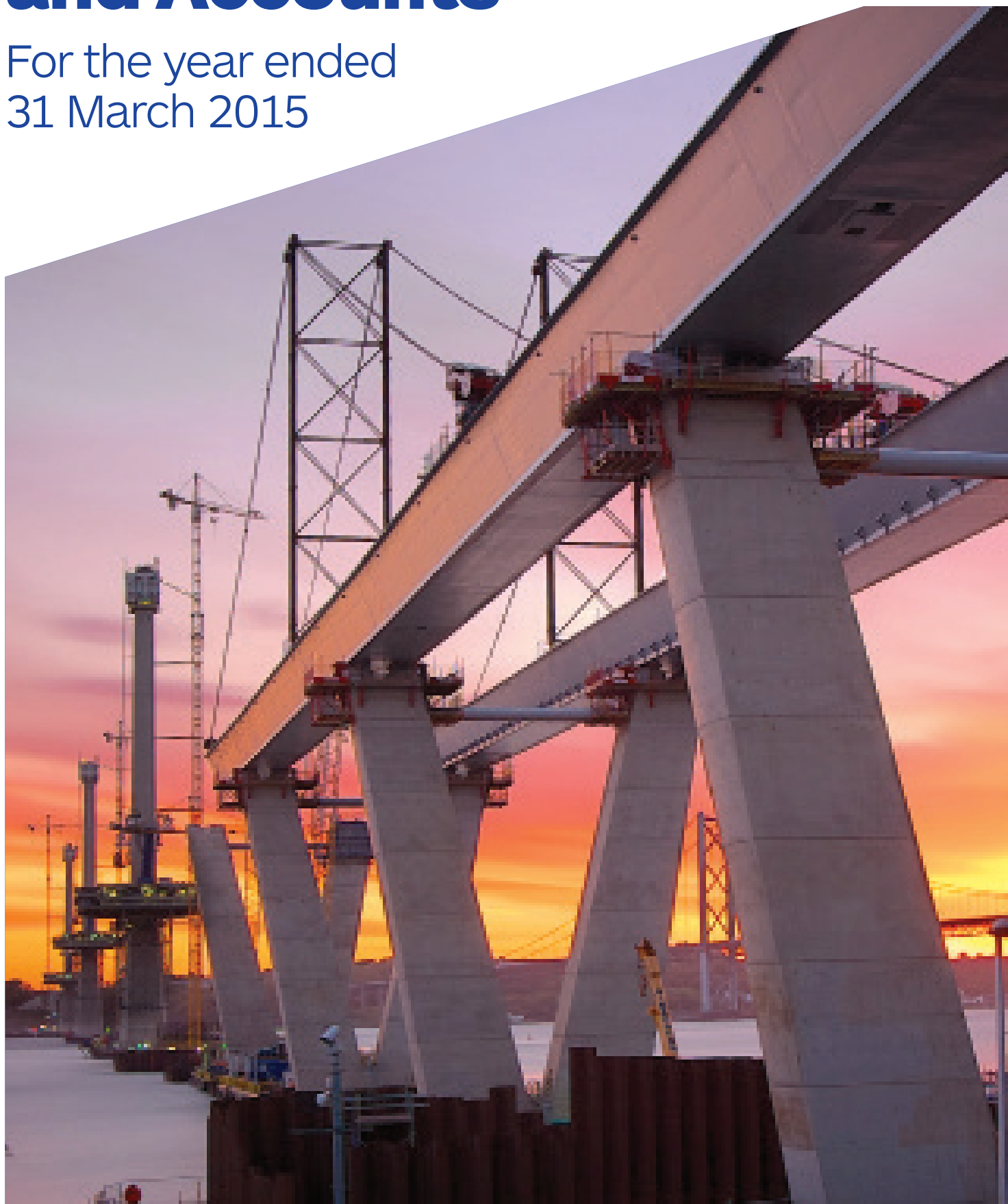




TRANSPORT  
SCOTLAND  
CÒMHDHAIL ALBA

# Annual Report and Accounts

For the year ended  
31 March 2015



# TRANSPORT SCOTLAND

## ANNUAL REPORT AND ACCOUNTS 2014-15

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Laid before the Scottish Parliament by the Scottish Ministers under Public Finance & Accountability (Scotland) Act 2000 s22(5)  
September 2015 SG/2015/134

## **ANNUAL REPORT**

### **CHIEF EXECUTIVE'S INTRODUCTION**

I am pleased to introduce the Transport Scotland Annual Report and Accounts for 2014-2015.

Our focus throughout the year remained firmly on supporting Scottish Ministers in delivering transport projects and policies. Our Corporate Plan 2012 -15 is built around the Scottish Government's purpose of promoting sustainable economic growth. The Report highlights our significant contributions in delivering Ministers' transport priorities and commitments.

The start of the year 2014-15 marked 100 days to the commencement of the Glasgow Commonwealth Games. Transport Scotland played a significant role in the planning and delivery of arrangements to ensure that the transport network made a full and lasting contribution to the success of the event. An unprecedented number of spectators were successfully moved around the city and the significant investment in transport infrastructure and services was showcased in a very positive light, ensuring that Glasgow delivered what have since been termed 'the best games ever'. We were also a major contributor to the success of the 2014 Ryder Cup, and this, together with all of the events that took place in 2014, represented a momentous year for Transport Scotland and all its staff.

The latter part of the year saw new Ministers for the Transport Sector. We were delighted to see Keith Brown MSP promoted to Cabinet Secretary and we welcomed a new Minister for Transport and the Islands, Derek Mackay MSP.

Also in 2014, the former First Minister announced that, as a result of a £170 million package of improvements throughout the rail network, passengers in the north and north east of Scotland would be able to look forward to shorter, more frequent and more comfortable journeys. The year also saw the announcement of the new ScotRail franchise, which was awarded to Abellio in October 2014. Other significant milestones in year included the A75 Dunragit Bypass and the A77 Symington and Bogend Toll Improvements scheme, both of which opened to traffic for the first time in 2014. We also reached a significant milestone in the delivery of the A9 Dualling, with the award of three design consultancy contracts. Progress continued on the new Borders Railway, which is due to open in September 2015. New air routes were introduced, including those from Edinburgh to Philadelphia as well as Chicago and Doha. The new MV Loch Seaforth was introduced to the Stornoway-Ullapool route this year.

The Traffic Scotland National Control Centre and Contact and Education Centre achieved success at the 12th Annual Scottish Transport awards in June 2014, winning the excellence in Travel Information & Marketing category. The franchise process relating to the ScotRail franchise received high praise from Audit Scotland and the same body judged the process for the acquisition of Prestwick Airport to be reasonable in the tight timescale. The year also saw the launch of the Hydrogen Bus Refuelling Station in Aberdeen.

The First Minister also marked the commencement of work on the Aberdeen Western Peripheral Route/Balmedie-Tipperty road scheme (AWPR). The average speed camera system, covering sections of the A9 between Dunblane and Inverness, has already seen a significant reduction in speeding in some sections of the route.

We continue to build strong foundations for modal shift to sustainable and active travel, with on-going development of cycling and electric charging infrastructure, promotion of low carbon vehicles such as “green buses”, and encouragement of associated behavioural change.

Finally, we concluded the year with Derek Mackay MSP, Minister for Transport and Islands hosting the first ever Scottish Transport Accessibility summit. This was co-produced with disabled people’s organisations and transport providers, launching an ongoing collaborative venture to make sure that disabled people enjoy the same access to transport as everyone else.

I remain very proud of the skill, flexibility and professional commitment of staff within Transport Scotland. I thank all colleagues involved and also acknowledge our partners across Scotland, who played a significant role in making this extraordinary year such a success.

David Middleton CBE  
Chief Executive  
Transport Scotland

## **MANAGEMENT COMMENTARY**

### **STRATEGIC REPORT**

#### **ROLE**

Transport Scotland is the national transport agency for Scotland. An Agency of the Scottish Government, we are accountable to Parliament and the public through Scottish Ministers.

We oversee the operation and improvement of the trunk road, ferry, inland waterway and railway networks in Scotland; air passenger facilities in the Highlands and Islands and securing of traditional and new air routes for Scotland; national concessionary travel schemes and the provision of network traffic and travel information services. We also support Ministers in prioritising future transport policy and investments, whilst actively promoting sustainable transport and road safety.

#### **STRATEGY AND PLANNING**

The Scottish Government aims 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 are for improved connections across Scotland; increased safety and more innovation; continuously improved performance; better journey times; better reliability; greener transport alternatives and reduced emissions.

These provide a clear focus to support development and delivery of efficient, effective and sustainable transport infrastructure and services for Scotland.

Our detailed delivery outcomes are drawn from our **2012 – 2015 Corporate Plan** and **Annual Business Plan** covering the past year. Delivery against our targets for 2014-15 is summarised on pages 15-18.

#### **ACHIEVEMENTS**

2014 was a momentous year for Scotland's transport infrastructure and services.

Scotland's transport sector was showcased to a global audience of over a billion people and played a major role in the success of the Glasgow Commonwealth Games, the Ryder Cup, Homecoming, Armed Forces and Bannockburn Live. The projects that were undertaken to support these events have left a lasting, beneficial legacy for the whole nation.

Our Games commitments projects were completed on time, including Dalmarnock station rebuild and electrification of the railway to Cumbernauld. We worked closely with partners including Glasgow 2014, Glasgow City Council, ScotRail, Network Rail and others to ensure that end to end connections were available between all the major airports, railway stations or ports and the major Commonwealth Games event venues.

Leading up to the Ryder Cup, we undertook a £3.5 million upgrade of Gleneagles Station to provide safer access to the course, and working with Ryder Cup Europe, Police Scotland, British Transport Police, ScotRail, Stagecoach and Perth & Kinross and Stirling councils, we helped transport an average of 45,000 spectators on each of the three match days, along with approximately 7,000 support personnel who were required to be on site each day.

In addition to supporting Scotland's 2014 events, the year saw record levels of investment. In February 2015, Scottish Ministers committed to a £5 billion package of funding between 2014/19 in Scotland's railways, the largest investment since the Victorian era.

Almost £700 million was invested in our trunk road network to ensure it is safe, efficient and remains a key facilitator of economic growth, along with major projects like the Queensferry Crossing, M8 M74 M73 Improvements Project and dualling of the A9 to connect communities and expand our transport infrastructure across Scotland.

We have also seen major investment in new ferries and aircraft, as well as the securing of further afield air routes, boosting business and tourism for Scotland. The year 2014 also saw a record high for funding in active travel, with cycling leading the way plus growth in greener transport and a focus on our commitment to progress a low carbon economy, reduce emissions and tackle climate change.

## DELIVERY AGAINST OUR PRIORITIES IN 2014-15

### Transport Scotland Priorities

The following high level objectives were set out in our corporate plan and the table of achievements against each of these objectives is set out in the following section on pages 15 to 18.

|                                                                     |
|---------------------------------------------------------------------|
| Improved connections across Scotland and internationally            |
| Increased safety, more innovation                                   |
| Continuously improving performance and organisation                 |
| Better Journey Times, better reliability, quality and accessibility |
| Low Carbon Technology and Infrastructure, Reduced Emissions         |

The contribution of the work of each of the directorates of Transport Scotland to the above corporate objectives is set out below. It should be noted that many of the projects/ programmes set out below contribute to the achievement of multiple objectives.

