder of the period to 2012	20,220	10,371	1,434	32,025
Between 2013 and 2016	31,226	6,477	6,119	43,822
Between 2017 and 2021	0	0	0	0
Thereafter	0	0	0	0
Balance as at 31 March 2011	51,446	16,848	7,553	75,847

Land and Property Acquisition

Land and property acquisition provision relates primarily to the estimates made of the likely compensation payable in respect of planning blight, discretionary and compulsory acquisition of property for property owners arising from physical construction of a road or rail scheme. When land is acquired by compulsory purchase procedures, it is not known when compensation settlements will be made. A provision for the estimated total cost of land acquired is created when it is expected that a General Vesting Declaration (GVD) will be published in the near future. It may take several years from the announcement of a scheme to completion and final settlement of all liabilities. The estimates provided by the Valuation Office Agency (VOA) are reviewed bi-annually.

Major Projects

Major projects provision relates to compensation claims made in respect of work done under the projects that have not yet been fully settled.

Other

Transport Scotland is required to meet the additional agreed cost of benefits payable to 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.

13. Movement on Working Capital Balances

	note	as at 31/03/12 £'000	as at 31/03/11 £'000	2011-12 Net Movement £'000	2010-11 Net Movement £'000
Receivables					
Due within one year	10	27,409	96,221	68,812	(34,716)
Due after more than one year	10	50,971	971	(50,000)	2,288
Net decrease/(increase)		78,380	97,192	18,812	(32,428)
Payables					
Due within one year	11	135,799	185,751	(49,952)	(12,359)
Due after more than one year	11	463,840	208,489	255,351	(575)
		599,639	394,240	205,399	(12,934)
Less: Lease and PFI creditors included in above	11	469,299	199,874	269,425	(4,378)
Net (decrease)/increase		130,340	194,366	(64,026)	(8,556)
Provisions	12	60,298	75,847	(15,549)	6,634
Net (decrease)/increase		60,298	75,847	(15,549)	6,634
Net movement (decrease)/increase		269,018	367,405	(60,763)	(34,350)

14. Capital Commitments

Transport Scotland's capital commitments relate to future payments on major road schemes currently under construction and loans to Caledonian Maritime Assets Limited to fund capital assets relating to ferries. The main works contracts have been awarded and the loans agreed. These commitments have not been reflected elsewhere in the accounts.

Capital Commitments	as at 31/03/12 £'000	as at 31/03/11 £'000
Property, plant and equipment	1,283,260	45,180
Total contracted capital commitments for which no provision has been made	1,283,260	45,180
Investments	13,800	1,050
Total authorised but not contracted capital commitments for which no provision has been made	13,800	1,050

15. Commitments under Operating Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

Obligations under operating leases comprise:	as at 31/03/12 £'000	as at 31/03/11 £'000
Land & buildings		
Due within 1 year	1,444	1,450
Due after 1 year but not more than 5 years	5,775	5,775
Commitments thereafter	5,159	6,603
	12,378	13,828

16. Commitments under PFI Contracts

Transport Scotland has entered into the following PFI contracts for the design, build, finance and maintenance of assets reflected on the Statement of Financial Position:

a) M6 (M74) - the contract covers the design, construction and financing of 28.3km of new Scottish motorway along this route, 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.

b) M77 - the contract is a Public Private Partnership (PPP) entered into with East Renfrewshire and South Lanarkshire Councils. The project covers the design, construction, financing and operation of 15km of new Scottish motorway and 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.

c) M80 - the contract covers the design, build and financing of approximately 18 km of dual two/three lane motorway, together with, but not limited to, associated slip roads, side roads, junctions, structures, culverts and associated works. The contract also incorporates the operation and maintenance of the new motorways, associated structures, and related elements for a period of 30 years after completion of the New Works. Unitary charge payments commenced in September 2011 and will cease in September 2041.

Under IFRIC12 the substance of the PFI contract is that the Agency has a finance lease, with the asset being recognised as a non-current asset of the Agency. Payments under PFI contracts are comprised of two elements - imputed finance lease charges and services charges.