## Trunk Roads and Bus Operations

- **Maintenance Contracts**

June 2014 saw the award of both the South East and North East '4th generation' (4G) contracts to Amey and BEAR Scotland respectively. Based on an estimate of the work likely to be carried out under 4G, these tender prices could potentially deliver overall savings of approximately £8.9 million (9%) for the South East and £7.9 million (8%) for the North East contract in relation to equivalent '3rd generation' (3G) costs.

Both contracts will run for six years (with the option to extend for a further two) incorporating improved levels of service over previous term maintenance contracts as well as encouraging the Operating Companies to deliver these services in more innovative ways.

- **Transport Resilience**

New contract specifications, greater use of technology and getting more information to people 'on the move' are just a few of the ways we continue to strengthen our winter resilience. The east unit's 4G contracts are already improving our winter service capability, with pre-winter preparations and treatment times for salt spreading more than halved, from five to two hours.

Traffic operations have now transferred to the Traffic Scotland National Control Centre (TSNCC), bringing closer partnership working with other agencies, such as Police Scotland and the Meteorological (Met) Office. Our Multi Agency Response Team (MART) is also improving our resilience, not only for national events like those in 2014, but also extreme weather or major incidents.

- **The Forth Bridges Operating Company Contract**

In December 2014, we announced the appointment of a single operating company – Amey LG Limited - to manage and maintain both the Forth Road Bridge and, upon completion, the new Queensferry Crossing. The contract will take effect from summer 2015.

- **A9 Kessock Bridge**

A total of £13.3 million of essential maintenance work was carried out on the A9 Kessock Bridge ensuring its reliable service for the next 30 years. The 72 week contract to waterproof, resurface and replace the safety barriers was undertaken by Balfour Beatty.

- **A9 Safety Group and A9 Average Speed Cameras**

The A9 Safety Group has delivered key elements of its interim safety plan, including educational campaigns targeting safer overtaking techniques and speed limit awareness, new lining and signing schemes and vegetation clearance to further improve sightlines.

Switched on in October 2014, the average speed camera system covering sections of the A9 between Dunblane and Inverness, has led to a 97% reduction in speeding. In addition, the 50 mph HGV pilot on the single carriageway A9 between Perth and Inverness is expected to reduce journey times, queuing and overtaking associated with HGVs on the A9.

- **Speed Limit Zones**

As identified in our speed limit review, Transport Scotland is promoting five pilot 20mph limits in Oban, Maybole, Largs, Biggar and Langholm to support road safety. We published the 'Good Practice Guide' on 20mph speed restrictions in line with Scotland's Road Safety Framework to 2020. This guide encourages local authorities to introduce 20mph limits and zones, provides clarity on the range of options open to them and promotes consistency.

- **Road Safety**

Road Safety Scotland (RSS) continues to invest in education and publicity initiatives. The lifelong learning approach to road safety education retained its high profile, with development work being undertaken on the 'Ziggy' campaign for early years and the 'Your Call' for lower secondary level. The Junior Road Safety Officer (JRSO) scheme continues to go from strength to strength and RSS ensured a significant presence at a number of events throughout the year. In addition, we oversaw a high profile campaign around the new lower drink drive limit, which came into force in December 2014.

Following a public consultation on the Scottish Safety Camera Programme, agreement was achieved from all stakeholder organisations for a range of proposals to improve efficiency and outcomes.



The year finished on a high with a Prince Michael of Kent International Road Safety Award for the overall 'Don't Risk It' strategy, citing the 'Kids in the Car' campaign as exemplar of an innovative approach to marketing.

- **Traffic Scotland**

We supported Traveline Scotland/Traffic Scotland to adapt its smartphone application to deliver information to attendees at all the major 2014 events as well as to the ordinary traveller. The application had nearly 400,000 users and delivered 755,000 journey plans during the Games

Traffic Scotland's Twitter and smartphone applications continue to grow significantly with circa 85,000 and circa 560,000 users respectively. Road users have also benefitted from better in-journey information on our variable message boards, with more key routes covered by our journey time service.

- **Smart Ticketing**

The Smart and Integrated Ticketing Team (SITT) continues to work in partnership with Local Authorities, Regional Transport Partnerships (RTPs), bus, rail and ferry operators to progress activities and pilot projects. Improvements include using the Young Scot card on a smart basis for school transport and all of Scotland's bus operators accepting the same smart card for the Young Person's Concessionary Travel Scheme.

SITT has also played a key role in specifying smart ticketing requirements for the ScotRail franchise and will be assisting in some of the upcoming Ferry franchise renewals.

## **Major Transport Infrastructure Projects**

- **Forth Replacement Crossing (Queensferry Crossing)**

The Forth Replacement Crossing has now seen a total of £195 million worth of savings since construction began, with a new budget range of £1.35-£1.4 billion announced in October 2014.

The project is now over 50% complete with the three main tower foundations just over half their final height and 10% of the bridge deck now in place. The project employs an average of 1200 people on site, benefitting over 365 Scottish firms. In addition 565 places for vocational and professional body training and the long-term unemployed have been generated. The FRC Contact and Education Centre is a focal point for engagement and learning with communities, education and other organisations and there have been over 30,000 people through the doors since it opened.

- **A82 Road Improvements**

Route option development of the A82 along Loch Lomond between Tarbet and Inverarnan is progressing, with the scenic importance of the area as well as the difficult terrain presenting unique challenges to design and construction. The new Crianlarich Bypass (opened to traffic in December 2014) and improvements at Pulpit Rock, due for completion in 2015, will also improve journey times and journey time reliability on the route.

- **A96 Inveramsay Bridge**

Construction on the £10 million A96 Inveramsay Bridge began in December 2014. When complete this will reduce congestion, improve journey time reliability and traffic flows, while decreasing the likelihood of bridge strikes.

- **Aberdeen Western Peripheral Route/ Balmedie to Tipperty**

In December 2014, Scotland's largest Non Profit Distributing (NPD) contract to construct the Aberdeen Western Peripheral Route/Balmedie to Tipperty (AWPR/B-T) was awarded, following the shortest procurement period for an NPD project of this size and complexity.

It is estimated that, when complete in winter 2017, AWPR/B-T will cut journey times across Aberdeen by half and will generate over £6 billion additional income (at 2004 prices).

- **Haudagain Roundabout**

Design work is progressing on the Haudagain Roundabout, following the commencement of the preferred route option in April 2014. Draft road orders are due to be published in summer 2015 with construction programmed to commence on completion of the Aberdeen Western Peripheral route.

- **M8 M73 M74 Motorway Improvements Project**

Construction work on the £500 million M8 M73 M74 Motorway Improvements is now well underway. It is estimated that improvements to the M8 and associated connections to the M73 and M74 will reduce journey times by up to 18 minutes at peak times for vehicles using the busiest sections of the motorway. In addition, road safety will be improved along the M8 corridor through a reduction of traffic on local roads.

- **A75 & A77**

The A75 at Dunragit and at Hardgrove to Kinmount and the A77 at Symington and Bogend Toll opened to traffic in 2014, improving connectivity and both local and strategic business links to and from Scotland's west coast ports. Safety on both routes has been achieved with better overtaking opportunities on the A75 bypass and on the A77, improved vehicle movements between Spittalhill and Dutch House Roundabout, as well as two new overbridges and central reserve gap closures, all of which are expected to reduce accident severity and frequency.

- **A9 and A96 Dualling Programmes**

In October 2014 we announced the names of four bidders competing for the contract to deliver the first A9 dualling scheme between Kincaig and Dalraddy. By providing overtaking opportunities in both directions, the dualling should cut the number of vehicle convoys and help to reduce driver frustration. The programme has a current projected total cost of £3 billion.

Three design contracts (worth approximately £40 million each) were awarded at the end of 2014 and are already supporting over 230 engineering design related jobs in Scotland, 46 of which are new.

The Strategic Business Case for dualling the A96 and the first Environmental Assessment were published in September 2014. In October 2014 the preferred option for the 30km section of the A96 between Inverness and Nairn was announced. These are the first steps in developing a robust plan to improve connectivity between Inverness and Aberdeen.

- **Edinburgh Trams**

We played a key role in supporting City of Edinburgh Council and its contractors in the construction work on Edinburgh Trams, which finished ahead of the revised programme. The tram link between the city centre and the airport is set to boost Edinburgh's economy.

The Edinburgh Tram Inquiry was set up in June 2014, with the Rt Hon The Lord Hardie as Chairman. Its remit is to enquire into the delivery of the Trams project, including its governance, project management and delivery structures, and report findings to Scottish Ministers.

## **Aviation, Maritime, Freight and Canals**

- **Aviation**

During 2014 we continued to work with airlines and airports to improve Scotland's international business connectivity and in-bound tourism. The World Route Development Forum in September 2014 provided an opportunity to encourage and incentivise airlines to choose Scotland. Key new routes commenced in 2014, in partnership with Scottish Enterprise, including Edinburgh to Chicago, Philadelphia and Doha. We also assisted Edinburgh Airport in securing its second middle east route to Abu Dhabi, due to commence in 2015.

We continue to support Highlands and Islands Services through sponsorship of Highland and Islands Airports Limited (HIAL), funding for the Air Discount Scheme and support for routes to Campbeltown, Barra and Tiree. We are working with the Isle of Man Government to restore a link to Glasgow and supporting Prestwick Airport to secure its future, with the goal of returning it to the private sector.

- **Ferries**

In a world first, we procured two ferries that incorporate a low-carbon hybrid system of diesel and battery power for use on Clyde and Hebrides routes. The MV Hallaig and MV Lochinvar are the only ferries in the world that offer this low carbon system on passenger and vehicle roll-on, roll-off ships. An order was placed in October 2014 with Ferguson Marine Engineering Ltd for a third hybrid vessel for future deployment on the network.

MV Loch Seaforth, the new £42 million vessel for the Ullapool-Stornoway route, entered service in February 2015 following sea trials. In addition Ullapool harbour saw investment of £17 million toward substantial upgrading, and £9.6 million was provided towards works at Stornoway to accommodate the new vessel.

Over the past year we also undertook a Freight Fares Review for larger commercial vehicles, a report is due to be published by end June 2015.

- **Roll-out of Ferries Plan and Road Equivalent Tariff (RET)**

In March 2015 we announced the final RET ferry fares for the Clyde and Hebrides services by October 2015, costing between £13 and £15 million. This fulfills our Ferries Plan commitment to roll out RET to all West Coast and Clyde islands within the term of this Parliament, benefitting islanders, tourists and businesses across the country with more affordable ferry travel to and from our remote island communities.

- **Ports and Harbours**

We are currently progressing a Harbours (Scotland) Bill through Parliament. The primary purpose of the Bill is to remove Scottish Ministers' power to compel the privatisation of Trust Ports, but it will also address concerns about current harbours legislation and provide an improved legislative framework for Trust Ports to increase efficiency and effectiveness of existing procedures.

## **Rail**

- **Borders Railway**

Track laying on the new Borders Railway was completed in February 2015. The longest new domestic railway to be constructed in Britain for over 100 years, the route has 30 miles of new railway line, seven new stations and offers a fast and efficient service connecting directly with Edinburgh and the wider Scottish rail network. Services are set to commence on 6 September 2015.

- **Glasgow Subway Modernisation**

Working with Strathclyde Partnership for Transport (SPT) on the Glasgow Subway Modernisation programme, we have provided up to £246 million of funding towards the estimated total of £287.5 million. During 2014-15, work included station accessibility improvements and station refurbishment. In addition, SPT awarded a £16 million contract for tunnel lining and associated works to ensure Glasgow's 118 year old tunnels remain fit for purpose.

- **Access for All programme**

In partnership with the Department for Transport and Network Rail, £41 million was provided to make 19 Scottish stations step free and accessible for disabled and other passengers through the "Access for All" programme. The first phase of the programme ran from 2006 - 2014 and a second phase will be delivered over the next five years. The programme has also supported over £6 million of investment in smaller access improvements across the rail network, in partnership with ScotRail.

- **ScotRail Franchise**

The new ScotRail passenger rail franchise was awarded to Abellio in October 2014 and operations commenced on 1 April 2015. The ScotRail franchise operates over 2,270 train services each day, delivering 86 million passenger journeys per year and is the single biggest contract let by Scottish Ministers, worth a total value of over £7 billion over 10 years.

Abellio offer significant improvements and innovations, in particular, improved services, trains and facilities. They plan to provide integration opportunities in addition to Smart technology. The specification puts passengers' interests at the heart of the ScotRail service, with ambitious service standards and an emphasis on quality and effective operation.

- **Caledonian Sleeper**

In May 2014, Transport Scotland announced the award of the Caledonian Sleeper Franchise to Serco Caledonian Sleepers Limited (SCSL). SCSL commenced operation of this new franchise on 31 March 2015. Initial improvements will see trains with new livery, refreshed interiors, improved booking processes and a new on-board service.

By 2018, SCSL will deliver an entirely new fleet of trains. Supported by £60 million of Scottish Government investment, these will offer new classes of accommodation, including en-suite berths.

- **Network electrification and Edinburgh Glasgow Improvement Programme (EGIP)**

The £80 million investment between Cumbernauld and Glasgow marked the first phase of EGIP electrification. Delivered in time for the 2014 Commonwealth Games, the electrification enabled new additional hourly services and new journey opportunities across the Glasgow North Suburban Electric network.

We remain on target to deliver the electrification of our busiest rail route between Edinburgh and Glasgow as planned by December 2016. Once completed EGIP will deliver a 20% reduction in journey times and 30% more capacity within four years, as well as more comfortable, efficient and reliable trains.

The £35 million electrification project at Whifflet (Rutherglen & Coatbridge) was completed in September 2014, within budget and four years ahead of the initial schedule. Delivered through the Network Rail and First ScotRail Alliance, the electrification supports more modern, faster and environmentally friendly trains and services started in December 2014.

- **Community Rail Partnership (CRPs)**

The first Community Rail Partnerships in Scotland received Ministerial approval in April 2014, with a total of six CRPs having now been established, and Abellio investing over £0.5 million to support and grow Community Rail Initiatives.

In October 2014 we were delighted when our CRP and Transport Policy team were named the overall Winner at the annual Association of Community Rail Partnerships (ACoRP) awards.

- **SQUIRE Report Card**

Transport Scotland's Service Quality Incentive Regime (SQUIRE) assesses 36 different facilities that affect rail passengers' travel experience, from toilet cleanliness to ticket vending machines. The annual evaluation of ScotRail services and facilities at stations and on trains shows marked improvement across key areas and financial penalties paid by the train operator have fallen for the fourth year in a row.

The most recent National Passenger Survey highlights that overall passenger satisfaction with ScotRail is 88%. The rating is also seven per cent higher than the UK average for train operators.

## **Transport Policy**

- **Scottish Green Bus Fund**

As part of the fifth round of the Scottish Green Bus Fund to encourage the adoption of low carbon buses and contribute to the decarbonisation of road transport, we awarded £2.9 million to nine bus operators towards the costs of purchasing 150 low carbon vehicles. Since its inception in 2010, the Fund will

have supported the purchase of a total of 276 green buses for the Scottish Bus fleet.

- **Chargeplace Scotland (CPS)**

Now in its third year, the CPS scheme network comprises over 600 publicly accessible charge points across Scotland, the majority of which provide free Electric Vehicle (EV) charging. The aim is to provide high powered rapid charge points at 35 mile intervals on routes connecting Scotland's towns and cities, to cater for the growth in electric vehicle ownership.

- **Switched on Scotland**

Actions from the Switched On Scotland Roadmap, including replacement of fossil-fuelled vehicles and promotion of plug-in vehicles with £1million funding for the Developing Car Clubs in Scotland, continue to help to drive forward the uptake of plug-in vehicles in Scotland.

In April 2014 we also supported the first annual 'EVOLUTION' motorshow at the Royal Highland Centre, Edinburgh, giving almost 900 attendees the chance to experience low carbon, hybrid and electric cars.

- **Greener Transport**

We continue to operate Freight Mode Shift Grant schemes, which aim to encourage the transfer of freight from road to the greener alternatives of rail or water. In 2014-15 we provided £0.8 million grant funding to support eight rail-freight flows. We also awarded Waterborne Freight Grant of £0.9 million to facilitate the movement of sawn timber by sea rather than by road.

- **Active Travel**

In 2014 we published the long term vision for active travel, with a view to encouraging people to walk and cycle for everyday shorter journeys. The Active Travel Vision 2030 focuses on areas such as infrastructure, transport integration, cultural and behavioural change, community ownership and planning. We have invested a record high for cycling projects, including £19 million of capital in Community Links and £25 million through match funding.

- **Blue Badge Legislation**

The Disabled Parking Badges (Scotland) Bill received Royal Assent in August 2014. The Act will provide additional powers to local authorities and Police Scotland to enforce the Blue Badge Scheme throughout Scotland. It will strengthen current enforcement powers, including the ability to cancel or confiscate a badge and it will introduce regulations to ensure that anyone refused a blue badge will have the right to appeal that decision.

**The table on pages 15-18 summarises Transport Scotland's performance against its corporate objectives for the year.**

## CORPORATE PLAN DELIVERY 2012-2015

Our Corporate Plan for the years 2012-15 committed transport Scotland to delivering a number of key achievements. Progress over the last three financial years has been as follows:-



- Worthy Mention (certain works under this commitment have achieved a significant milestone or progression). See Footnote on page 20



- Completed (for tasks which have achieved their target end date)



- Progressing (tasks which are considered on-going or have future end dates)



- Data Currently Being Analysed (tasks which are having their date or data renegotiated)



- Missed Deadline (tasks or projects that have encountered delays)

| No                                                              | Corporate Plan Delivery Commitments 2012-15                                                                                                                                                            | 2012/13 | 2013/14 | 2014/15 |
|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|---------|
| <b>Improved connections across Scotland and internationally</b> |                                                                                                                                                                                                        |         |         |         |
| 1                                                               | Continue and monitor construction of the Forth Replacement Crossing as programmed                                                                                                                      |         |         |         |
| 2                                                               | Work with colleagues in Scottish Government and with Planning Authorities to deliver our Development Planning responsibilities                                                                         |         |         |         |
| 3                                                               | Develop a future transport infrastructure programme in line with recommendations of the Strategic Transport Projects Review                                                                            |         |         |         |
| 4                                                               | Work alongside the City of Edinburgh Council to deliver the Edinburgh Trams project                                                                                                                    |         |         |         |
| 5                                                               | Continue to progress the Aberdeen Western Peripheral Route (AWPR) and the A90 Balmedie to Tipperty projects and design work to improve Haudagain roundabout                                            |         |         |         |
| 6                                                               | Continue construction of the Borders Railway                                                                                                                                                           |         |         |         |
| 7                                                               | Drive forward objectives for cross-border High Speed Rail                                                                                                                                              |         |         |         |
| 8                                                               | Continue to 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 by 2025, and the A96 by 2030 |         |         |         |
| 9                                                               | Continue to develop and improve railway stations                                                                                                                                                       |         |         |         |
| 10                                                              | Contribute to the development of the modernisation programme for the Glasgow Subway                                                                                                                    |         |         |         |
| 11                                                              | Work with aviation and maritime sectors to maximise connections and contribution to the Scottish economy                                                                                               |         |         |         |
| 12                                                              | Progress the M8 Baillieston to Newhouse, M8 Associated Networks Improvements and M74 Raith Interchange                                                                                                 |         |         |         |



|                                                                            |                                                                                                                                                                                                              |  |  |                                                                                     |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|-------------------------------------------------------------------------------------|
| 13                                                                         | Continue to deliver ferry services to the Northern Isles and Clyde and Hebrides including roll out of RET in line with published plans                                                                       |  |  |                                                                                     |
| 14                                                                         | Work with ports industry and stakeholders to maximise opportunities arising from manufacturing, deployment and operations and maintenance of offshore renewable devices                                      |  |  |                                                                                     |
| 15                                                                         | Take forward the progress with the A737 Dalry bypass project and develop the design for Maybole bypass                                                                                                       |  |  |                                                                                     |
| 16                                                                         | Take forward the procurement and construction of the A75 Dunragit Bypass scheme                                                                                                                              |  |  |  |
| <b>Better journey times, better reliability, quality and accessibility</b> |                                                                                                                                                                                                              |  |  |                                                                                     |
| 17                                                                         | Continue to maintain operate an improve the trunk road network to a high standard, to maximise value for money, to provide a high quality service to the travelling public keeping disruption to a minimum   |  |  |                                                                                     |
| 18                                                                         | Procure and deliver contracts to manage and maintain the trunk road network in the west (2012) and East (2014) of Scotland                                                                                   |  |  |                                                                                     |
| 19                                                                         | Continue to progress improvements to the A82 including Crianlarich bypass and Pulpit Rock, and the design work to upgrade the A82 Loch Lomond. Continue to progress improvement on the A96 Inveramsay Bridge |  |  |  |
| 20                                                                         | Work with rail industry to undertake reviews of timetables to reduce journey times and improve train service frequencies                                                                                     |  |  |                                                                                     |
| 21                                                                         | Work with Network Rail to deliver the Edinburgh-Glasgow Improvements Programme                                                                                                                               |  |  |                                                                                     |
| 22                                                                         | Extend and enhance the systems underpinning Traffic Scotland and Traveline Scotland to improve the delivery of travel information and trunk road traffic control                                             |  |  |                                                                                     |
| 23                                                                         | Work with transport operators, Regional transport partnerships and local authorities to deliver Smart ticketing across Scotland                                                                              |  |  |                                                                                     |
| <b>Low carbon technology &amp; infrastructure, reduced emissions</b>       |                                                                                                                                                                                                              |  |  |                                                                                     |
| 24                                                                         | Provide more sustainable public transport alternatives to the private car and continue to manage the Concessionary Travel Schemes efficiently and effectively                                                |  |  |                                                                                     |
| 25                                                                         | Contribute to the development of Glasgow Fastlink core bus scheme in advance of the Commonwealth Games                                                                                                       |  |  |                                                                                     |
| 26                                                                         | Work with rail industry to develop electrification programme                                                                                                                                                 |  |  |                                                                                     |
| 27                                                                         | Improve rail journey times between our main cities                                                                                                                                                           |  |  |                                                                                     |
| 28                                                                         | Work with freight industry to ensure that the movement of freight through the entire supply chain is efficient and sustainable, on an integrated and flexible transport infrastructure                       |  |  |                                                                                     |