Imputed finance lease obligations under PFI contracts comprise:

	as at 31/03/12	as at 31/03/11
	£'000	£'000
Rentals due within 1 year	39,618	19,326
Rentals due within 2 to 5 years	158,472	77,304
Rentals due thereafter	762,898	290,145
	960,988	386,775
Less: Interest element (finance cost)	(491,689)	(186,901)
Total capital cost	469,299	199,874

Imputed service charge obligations under PFI contracts comprise:

	as at 31/03/12	as at 31/03/11
	£'000	£'000
Service charge due within 1 year	35,875	23,304
Service charge due within 2 to 5 years	199,739	129,602
Service charge due thereafter	695,854	377,433
Total service charge	931,469	530,339

Transport Scotland does not have any commitments under PFI contracts in respect of assets that are not reflected in the Statement of Financial Position.

17. Other Financial Commitments – Rail

Transport Scotland is committed to pay an income stream to Network Rail in accordance with the Deed of Grant and to First Scotrail under the Franchise Agreement.

Network Rail - The current control period for Network Rail runs from April 2009 to March 2014.
First Scotrail - During 2008-09 Scottish Ministers extended the First Scotrail Franchise by 3 years to 2014.

The total amount charged to the Transport Scotland Statement of Comprehensive Net Expenditure in respect of these schemes is:

	2011-12 £'000	2010-11 £'000
Network Rail	401,886	383,688
First Scotrail	305,329	290,201
Total	707,215	673,889

The amounts due under these contracts in the following year, analysed between those periods where the commitment expires are:

	Network Rail £'000	First Scotrail £'000	Total £'000
Expiry within 0-12 months	291,000	464,800	755,800
Expiry within 1 to 2 years	283,500	541,700	825,200
Expiry within 2 to 5 years	0	0	0
Total	574,500	1,006,500	1,581,000

18. Financial Instruments

18a Financial Instruments by Category

Assets per statement of financial position	note	Assets at Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Total £'000
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	10	0	87,424	87,424
Balance as at 31 March 2012		0	87,424	87,424

Liabilities per statement of financial position	note	Assets at Fair Value through Profit and Loss £'000	Other Financial Liabilities £'000	Total £'000
PFI liabilities	16	0	469,299	469,299
Trade and other payables excluding statutory liabilities (VAT and income tax and social security)	11	0	126,188	126,188
Balance as at 31 March 2012		0	595,487	595,487

18b Financial Risk Factors

Exposure to Risk

Transport Scotland's activities expose it to a variety of financial risks:

i. Credit risk - the possibility that other parties might fail to pay amounts due.
ii. Liquidity risk - the possibility that Transport Scotland might not have funds available to meet its commitments to make payments.
iii. Market risk - the possibility that financial loss might arise as a result of changes in such measures as interest rates, stock market movements or foreign exchange rates.

Because of the largely non-trading nature of its activities and the way in which government departments are financed, Transport Scotland is not exposed to the degree of financial risk faced by business entities.

Risk management

A high level risk strategy has been put in place which provides a consistent approach to the implementation of risk management within Transport Scotland at a strategic, programme and project level. This is now considered at each meeting of the Audit and Risk Committee.

i) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and other institutions, only independently rated parties with a minimum rating of 'A' are accepted. Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by Transport Scotland. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period and no losses are expected from non-performance by any counterparties in relation to deposits.

ii) Liquidity Risk

The Scottish Parliament makes provision for the use of resources by Transport Scotland for revenue and capital purposes in a Budget Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget Act. The Act also specifies an overall cash authorisation to operate for the financial year. Transport Scotland is not, therefore, exposed to significant liquidity risks.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to contractual maturity date. The amounts disclosed in the table are the contractual discounted cash flows. Balances due within 12 months are included at their carrying balances as the impact of discounting is not significant.

	Carrying value £'000	0-12 months £'000	1-2 years £'000	2-5 years £'000	5-10 years £'000	>10 years £'000
Non-derivative liabilities	595,487	132,517	11,182	32,397	70,280	349,111
Derivative liabilities	0	0	0	0	0	0
Total financial liabilities	595,487	132,517	11,182	32,397	70,280	349,111

iii) Market Risk

Transport Scotland has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing Transport Scotland in undertaking its activities.