|                                                            |                                                                                                                                                                                                                   |  |  |   |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|---|
| 29                                                         | Demonstrate environmental sustainability through the delivery of environmental protection, community benefit and climate change mitigation/adaptation across our operations, projects and maintenance activities  |  |  |   |
|                                                            |                                                                                                                                                                                                                   |  |  |   |
| <b>Increased safety, more innovation</b>                   |                                                                                                                                                                                                                   |  |  |   |
| 30                                                         | Work jointly with partners to achieve Scotland's casualty reduction milestones for 2015, and to take forward the action plan set out in Scotland's Road Safety Framework to 2020                                  |  |  | ★ |
| 31                                                         | Continue to develop and introduce innovative ways of improving the transport networks, for example overtaking lanes and flyover junctions                                                                         |  |  |   |
| 32                                                         | Provide a range of safety enhancements on the A9 and on the A75 and A77 routes serving the key ferry terminals to Ireland                                                                                         |  |  |   |
| 33                                                         | Work with bus operators to deliver quality and innovation                                                                                                                                                         |  |  |   |
|                                                            |                                                                                                                                                                                                                   |  |  |   |
| <b>Continuously improving performance and organisation</b> |                                                                                                                                                                                                                   |  |  |   |
| 34                                                         | Work closely with partners including all Scottish Local Authorities and Regional Transport Partnerships to deliver integrated transport solutions which support the SG Purpose and local and national outcomes    |  |  |   |
| 35                                                         | 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 issues and safety policy |  |  |   |
| 36                                                         | Work with key stakeholders on the National Roads Maintenance Review focussing on delivering efficiencies in managing the Scottish road asset                                                                      |  |  |   |
| 37                                                         | Manage delivery of the National Transport Strategy                                                                                                                                                                |  |  |   |
| 38                                                         | Manage and monitor the delivery of transport services through appropriate contractual mechanism                                                                                                                   |  |  |   |
| 39                                                         | Specify and deliver ScotRail franchise agreement for passenger services from 2014 onwards                                                                                                                         |  |  | ★ |
| 40                                                         | Work with Scottish Canals so that it can maximise its cross cutting contribution to the SG Purpose and national outcomes                                                                                          |  |  |   |
| 41                                                         | Work with Office of Rail Regulation and industry to develop proposals on delivering a sustainable, integrated railway in Scotland                                                                                 |  |  |   |
| 42                                                         | Improve resilience across the transport networks                                                                                                                                                                  |  |  |   |
| 43                                                         | Improve Business processes                                                                                                                                                                                        |  |  |   |
| 44                                                         | Ensure that equalities and cultural issues underpin all of Transport Scotland's activities                                                                                                                        |  |  |   |

|    |                                                                                                                                                                                                                                      |  |  |                                                                                     |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|-------------------------------------------------------------------------------------|
| 45 | Ensure effective implementation of the reforms to the Blue badge scheme, including associated legislation and support materials including a new on-line application form, revise leaflets and Code of Practice for local authorities |  |  |  |
| 46 | Continue to support Mobility and Access Committee Scotland (MACS) and Passengers' View Scotland in promoting increased accessibility and providing advice to Ministers from the passenger perspective                                |  |  |                                                                                     |
| 47 | Develop and deliver a programme of transport statistics collection, analysis and publication, and for Transport Social and Economic Research                                                                                         |  |  |                                                                                     |
| 48 | Deliver an evidence base to inform the development of effective Scottish transport policy including a Transport Social and Economic Research Programme                                                                               |  |  |                                                                                     |
| 49 | Deliver efficient operation in line with Efficient Government and the SG Workforce 2015 programme and People Strategy                                                                                                                |  |  |                                                                                     |
| 50 | Facilitate robust investment planning and decision making processes                                                                                                                                                                  |  |  |                                                                                     |

#### Worthy Mentions

##### **Task 16 – A75 Dunragit Bypass**

The £17.1 million A75 Dunragit Bypass opened to road users, improving journey times and providing opportunities for business, leisure and tourism industries. The extensive archaeological finds at Dunragit, which would have remained undiscovered had the new bypass not been built, underline the importance of the value we place on meeting our environmental obligations during the planning and construction of new infrastructure.

##### **Task 19 - A82 Crianlarich**

The £5 million A82 Crianlarich Bypass opened on 23 December 2014, providing better connections and thereby facilitating employment and education opportunities and promoting economic growth in Scotland. Local communities, businesses and tourists will benefit from reduced congestion on local roads and from the enhanced transport connections and journey time reliability.

##### **Task 30 – Road Safety**

In March 2015, a legislative order was approved at both the Holyrood and Westminster parliaments to facilitate devolution of the necessary powers to ensure that seatbelts are provided on all dedicated school transport in Scotland. Once approved by the Privy Council in summer 2015, this order will enable the Scottish Parliament to legislate so that seatbelts are statutory on all council-provided home-to-school transport. Scottish Ministers aim to make this a requirement from 2018 for vehicles transporting primary pupils and 2021 for those taking secondary pupils.

##### **Task 45 – Blue Badge**

The Disabled Persons' Parking Badges (Scotland) Act 2014 which came into effect on 30 March 2015 provided additional powers to local authorities and the police to enforce the blue badge scheme in Scotland. It strengthened current enforcement powers including the ability to cancel or confiscate a blue badge in certain circumstances. The Act also provides for regulations to ensure that people refused a blue badge on eligibility grounds are entitled to seek a review of the decision from the local authority.

##### **Task 39 – ScotRail Franchise**

The new ScotRail passenger rail franchise was awarded to Abellio in October 2014 and new operations commenced on the 1 April 2015. The ScotRail franchise operates over 2,270 train services each day, delivering 86 million passenger journeys per year and is the single biggest contract let by Scottish Ministers, worth a total value of over £7 billion over 10 years.

Abellio offer significant improvements and innovations, in particular, improved services, trains and facilities. They plan to provide transport integration opportunities in addition to a revolution in Smart technology. Our franchise specification puts passengers' interests at the heart of the ScotRail service, with ambitious service standards and an emphasis on quality and effective operation.

## SUSTAINABILITY REPORT

We are required to demonstrate compliance with the Climate Change (Scotland) Act 2009, on operational activities such as energy use in offices and official travel and progress in meeting our Carbon Management Plan (CMP) for the year.

Our target for the reduction of emissions is 16% by 2015-16, analysed as follows:-

- Business Travel emissions –19.4%
- Commute Travel emissions - 7.8%
- Office Energy emissions – 6.1%
- Office Waste emissions –25%

Detail of progress is provided in the table below.

| Corporate Operational Carbon Emissions (2014-15) |                  |          |                     |                                |                   |                                    |           |
|--------------------------------------------------|------------------|----------|---------------------|--------------------------------|-------------------|------------------------------------|-----------|
| Element                                          |                  | Metric   | Baseline in 2010/11 | Actual in 2013/14 <sup>1</sup> | Actual in 2014/15 | % change compared to previous year | Indicator |
| Total Emissions                                  | -                | kg/ CO2e | 724,697             | 714,187                        | 732,415           | 2.5%                               | ↑         |
| Energy (Scope 1&2 GHG emissions)                 | Electricity (BH) | kg/ CO2e | 315,768             | 318,670                        | 300,821           | -5%                                | ↓         |
|                                                  | Gas (BH)         | kg/ CO2e | 221,376             | 176,100                        | 211,049           | 19%                                | ↑         |
| Travel (Scope 3 GHG emissions)                   | Business Travel  | kg/ CO2e | 186,547             | 217,009                        | 217,639           | 0.2%                               | ↑         |
| Waste                                            | Waste            | kg/ CO2e | 1,097               | 2,408                          | 2,906             | 20%                                | ↑         |

Our emissions for business travel, office energy consumption and office waste are defined in our Carbon Management Plan. A detailed Sustainability Report will be published in late 2015, which will provide fuller details of our operation carbon footprint. During the financial year there has been a 2.5% increase in operational emissions when compared to the previous year.

As we enter the final year of the Carbon Management Plan we will be focusing all of our efforts on significantly reducing our carbon emissions. Although it will be extremely difficult to achieve the reduction targets, we remain committed to exploring a number of carbon reduction projects with a view to implementing changes in our daily business.

**Energy:** 2014-15 saw a decrease in Electricity consumption of 5%, with an increase evident in Gas consumption of 19%, as a result of the extended colder period over

<sup>1</sup> kg/CO<sub>2</sub>e figures are based on the DEFRA 2012 GHG conversion factors.

the autumn/winter months. The utilities information above is specific for Buchanan House. Both Electricity and Gas energy emissions remain below the baseline of 2010-11.

**Travel:** Emissions from business travel have increased by 0.2%. Emission reductions were achieved for Air Travel of 25%, Rail Travel of 2.5%, Bus Travel of 67% and Ferry Travel of 71%. There were increases in emissions for underground travel of 429%, Taxis of 59% and Hire Cars of 16%.

**Waste:** Waste production has increased by 20%.

## FINANCIAL STATEMENTS

The financial statements from 1 April 2014 to 31 March 2015 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). The financial statements are consolidated within the Scottish Government Consolidated Resource Accounts.

These financial statements were authorised for issue on August 2015.

Our Annual Review and Accounts are published on our website at: [www.transportscotland.gov.uk](http://www.transportscotland.gov.uk), and the Scottish Government Consolidated Resource Accounts at [www.scotland.gov.uk](http://www.scotland.gov.uk).

### **Significant accounting policies**

The areas 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 Road Asset Valuation System (RAVS), run by WS Atkins using 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 our road and rail improvement schemes certain assumptions and judgements are required to be made for the estimated cost of land acquisition and compensation claims. This is due to the often protracted negotiation periods involved and the initial uncertainty over both the financial value and the final payment date of any compensation.

- **Public Private Partnerships (PPP) – the balance of control**

We have three Public Private Partnerships (PPP) agreements in the form of Private Finance Initiative (PFI) contracts (M77 - Connect, M74/M6 – Autolink and the M80 Highway Management). These arrangements meet the definition of Service Concession Arrangements in accordance with the disclosure requirements of IPSAS 32. The private sector operators are contractually obliged to provide the services related to the infrastructure to the public. We retain overall control of the related assets and account for them on our Statement of Financial Position (SFP). The contracts are for fixed terms of thirty years and annual payments are made to the respective Service Concession Contractors in the form of unitary charges.

We also have Public Private Partnership (PPP) agreements in the form of Non-Profit Distributing (NPD) contracts for the M8/M73/M74 Motorway Improvements

Project with Scottish Roads Partnership (SRP) and Aberdeen Roads for the new Aberdeen Western Peripheral Route / Balmedie to Tipperty (AWPR / B-T). Both SRP and Aberdeen Roads limited are contractually obliged to provide the infrastructure and related services to the public on our behalf. We will retain overall control of the related assets and account for them on the SFP. The NPD contracts are for a fixed term of thirty years and annual payments will be made to the Contractors in the form of unitary charge payment streams over that period.

We have reviewed the degree of control exercised by each of the parties in existing PPP contracts and concluded that the degree of control we retain satisfies the requirements that the related assets created are required to be accounted for on our SFP. The value of the assets constructed under these two projects is reflected as an addition to Assets under Construction in the note on Property, Plant and Equipment in line with the latest accounting guidance. This amount will also be reflected as a corresponding long term creditor to be repaid from the unitary charges referred to previously.

For details of the differences between NPD and PFI contracts, see the Scottish Futures Trust website at [www.scottishfuturestrust.org.uk](http://www.scottishfuturestrust.org.uk)

### **Rail infrastructure in Scotland**

We are responsible for setting a strategy for rail in Scotland, including strategic outcomes for the industry, primarily through Network Rail (NR) and the ScotRail franchise, and defining the level of public expenditure available to support this.

NR's outputs and associated funding for Control Period 5 for 1 April 2014 to 31 March 2019 in Scotland was determined by the Office of Rail Regulation (ORR). Due to the reclassification referred to earlier, NR now borrows from the UK Government (via a loan facility) rather than the markets to cover its future financing requirements. The major projects specified by the Scottish Ministers for delivery by 2019 are largely funded through this loan agreement. The Scottish Government, however, retains full responsibility for managing its own relationship with NR in the delivery and funding of specified outputs on the Scottish rail network.

### **Funding**

Resources to fund our operating costs and capital investment programme were allocated in the Scottish Government Budget 2014-15.

The choice between public and private funding is governed by suitability for alternative forms of finance (including Value for money (VFM) as well as availability). The policy decision set out in the Budget 2014-15 is to maximise investment by utilising all available forms of finance (whilst working within a 5% affordability envelope for revenue financed schemes) in light of significant capital constraints.

### **Financial performance and use of resources**

We are required to monitor expenditure against our budget. During the financial year, this budget can be subject to revision and adjustment via the Scottish Government Autumn Budget Revision (ABR) and Spring Budget Revision (SBR). The table below shows the movement in our Budget.

|                                 | <b>Original<br/>Budget 2014-<br/>15<br/>£000's</b> | <b>ABR<br/>Adjustments<br/>£000's</b> | <b>SBR<br/>Adjustments<br/>£000's</b> | <b>Revised<br/>Budget<br/>2014-15<br/>£000's</b> | <b>Out turn<br/>2014-15<br/>£000's</b> |
|---------------------------------|----------------------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------------------|----------------------------------------|
| Rail Services                   | 832,800                                            | (11,300)                              | (74,112)                              | 747,388                                          | 693,259                                |
| Concessionary<br>Travel         | 253,600                                            | -                                     | (61)                                  | 253,539                                          | 252,698                                |
| Motorways<br>and Trunk<br>Roads | 611,250                                            | (10,050)                              | (7,991)                               | 593,209                                          | 538,298                                |
| ODEL PFI                        | 76,400                                             | -                                     | 193,817                               | 270,217                                          | 183,589                                |
| AME                             | -                                                  | -                                     | (10,000)                              | (10,000)                                         | (4,586)                                |
| Ferries                         | 146,800                                            | -                                     | 23,000                                | 169,800                                          | 162,408                                |
| Air                             | 39,900                                             | -                                     | 10,850                                | 50,750                                           | 49,160                                 |
| Other<br>Transport              | 69,900                                             | 11,050                                | (525)                                 | 80,425                                           | 75,772                                 |
| Scottish<br>Futures Fund        | 18,700                                             | -                                     | (2,300)                               | 16,400                                           | 15,002                                 |
| Grants to local<br>authorities  | 30,700                                             | -                                     | 14                                    | 30,714                                           | 30,535                                 |
| <b>TOTAL</b>                    | <b>2,080,050</b>                                   | <b>(10,300)</b>                       | <b>132,692</b>                        | <b>2,202,442</b>                                 | <b>1,996,135</b>                       |

A total of £1,942 million of budget cover was allocated from the Scottish Government Departmental Expenditure Limit (DEL) budget (2013-14: £1,937 million); the negative £10 million Annually Managed Expenditure (AME) relates to the release of provisions on land compensation and damage claims on the trunk road network (2013-14 £19 million). The remaining £270 million of budget (2013-14 £61 million) represents provisions scored out-with DEL in respect of on balance sheet PFI/PPP projects. These budgets formed part of the overall budget of the Scottish Government Infrastructure Investment and Cities portfolio.



## OUTTURN ANALYSIS

| <b>Transport Scotland<br/>2014-15</b>                       | <b>Actual<br/>£000's</b> | <b>Budget<br/>£000's</b> | <b>Variance<br/>£000's</b> |
|-------------------------------------------------------------|--------------------------|--------------------------|----------------------------|
| Resource - Operating Costs                                  | 820,834                  | 889,927                  | (69,093)                   |
| Resource – Investment                                       | 620,164                  | 623,219                  | (3,055)                    |
| Resource Depreciation (Non-Cash)                            | 58,200                   | 88,750                   | (30,550)                   |
| Capital                                                     | 317,934                  | 340,329                  | (22,395)                   |
| <b>DEL total</b>                                            | <b>1,817,132</b>         | <b>1,942,225</b>         | <b>(125,093)</b>           |
| AME                                                         | (4,586)                  | (10,000)                 | 5,414                      |
| Budget provision for on balance<br>sheet PFI schemes (ODEL) | 183,589                  | 270,217                  | (86,628)                   |
| <b>Total</b>                                                | <b>1,996,135</b>         | <b>2,202,442</b>         | <b>(206,307)</b>           |

The final outturn for the year against the main budget areas is also shown in the outturn analysis table. The DEL underspend of £125 million is largely due to savings on the Forth Replacement Crossing and slippage on other capital projects. Expenditure on Rail Services also reduced due to lower than anticipated inflation, redemption of Maintenance Bond at cessation of First ScotRail franchise and reduced costs incurred on the new franchise procurement. Reduced expenditure on Ferries was due to lower than anticipated payments for the new hybrid vessel. The underspend on the non-cash depreciation budget was in respect of lower than estimated smoothed road condition variance.

The underspend on ODEL was due to slippage on the M8/M73/M74 Motorway Improvements project and advance funding not charged against budget.

The overall underspend of £206 million (2013-14: £30 million) represents approximately 9.4 % (2013-14: 1.6%) of the overall budget. This contributed to the overall Scottish Government balanced budget position.

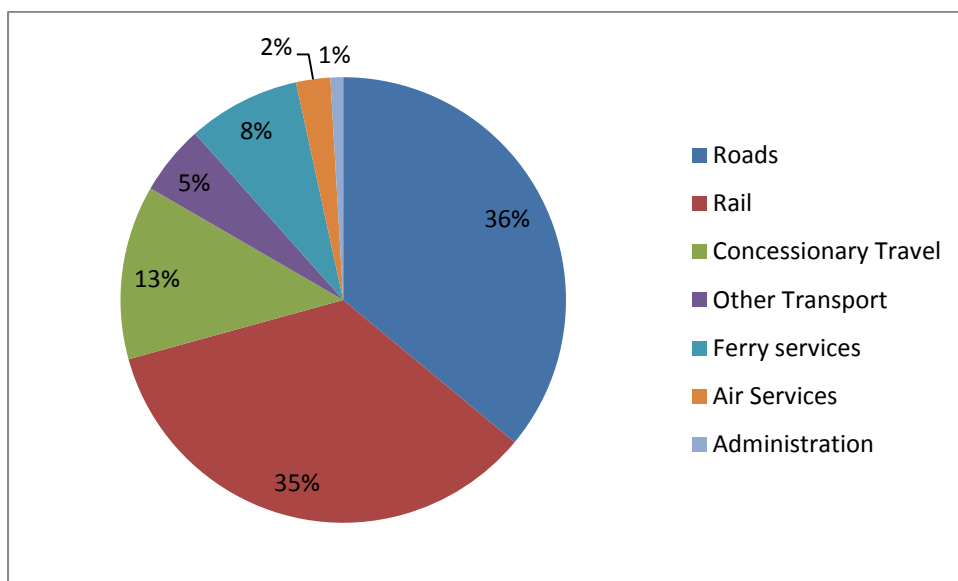
Spending is categorised as either capital or resource DEL with separate budgetary cover for each. Resource DEL is further sub-divided into investment in infrastructure, which is in the form of capital grants and are not accounted for on the Transport Scotland balance sheet. There is also a separate budget line within resource DEL for depreciation (non-cash).

The Statement of Comprehensive Net Expenditure (SoCNE) on page 55 identifies net operating costs of £1,567 million. Capital expenditure is not recognised as in year expenditure within the SoCNE, but the table overleaf provides a reconciliation of overall outturn to SoCNE.

|                                                   | <b>£000's</b>    |
|---------------------------------------------------|------------------|
| <b>Net Operating Costs pre SoCNE</b>              | <b>1,567,267</b> |
| Add: Additions to Intangible Assets (Note 7)      | 0                |
| Add: Additions to PPE (Note 6)                    | 424,439          |
| Add: Additions to Investments (Note 9)            | 10,480           |
| Less : Disposals of Intangible Assets (Note 7)    | 0                |
| Less: Disposals of PPE (Note 6)                   | (59)             |
| Less: Repayments of Investments (Note 9)          | (5,937)          |
| Less : Disposals on Assets held for Sale (Note 8) | (55)             |
| Less: De-trunkings (Note 6)                       | 0                |
| Add: De-trunkings depreciation (Note 6)           | 0                |
| <b>Outturn per Management Commentary</b>          | <b>1,996,135</b> |

*A further analysis of actual expenditure in 2014-15, is analysed overleaf by operational area within Transport Scotland.*

The majority of Transport Scotland's budget is spent, either directly or indirectly, with private sector companies. Only 1% of the budget is utilised on the on-going Agency running costs. The chart below shows the percentage spent on each of the main areas of service provision identified in the budget.



The total asset base is £18 billion, the majority of which relates to the trunk road network asset. Additions to the value of the asset include the completion of the A82 Crianlarich and A75 Dunragit and Hardgrove to Kinmount, as well as the A77 Symington and Bog End Toll schemes.

### **Public Relations**

Our communications team includes in-house and contracted staff. Expenditure on this includes staff and external communication, marketing, campaigns such as road safety, media relations, promotion and sponsorship and totalled £572,000 for the year (2013-14: £611,000).

### **Overseas Travel**

The expenditure incurred on overseas travel by staff to and from the United Kingdom, the cost of hotels, travel and subsistence and any other related expenditure was £68,000 (2013-14 £63,000).