1. Cash Flow and Fair Value Interest Rate Risk:
   Transport Scotland has loans to CMAL which accrue interest at the rate set for the National Loans Fund and its income and expenditure and cash flows are dependent of changes in market interest rates that affect this. Transport Scotland has interest bearing liabilities in respect of PFI schemes and minor lease rentals that are determined in the contracts entered and, as such, the related income, expenditure and cash flows are substantially independent of changes in market interest rates.
2. Foreign Currency Risk:
   Transport Scotland is not directly exposed to foreign exchange rate risks.

3. Price Risk:
   Transport Scotland is not exposed to equity security price risk.

18c Fair Value Estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current HM Treasury interest rate that is available for similar financial instruments.

19. Contingent Liabilities

19a Contingent Assets disclosed under IAS37

Transport Scotland successfully defended an allegation of GARL copyright infringement, and a subsequent appeal which was dismissed in May 2012. It has now submitted a Motion for Additional Fee to recover appropriate costs.

19b Contingent Liabilities disclosed under IAS37

Transport Scotland has a guarantee in place in relation to funding received by European Union re TENS-T funding for GARL Project where there is an obligation for a period of 5 years, to require repayment of 50% of the total funding (€850,000 / £720,970) should it be considered that the monies were not used for the purposes agreed under the original application. This liability therefore runs out in July 2015 and would be based on the exchange rate at the time any repayment is made.
There is a potential claim from the contractor for White Cart Viaduct who expect to incur costs of £25m and only receive funding of £9m from Transport Scotland. The contractor intends to attempt to recover the £16m deficit from Transport Scotland. Transport

Scotland consider that that it is more likely at present that no future payment will be required.

As part of Transport Scotland normal course of business the Forestry Commission granted Transport Scotland the right to use a forestry track as an emergency diversion route from the site of the latest landslide on the A83 at the Rest and Be Thankful on the understanding that Transport Scotland will have liability for any incidents that may occur whilst the track is being used for this purpose. The potential obligation is estimated at £5m but it is not considered likely that any liability will occur.

There is a potential claim from the contractor for Erskine Bridge Gantry Contract for £1.6m against Transport Scotland. Initial indications are that no further payment is due. It is therefore more than likely that no future liability will occur.

19c Possible Contingent Liabilities not required under IAS37 but included for parliamentary reporting and accountability purposes

The Financial Reporting Manual states that where information about contingent liabilities is not required to be disclosed because the likelihood of a transfer of economic benefits is considered too remote, they should be disclosed separately for parliamentary reporting and accountability purposes.

i. Contracts held by Transport Scotland should include indemnity clauses where risk is either considered part of the normal course of business or is not quantifiable:

- Operating agreement (ScotRail Franchise Agreement) with indemnity dated 2004 to First ScotRail;
- Indemnity clause in roads contracts to compensate Network Rail for any damage or loss of access;
- Liability agreement for any issues caused by the GARL ground investigation work for the next 11 years; and
- The unsuccessful appellant of the previous claim for GARL copyright infringement intends to raise two new and separate claims; a further copyright infringement and breach of human rights.

ii. Guarantees / Letters of Comfort issued by Transport Scotland on behalf of Scottish Ministers:

- S54 guarantees issued as part of rail rolling stock procurement process;
- Scottish Government underwriting First ScotRail pension fund in line with that provided to other train operators by DfT; and

iii. Other contingent liabilities held by Transport Scotland:

- Monklands Canal - maintenance of pipes under trunk roads.

20. Related Party Transactions

Transport Scotland is an Executive Agency of the Scottish Government. The Scottish Government is regarded as a related party with which it had various material transactions during the year. David MacBrayne Limited, Caledonian Maritime Assets Limited (CMAL) and Highlands & Islands Airports Limited (HIAL) are wholly owned subsidiaries of Transport Scotland with whom it had various material transactions during the year, principally in relation to loans advanced to and repaid from CMAL and grants paid to HIAL. David MacBrayne Limited is also the parent company of CalMac Ferries Limited, Argyll Ferries Limited and Northlink Ferries Limited with whom Transport Scotland also had material transactions, principally in relation to the payment of subsidies for the operation of ferry services. Argyll Ferries Limited was created to bid for the Gourock-Dunoon service, which it won in June 2011. It operates two passenger-only vessels. Transport Scotland also had significant transactions with Local Authorities and British Waterways during the year.