### **Hospitality and Entertainment**

The expenditure incurred was £51,000 (2013-14 £61,000). This included gifts, meals, receptions or invitations to public, sporting, cultural or other events or other similar benefits.

### **External**

External consultancy services are used in some areas such as IT; specialised financial services; construction or infrastructure related services; research and evaluation and policy development. The expenditure incurred was £4.9 million (2013-14 £3.8 million), with an increase related to procurement of rail franchise.

### **Payments with a value in excess of £25,000**

We publish a monthly report of payments with a value over £25,000. The reports are published on our website: <http://www.transportscotland.gov.uk/about-us/expenditure/reports> and cover the financial years 2014-15 and 2013-14.

### **Payments with a value in excess of £500, using Government Procurement Card**

We publish a report of payments made using the Government Procurement Card with a value over £500. This report is available on our website: <http://www.transportscotland.gov.uk/about-us/expenditure/reports> and covers the financial years 2014-15 and 2013-14.

### **Relationship with suppliers**

We are 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. We settled an average of 96% of invoices within this timescale (2013-14: 95%).

The amount owed to trade creditors at the year end as a proportion of the aggregate amount invoiced during the year, represented 1.2 days in proportion to the total number of days in 2014-15 and 8.4 days in proportion to the total number of days in 2013-14.

### **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.

### **Future Spending Plans**

The *Scottish Budget Draft Budget 2015-16*, published in October 2014, provides detail of how our spending plans that will help deliver sustainable economic growth. These allocations are included in the table below for the coming financial year. There are currently no published spending plans beyond 2015-16. It is expected that Scotland's Spending Plans will be informed by the outcome of the UK Government's Comprehensive Spending Review 2015 that will take place later this year.

|                                   | <b>2015/16*<br/>£000's</b> |
|-----------------------------------|----------------------------|
| <i>Resource – Operating Costs</i> | 902,250                    |
| <i>Resource – Investment</i>      | 623,550                    |
| <i>Non-Cash</i>                   | 110,800                    |
| <i>Capital</i>                    | 438,800                    |
| <b>Total</b>                      | <b>2,075,400</b>           |
| <i>ODEL</i>                       | 80,900                     |
| <b>Total</b>                      | <b>2,156,300</b>           |

*An additional £3.9m for cycling and walking infrastructure was announced at Stage 3 of the Budget Bill. This will be formalised at ABR but is included in the Resource total above..*

*\*Source- Scottish Budget Act 2015-16 and Stage 3 funding announcement*

### **Employees and Social and Community Issues**

Our staff use the Scottish Government's 'Skills for Success' framework approach to learning, development and career planning. We continue to embrace a programme of education engagement, (Career Ready) where staff use their skills and experience of work to help young people in the surrounding area prepare for employment.

In procuring major contracts we are at the forefront of delivering community benefits beyond those of the normal contract requirements. One example of this is the benefits to the community being delivered through the Forth Replacement Crossing project. This project directly supports up to 1,200 jobs, estimated to be worth around £6 billion to the Scottish economy, with 265 out of 483 subcontracts awarded to Scottish firms with a value of approximately £93 million.

During each year of construction, the FRC will deliver 45 vocational training positions, 21 professional body training places and 46 positions for the long term unemployed, as well as providing further scope to maximise Modern Apprenticeship opportunities with 565 places for vocational and professional training and the long-term unemployed generated. Community Forums continue to share information with community groups regarding upcoming construction activities and the measures proposed to mitigate their effects.

Every school in Scotland was advised of the availability of the FRC Contact and Education Centre for educational activities related to construction and engineering, with nearly 6,000 pupils visiting to date. The Project Exhibition has also been very successful in raising awareness and attracting visitors, with nearly 8,000 visitors to date.

The M8/73/74 motorway improvements project generated £107 million of contracting opportunities. Site based employment opportunities are being advertised locally. Opportunities for recently qualified people are also available with the site currently employing 11 apprentices and 14 graduates, 5 undergraduate students undertook summer placement positions on the site. As the construction work continues an increase in these is anticipated. Presentations have been given to interested residents and conservation groups to keep them informed about work on the project.

Aberdeen Roads Limited, anticipate that work on the AWPR will create a minimum of 45 graduate and apprenticeship positions during the construction phase, with a further 30 construction jobs aimed specifically at long-term unemployed people. During the operation and maintenance phase, it is expected that there will be an additional 7 graduate and apprenticeship opportunities and 5 positions for long-term unemployed people.

We are also delivering community benefits for the Highlands and Islands (and Dundee) in the aviation sector through our sponsorship for Highlands and Islands Airports (HIAL). Infrastructure is provided which supports essential air services and HIAL directly employs around 600 staff in those communities. We also contract three lifeline air services serving Barra, Campbeltown and Tiree which cannot be provided commercially and the Air Discount Scheme provides discounted air fares for the residents of some of Scotland's most remote communities making fares more affordable.

The contract for the provision of ferry services to the Northern Isles with Serco Ltd (supported by a total subsidy of £234 million) actively identifies opportunities for supported businesses in the area and Serco Ltd remains committed to this principle. Their procurement manager has a direct line to the wider Serco Group procurement team and this provides opportunities for supported businesses to benefit from a much larger range of opportunities and become involved in Serco's supplier forum.

### **Equal opportunities**

We are an equal opportunities employer with policies in place to guard against discrimination and to ensure no unfair or illegal discriminatory treatment or barriers to employment or advancement. We are also committed to meeting our duties under the Equality Act 2010.

Our 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, religion or belief, work pattern, employment status, gender identity (transgender), caring responsibility or trade union membership. Employment and promotion are on merit on the basis of fair and open competition. Staff who work

full time and those who work an alternative pattern are assessed on exactly the same basis.

We are committed to the Scottish Government People Strategy to mainstream equality and diversity in every aspect. This is further supported by our Fairness at Work Policy. Together these policies and strategies will support us in 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.

We access the Scottish Government Diversity Adviser who is responsible for developing and implementing equal opportunities and diversity policies.

The breakdown for the financial year, of the number of persons of each gender employed within the agency is as follows:-

| Gender | Chief Executive and Directors | Employees | Total |
|--------|-------------------------------|-----------|-------|
| Female | 0                             | 174       | 174   |
| Male   | 8                             | 301       | 309   |

*Figures based on Agency numbers at the end of March 2015*

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.

### **Environmental Matters**

We contribute to Scotland's wellbeing: economically, environmentally and socially through an efficient transport system, essential for enhancing productivity and delivering faster, more sustainable growth in a low carbon economy.

We invest most of our resources in maintaining and improving Scotland's strategic transport networks, (96% of budget), supporting over 25% of civil engineering contracts in Scotland. Investment across all transport modes, in operation, maintenance and specific infrastructure construction supports over 12,000 jobs.

We seek to embed sustainability in every aspect of construction works and are committed to recycling materials and works with contractors to identify opportunities to minimise materials imported/exported from construction sites. Our plans and performance in terms of sustainability throughout the year are detailed in the report on pages 19-20.

### **Sustainable Growth**

We contribute to the Scottish Government's Purpose of sustainable economic growth, by supporting the targets set out in the Climate Change (Scotland) Act and the aims of the Second Report on Proposals and Policies (RPP2), published in June 2013.

Investment is set within a hierarchy which also promotes sustainable growth by seeking to maintain and safely operate the assets we already have, to make best use of those assets, and finally to target infrastructure improvements.

In addition, we have continued to support the development of cycling and walking infrastructure, alongside the promotion of active travel, working with partners to deliver the Cycling Action Plan for Scotland and progress towards its vision of 10% of everyday journeys by cycle by 2020. This will be taken forward through continuation of the Future Transport Fund.

We continue to promote alternatives to private car travel through funding to CarPlus to develop a network of car clubs across Scotland, and to the Energy Saving Trust to promote fuel efficient driving as well as work with organisations to encourage their transitions to low carbon travel and transport choices.

### **Concessionary Travel Scheme**

Within the 2014-15 Concessionary Travel budget of £197 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 (CPT), was set at £192 million. Bus operator claims within the free scheme in 2014-15 totalled approximately £190.7 million.

Reimbursement arrangements for the next two years under the National Concessionary Travel (NCT) Scheme for Older and Disabled People have been agreed with the CPT. The reimbursement rates for 2015/16 and 2016/17 will be 57.1% and 56.9% respectively, and, based on these rates, the Scottish Ministers have decided that the statutory caps on payments will be £202 million for 2015/16 and £212 million in 2016/17.

### **Freedom of Information**

The Freedom of Information (Scotland) Act 2002 aims to make information held by public authorities more accessible. We provide information (unless exempt) within 20 working days, to provide advice and assistance to the applicants, and to proactively publish information.

### **Future Developments**

Transport Scotland's Strategic Transport Projects Review 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. Priority projects including the Forth Replacement Crossing, Edinburgh to Glasgow Rail Improvements Programme and Borders Rail Line continue to progress well. Procurement of the AWPR was also concluded in this financial year. The A96 Inverness – Nairn scheme is still at an early stage and we are currently carrying out a preliminary engineering and strategic environmental assessment of the route.

In addition we are continuing to work with partners and stakeholders to take forward the development and design of other projects such as dualling the A9 between Perth and Inverness and the upgrading of the A82 between Tarbet and Inverarnan. The scheme to upgrade the A9 between Kincaig and Dalraddy to dual carriageway has been brought forward and the contract is expected to be awarded in Summer 2015, whilst the A96 Inveramsay Bridge contract was awarded in October and construction is expected to be completed in December 2015.

Following the transfer of the existing Forth Road Bridge to the Scottish Trunk Road Network the Forth Estuary Transport Authority (FETA) that was previously responsible for its upkeep and maintenance ceased its activities at the end of May 2015 with responsibility for the maintenance of the bridge transferring to Transport Scotland. Transport Scotland has procured a new Forth Bridges Operating Company contract to undertake these responsibilities as well as those that will come from the Forth Replacement Crossing. The existing FETA employees transferred to the new operating company (Amey) under TUPE regulations but Transport Scotland also took on the residual FETA assets and liabilities, including those in respect of the existing liabilities accrued for FETA pensions under the Lothian Pension Fund local government scheme. Actuarial valuations have currently identified the value of the pension liabilities at £5.7 million and further work is underway to agree a final figure that Transport Scotland intends to pay to the pension fund to settle these on-going liabilities. Transport Scotland intends to utilise the residual value of FETA reserves to fund this payment. The value of these reserves is currently estimated at £3.5 million, which will be confirmed in the closing audited accounts in due course. Transport Scotland intends to fund the estimated shortfall of £2.2 million from within its overall budget in 2015-16.

### **Efficiency Agenda**

The Scottish Government set annual targets of 3% Efficiency Savings to be achieved. Total efficiency savings achieved are shown below.

|                                    | <b>2014-15<br/>£'m</b> | <b>2013-14<br/>£'m</b> |
|------------------------------------|------------------------|------------------------|
| Efficiency Savings Target          | 60                     | 60                     |
| Efficiency Savings Achieved        | 46                     | 77                     |
| % of Transport Scotland DEL Budget | 2%                     | 4%                     |

The challenge is to use resources in a more efficient and effective way so that more can be delivered for the same or less cost. It is important to note that, efficient procurement within the FRC project, coupled with robust project management therein and collaborative working between the delivery team and the Forth Crossing Bridge Consortium (FCBC) will result in £195 million of efficiencies. These are not included here but will be reflected once the project completes.



The main reasons for the efficiencies highlighted on the previous page are as follows:-

- Scottish Canals upskilling workforce, sharing services with Scottish National Heritage / Forestry Commission/SEPA and increased project evaluation;
- favourable negotiations in securing the extension of the former ScotRail Franchise;
- more economic pricing of road operating companies' contracts;
- improved technologies, sustainable reconstruction techniques and e-procurement for roads maintenance;
- ferry services operating efficiencies;
- optimum maintenance treatments resulting in lower whole life costs following guidance to Operating Companies; and
- the concessionary bus travel scheme reduced cost agreement with bus contractors.

### **Shared Services / Cluster Project working**

We are committed to achieving quality public services that are valued by their customers and that realise efficiencies by employing best business practice and improved collaborative working. We currently share the following services with the Scottish Government: Information and Communications, Human Resources, Estates services, Payments, Financial Reporting and Payroll. We also share services with other authorities, such as the Road Asset Valuation System.

Our policy is to use collaborative contracts, such as those awarded by Scottish Procurement wherever practicable. Cash savings of £785,340 were delivered in 2014-15 (2013-14: £625,875) through expenditure of just over £5.7 million (2013-14: £2.7 million) on Scottish Procurement-led collaborative contracts and frameworks.

We support the drive for improved procurement capability, through participation in the Scottish Procurement and Commercial Directorate's Cluster Group Project. This involves sharing best practice and knowledge transfer. In addition, we procure our contracts in such a way that gives Scottish firms, particularly Small and Medium Enterprises (SMEs), a fair chance to compete, including the advertising of sub-contract opportunities on the Public Contracts Scotland website.

### **Risks and Uncertainties**

The principal risks and uncertainties facing Transport Scotland relate to our major contracts and financial investments for the provision of rail, ferry, bus and air services, the maintenance of the road, rail and the Highlands and Islands air networks and major infrastructure such as the Queensferry Crossing. The inherent risks relate to performance by contractors which can also be affected by outside factors such as adverse weather. We focussed efforts in particular on improving winter resilience on the trunk road network and manage the related financial risks on these contracts by providing support, including monthly reporting to budget holders, directors and the Scottish Government.

### **Significant events since the end of the financial year**

There have been no significant events since the end of the financial year.

David Middleton CBE  
Chief Executive  
19 August 2015

## **DIRECTORS REPORT**

### **GOVERNANCE**

The Chief Executive is the Accountable Officer for the Agency. This role is supported by a Senior Management Team 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 Scottish Government non-executive member Alex Smith, and including two further external members.

Dorothy Fenwick and Alan Thompson served as external members during 2014. However, Dorothy Fenwick left on 1 March 2014 and her replacement, Susan Dunn took up post on 1 December 2014. Alan Thompson left on 26 January 2015, his replacement, Pamela Mclauchlan will take up post in 2015-16.

Current Directors:-

- David Middleton, Chief Executive
- Roy Brannen, Trunk Road and Bus Operations
- Donald Carmichael, Transport Policy
- Aidan Grisewood, Rail
- Sharon Fairweather, Finance and Analytical Services (left 5 January 2015)
- Michael Baxter, Finance and Analytical Services (started 5 January 2015)
- Ainslie McLaughlin, Major Transport Infrastructure Projects (left 13 March 2015)
- Michelle Rennie, Major Transport Infrastructure Projects (started 27 April 2015)
- John Nicholls, Aviation, Maritime, Freight and Canals

### **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. The 2014-15 assurance letters on internal control, which all Directors in post as at 31 March 2015 completed, also confirmed that no conflict of interest arose in the exercise of their duties.

### **STAFF RELATIONS**

We give a high priority to the development of all our staff. Training, development and learning is quality assured through our commitment to the Investor in People (IiP) Scheme.

We recognise that the success of any organisation depends largely on the effective performance and full attendance of all its employees. People are a valued resource, and as an employer our 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 stay in work; and
- explain employees' entitlements and roles and responsibilities

In 2014-15 an average of 5.7 working days (2013-14: 6.2) were lost due to sickness absence per staff year for Transport Scotland.

### **EMPLOYMENT OF DISABLED PERSONS**

We follow Civil Service good practice guidance on the employment of disabled people and are a Job Centre Plus Disability Symbol user. As such, we ensure 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 number of staff as at 31 March 2015 who had declared a disability employed by Transport Scotland was 23.

### **PENSION LIABILITIES**

The pension entitlements of the Executive Directors of Transport Scotland are contained within the remuneration report. An indication of how pension liabilities are treated in the accounts and references to relevant pension schemes are also contained within the Remuneration Report and Note 2 to the Accounts.

### **DISCLOSURE OF INFORMATION TO THE AUDITORS**

Each of the above mentioned Directors has taken all the steps that they ought to have taken as a Director, in order to make sure that they are aware of any relevant audit information and to establish that the auditor is aware of that information. Consequently, so far as each Director is aware, there is no relevant audit information, of which the auditor is unaware.

### **APPOINTED AUDITORS**

The accounts for 2014-15 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 £182,000 which related solely to the provision of the statutory audit service. There were no payments made for non-audit work in the year.

### **PERSONAL DATA RELATED INCIDENTS**

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

David Middleton CBE  
Chief Executive  
19 August 2015

## 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 include responsibility for the propriety and regularity of the public finances for which he is accountable. He is also responsible for keeping proper records and for safeguarding the Agency's assets, as set out in the Memorandum to Accountable Officers issued by the Scottish Government.

David Middleton CBE  
Chief Executive  
19 August 2015

## **GOVERNANCE STATEMENT**

I am pleased to introduce the Governance Statement for 2014-15, which explains Transport Scotland's approach to corporate governance. Good governance is vital to effective financial and risk management.

The Scottish Public Finance Manual (SPFM), issued by Scottish Ministers to provide guidance on the handling of public funds, summarises the purpose of the Governance Statement as being to provide a clear understanding of the organisation's internal control structure and its management of resources. The Statement should provide a sense of how successfully the organisation has coped with challenge and risk.

This Governance Statement describes how the Agency and its supporting governance structures work, how they have performed, and provides an assessment of how the Agency has been managed, including the effectiveness of the systems of internal control, risk management and accountability.

### **Accountable Officer's scope of responsibilities**

Our 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 air passenger facilities at Prestwick; the national concessionary travel schemes and the provision of travel information services. It also supports Ministers in prioritising future transport policy and investments and promoting sustainable transport and road safety.

As Accountable Officer for the Agency, I have responsibility for maintaining a sound system of internal control that supports the achievement of Transport Scotland's policies, aims and objectives set by Scottish Ministers, whilst safeguarding the public funds and departmental assets for which I am responsible, in accordance with the SPFM. I am supported in that role by a senior management team of six Directors and an Audit and Risk Committee, chaired by a Scottish Government non-executive member and including two further external members.

### **Transport Scotland Audit and Risk Committee**

The Audit and Risk Committee comprises three external members to bring independent judgement and challenge to the governance of the Agency. The Committee meets four times a year, although the Chair of the Audit and Risk Committee may convene additional meetings as deemed necessary and regularly meets myself and the Director of Finance and Analytical Services to keep abreast of developments as appropriate. Audit and Risk Committee meetings will normally be attended by myself as Accountable Officer for the Agency, the Director of Finance and Analytical Services, the Head of Internal Audit (IA) (or representative), and a representative of external audit (Audit Scotland). In addition, the Audit and Risk Committee asks other Transport Scotland officials to attend to assist it with its discussions where specific input or expertise is required.

The Audit and Risk Committee advises on strategic processes for risk, control and governance; the accounts of the organisation, including the process for review of the accounts post audit and prior to sign off by myself as Accountable Officer; and assurances relating to the corporate governance requirements.

The Audit and Risk Committee receives copies of minutes of the monthly meetings of our Directors and also meets with all of them individually on a 6 monthly basis. In addition, the Committee meets with Internal Audit and External Audit separately twice a year.

The Audit and Risk Committee also produces an Annual Report, which supports this Governance Statement. The report summarises the committee's work over the past year and assesses:-

- the reliability and comprehensiveness of assurances received;
- issues pertinent to this governance statement;
- financial reporting;
- the quality of both internal and external audit; and
- its view of its own effectiveness and aspects that could be strengthened.

### **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 which adheres 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. These are focussed on Transport Scotland's delivery priorities, which are closely linked to the Governments National Outcomes.

Each year the Agency sets its objectives within the Corporate Business Plan and performance is monitored throughout the year and measured against targets at year end, reporting progress on key achievements. In addition, every Directorate within the Agency sets key performance indicators for the service it provides and progress against these is reviewed at Senior Management level. Transport Scotland is also set an annual target to achieve overall efficiency savings as a percentage of its

budget and progress is reported to the core Scottish Government on a quarterly basis.

### **Accountability**

The Senior Management Team ensures that the Scottish Public Finance Manual is applied, with appropriate arrangements in place to ensure that the public funds they are accountable for are properly safeguarded and used economically, efficiently and effectively.

### **Delegated Authority**

I, as Chief Executive and Accountable Officer for Transport Scotland, formally delegate 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. Transport Scotland's budgets are determined in the context of the Scottish Government's annual budget process, and forecast expenditure is continuously monitored in order to highlight significant deviations from budgets and to identify any potential corrective action in liaison with Scottish Government Finance Directorate.

### **Programme and Project Management**

We adopt a comprehensive approach to programme and project management. All investment projects are overseen by a Project Board, chaired by the Project Sponsor. The Project Boards incorporate a range of expertise including procurement, legal, technical and financial at a senior level. In addition non-executive members of the Audit and Risk Committee are included on the Boards of the most significant projects. The Project Board's role is to oversee the delivery of the projects, including associated risk management. This includes the development and approval of associated business cases in line with the requirements of the Scottish Public Finance 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, I am the nominated Investment Decision Maker. I am 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.

I have set objectives for the Directors within Transport Scotland to undertake a regular review process to ensure that improvement in 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.

### **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 on-going 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 for the year ended 31 March 2015 and up to the date of approval of the Annual Report and Accounts. It is in accordance with the guidance from Scottish Ministers.

### **Review of effectiveness**

I, as the Accountable Officer, have responsibility for reviewing the effectiveness of the system of internal control. This is informed by the work of Internal Audit, 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 to me an annual certificate of assurance covering their areas of responsibility. This is underpinned by an internal control checklist, covering all areas of corporate governance, which is subject to audit. The content of this checklist is reviewed each year, and it has been updated and refreshed for 2014-15 in line with recommendations in the SPFM.

In addition, as part of its assurance framework, Transport Scotland maintains an assurance map, which sets out both corporate and directorate processes and methods of assurance and identifies officers responsible for ensuring these are accurate and up to date. This document is shared with internal and external audit, and reviewed by the Audit and Risk Committee.