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. Segmental Reporting

21a Business Segments - Statement of Comprehensive Net Expenditure

2011-12 Total continuing segments	Resource £'000	Net Investment £'000	Income £'000	Non Cash £'000	AME £'000	Total £'000
Roads	82,287	75,231	(234)	62,507	53,625	273,416
Rail	426,318	351,675	0	22	0	778,015
Concessionary travel & Bus services	243,754	2,956	0	413	0	247,123
Other public transport	20,421	23,064	0	0	0	43,485
Ferry services in Scotland	118,356	2,253	(2,428)	0	(1,500)	116,681
Air services in Scotland	25,107	8,700	0	0	0	33,807
Other transport directorate programmes	21,712	0	0	378		22,090
Grants to local authorities	0	42,706	0	0	0	42,706
	937,955	506,585	(2,662)	63,320	52,125	1,557,323

2010-11 Total continuing segments	Resource £'000	Net Investment £'000	Income £'000	Non Cash £'000	AME £'000	Total £'000
Roads	129,403	78,340	(501)	80,189	4,742	292,173
Rail	416,687	332,695	0	0	0	749,382
Concessionary travel & Bus services	239,897	9,199	0	411	0	249,507
Other public transport	29,192	12,970	0	0	0	42,162
Ferry services in Scotland	100,475	5,974	(2,199)	0	1,500	105,750
Air services in Scotland	25,684	7,000	0	0	0	32,684
Other transport directorate programmes	22,959	23,462	0	0	0	46,421
Grants to local authorities	0	29,127	0	0	0	29,127
	964,297	498,767	(2,700)	80,600	6,242	1,547,206

21b Business Segments – Capital Expenditure

2011-12 **Total continuing segments**	**Trunk Road Maintenance** **£'000**	**Capital Projects** **£'000**	**Other Assets** **£'000**	**Voted Loans** **£'000**	**Total Capital Expenditure** **£'000**
Roads	294,684	197,466	0	0	492,150
Rail	0	0	0	0	0
Other public transport	0	0	661	0	661
Ferry services in Scotland	0	0	0	5,022	5,022
	294,684	197,466	661	5,022	497,833

2010-11 **Total continuing segments**	**Trunk Road Maintenance** **£'000**	**Capital Projects** **£'000**	**Other Assets** **£'000**	**Voted Loans** **£'000**	**Total Capital Expenditure** **£'000**
Roads	36,830	223,351	0	0	260,181
Rail	0	0	54	0	54
Other public transport	0	0	64	0	64
Ferry services in Scotland	0	0	0	8,762	8,762
	36,830	223,351	118	8,762	269,061

22. Notional Charges

The following notional charges have been included in the accounts:

	note	**2011-12**	**2010-11**
Auditors remuneration	4	188	198
		188	198

23. Losses and Special Payments

	number of cases	**2011-12** **£'000**	**2010-11** **£'000**
Total cash losses	25	139	2,355
Details of cases over £250,000	0	0	0
Including - claims abandoned	25	139	2,355
- active claims	0	0	0

The costs of damage to the Trunk Road Network due to road accidents are charged to Transport Scotland as part of the road maintenance programme. These costs are recovered from the party responsible through their insurance company wherever possible, except where they have been fatally injured. The costs are held in a debtor account until the recovery is successful. Transport Scotland reviewed the costs held in the debtor account to identify those that are due to be or in the process of being recovered. The costs that are no longer being pursued because they are not assessed as likely to be recoverable amounted to £139k in respect of 25 cases and these have now been written off.

24. GARL Closedown Costs

Branchline works for Glasgow Airport Rail-Link (GARL) were cancelled in September 2009. However, obligations under the GARL Act for certain mainline works were not cancelled. Where obligations under the GARL Act could not be cancelled, costs were incurred as a result. These costs included land and associated costs, BAA costs and associated compensation, contractor closedown costs and completion of advanced works, where completion was a more cost effective solution than cessation.

Costs incurred in 2011-12 were £3.2m. There were no costs incurred in 2010-11.

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.

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، برائے 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/कागज़ात 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 ਕੰਮਿਉਨਿਟੀ 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:

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