Transport Scotland's internal auditors (whose work is undertaken to Public Sector Internal Audit Standards) are assigned from the Scottish Government Internal Audit Team and they 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 confirm the effective implementation of recommendations agreed as a result of the audits.

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 2014-15

|    | <b>Audit Area &amp; Scope</b>                       | <b>Outcome</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | Concessionary Travel and Integrated Ticketing       | <b>Assurance Provided: Reasonable</b><br>Controls were found to be good and internal audit were impressed by the on-going developments within Concessionary Card fraud detection. There remains some concerns relating to over reliance on an ageing Transport Application Back office (TABO) system whilst preparations for a Scottish Fulfilment Service are progressed. The team have placed significant focus on this area, are alive to the risks and are taking mitigating steps to meet the challenges that exist. |
| 2. | Edinburgh-Glasgow Rail Improvement Programme (EGIP) | <b>Assurance Provided: Substantial</b><br>Controls were found to be very good and there were no recommendations made from the review. Internal Audit was particularly impressed with the governance framework and with the engagement with delivery partners.                                                                                                                                                                                                                                                             |
| 3. | Project Bank Accounts                               | <b>Assurance Provided: Not Applicable</b><br>Although field work was advanced for this review, there were unanticipated delays in the establishment of the Project Bank Account for the identified project. In view of this, Internal Audit has deferred completion of this review to the 2015/16 Audit Programme, by which time the Project Bank Account will have been established and payments will have been processed to the relevant contractors.                                                                   |
| 4. | Land Acquisition and Disposal                       | <b>Assurance Provided: Substantial</b><br>In general, controls were found to be good, and Internal Audit was particularly impressed with the procedural frameworks operating in relation to the acquisition and disposal of land. These were both comprehensive and effective.                                                                                                                                                                                                                                            |
| 5. | Air Services                                        | <b>Assurance Provided: Reasonable</b><br>In general, controls were found to be good and Internal Audit was impressed with the work relating to route development and marketing. However, Transport Scotland's funding of HIAL is not wholly compliant with EU regulations in relation to Services of General Economic Interest and work should be progressed to ensure compliance.                                                                                                                                        |

On the basis of the work undertaken and recommendations implemented, in their annual report to the Transport Scotland Audit and Risk Committee, Internal Audit was able to provide **Substantial Assurance** in respect of Transport Scotland's risk management, control and governance arrangements.

### **Best Value**

The duty of Best Value applies to all public bodies in Scotland, and is a responsibility of Accountable Officers. Achieving Best Value is about ensuring sound governance, good management, public reporting on performance and a focus on improvement. Transport Scotland aims to improve value for money, ensure tight management of funds and sound asset management.

Best Value provides a common framework for continuous improvement in public services in Scotland, and is a key foundation of the Scottish Government's Public Service Reform agenda. The Scottish Ministers expect all Accountable Officers to comply with the duty of Best Value placed upon them.

A Best Value service review, on Efficiency was undertaken in 2014-15, which demonstrated a robust and forward looking approach to the area. However, key recommendations for further improvement included:

- increasing general awareness of an efficiency culture across staff as part of their own roles;
- Using information such as intranet pages, staff notices and also staff forums and awareness sessions to define and promote efficiency, to appraise the staff and inform on progress against targets;
- continue to enhance benchmarking to identify trends and differences in performance against best practice; and
- continue to liaise with external partners to progress efficiency culture, as there may be lessons to learn and opportunity for sharing good practice.

We undertook Best Value follow up reviews and implemented further improvements in risk, asset and financial management; governance and accountability; and sustainability. All actions from these reviews have been taken forward and a number of further enhancements have been made to processes. We continue to demonstrate Best Value in all of these areas.

In 2015-16, it is the intention to conduct a further Best Value review on People Management. Previous reviews on financial management, governance and accountability will be revisited to assess the impact of recommendations and identify further areas for improvement.

## **Risk Management**

Risk management forms a central element of our internal control framework. Risks are managed at the level most able to deal with them, with the most serious risks being escalated to the Senior Management Team. The Director of Major Transport Infrastructure Projects was nominated as the Transport Scotland Risk Champion during the year, with overall responsibility for the Agency. Each Directorate has a designated risk co-ordinator who is responsible for facilitating an effective and regular review of risks to the delivery of objectives.

There is a robust framework of responsibility for risk management in accordance with the SPFM. The system for assessment and control of risk is as follows:

- I, as Chief Executive, in conjunction with the Directors, review 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
- I, as Chief Executive, hold 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 at strategic, programme and project levels. The Risk Management Group is responsible for developing and maintaining the Corporate Risk Register and for facilitating the on-going production and management of risk registers within project teams and Directorates and for enhancing the management of risk across all areas of the business. The group comprises representatives from each directorate and meets quarterly with appropriate communication between meetings. Minutes of the meetings are shared with Directors and the Audit and Risk Committee.

In the previous financial year our Risk framework was subject to a detailed review by the senior management team and Audit & Risk Committee and a number of enhancements were taken forward, including revision of risk registers. As a consequence of this, all directorate risk registers have now been reviewed and bespoke training sessions commenced in March 2015.

## **Managing information and information security**

We are committed to ensuring information is managed and valued, with appropriate protection and use of our information assets. The handling of data and information carries significant risks to Government departments, and we take information security very seriously, in compliance with the ISIS (Information Security Information Systems) Security Frameworks and Data Handling policies.

We follow the Scottish Government key principles for good information management that all staff must follow. In basic terms the principles are that:

- We treat information as a Scottish Government resource.
- We are all responsible for our information.
- We make information accessible to others who have a need to use it.
- We keep records of what we do.
- Our information is accurate and fit for purpose.
- Our information complies with regulations and legal requirements.

All staff and users of information technology within Transport Scotland must comply with the IT Code of Conduct and be familiar with its contents.

### **Counter Fraud / Review of risk of financial loss.**

We take a zero tolerance approach to fraud. All cases of actual or suspected fraud are investigated promptly and appropriate action is taken. We have fraud, bribery and whistleblowing procedures in place to make clear how cases will be dealt with and how staff can report suspicions or concerns.

We also have a designated Fraud Officer and a Fraud Response Plan in place to ensure that timely and effective action is taken in the event of a fraud. Trained and experienced staff assist in efforts to counter fraud. We also have a dedicated fraud hotline for the national concessionary fares scheme and are using more integrated fraud alert systems.

The Agency has also continued to increase the level and profile of training in this area, and has encouraged all staff to undertake training and review regular updates and staff notices distributed by the Fraud Officer to raise awareness of fraud identification and prevention.

Details of cases of actual or attempted fraud that come to light during the financial year are reported within a Fraud Log for that year, which is shared with the Audit and Risk Committee. Details are also shared with Police Scotland where this is deemed appropriate. We actively participate in the fraud alerts system run by the National Fraud Authority, which seeks to share intelligence about specific fraud risks encountered across Government.

There is a separate Concessionary Fares Fraud Team due to the unique operating environment of the Concessionary Fares Scheme. We participate in the National Fraud Initiative (NFI) in Scotland, led by Audit Scotland. This is a data matching process to help public sector bodies to prevent and detect fraud and error in their financial systems, using computerised techniques to compare information about individuals held by different public bodies on different systems. This will now include payments and a sample of those for the Agency has been selected for inclusion.

**Business Continuity**

Our Business Continuity Plan has been reviewed during the year. The objectives of the plan are:

- to identify risks;
- to establish clear areas of responsibility;
- to ensure Transport Scotland continues to provide essential functions and services;
- to identify measures to recover/ repair assets damaged or lost; and
- to identify a medium and long term recovery strategy.

David Middleton CBE  
Chief Executive  
19 August 2015

## REMUNERATION REPORT

### **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. Whilst the retirement age for the Senior Civil Service is 65, once an individual's pension becomes accessible 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.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

Transport Scotland has no non-executive Directors. However the Audit and Risk Committee has three external members. Alex Smith was appointed in March 2011 and Dorothy Fenwick and Alan Thompson served as external members during 2014. However, Dorothy Fenwick left on 1 March 2014 and her replacement, Susan Dunn took up post on 1 December 2014. Alan Thompson left on 26 January 2015, his replacement, Pamela Mclauchlan will take up post in 2015-16. This is to ensure the organisation continues to benefit from independent oversight and challenge.

### **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](http://www.ome.uk.com/Senior_Salaries_Review_Body)

### **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 senior civil servants 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.***

### **Directors Remuneration (Salary, benefits in kind and pensions)**

The single total figure of remuneration, comprising of the salary, the value of any bonuses or taxable benefits in kind and the pension benefits of the directors for the year 2014-15, along with comparative figures are shown in the table overleaf.



### Single total figure of remuneration

| DIRECTORS              | SALARY  |         | BONUS PAYMENTS |         | BENEFITS IN KIND (TO NEAREST £100) |         | PENSION BENEFITS (TO NEAREST £1,000) |         | TOTAL   |         |
|------------------------|---------|---------|----------------|---------|------------------------------------|---------|--------------------------------------|---------|---------|---------|
|                        | 2014-15 | 2013-14 | 2014-15        | 2013-14 | 2014-15                            | 2013-14 | 2014-15                              | 2013-14 | 2014-15 | 2013-14 |
| David Middleton        | 100-105 | 100-105 | -              | -       | -                                  | -       | 21,000                               | 0       | 125-130 | 100-105 |
| Mike Baxter (1)        | 5-10    | 0       | -              | -       | -                                  | -       | 4,000                                | 0       | 10-15   | 0       |
| Roy Brannen            | 70-75   | 70-75   | -              | -       | -                                  | -       | 14,000                               | 21,000  | 85-90   | 90-95   |
| Donald Carmichael      | 65-70   | 65-70   | -              | -       | -                                  | -       | 14,000                               | 35,000  | 80-85   | 100-105 |
| Sharon Fairweather (2) | 60-65   | 80-85   | -              | -       | -                                  | -       | 27,000                               | 31,000  | 85-90   | 110-115 |
| Aidan Grisewood        | 70-75   | 70-75   | -              | -       | -                                  | -       | 21,000                               | 14,000  | 90-95   | 85-90   |
| Ainslie McLaughlin (3) | 75-80   | 75-80   | -              | -       | -                                  | -       | 14,000                               | 36,000  | 90-95   | 110-115 |
| John Nicholls          | 65-70   | 65-70   | -              | -       | -                                  | -       | 14,000                               | 22,000  | 80-85   | 85-90   |

The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

(1) Mike Baxter was appointed to post on 17 February 2015. The figure quoted was from 17 February 2015 to 31 March 2015. The full year equivalent banding is £70k - £75k.

(2) Sharon Fairweather left post on 5 January 2015. The full year equivalent banding is £80k - £85k.

(3) Ainslie McLaughlin left post on 13 March 2015. The full year equivalent banding is £75k - £80k.

### **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 taxation. This total remuneration is shown in the figures above. 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.

### **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 were entitled to for 2014-15 are as follows:

|               |                 |
|---------------|-----------------|
| Alex Smith    | £232 daily rate |
| Alan Thompson | £232 daily rate |
| Susan Dunn    | £232 daily rate |

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

### **Pay multiples**

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in the organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director was £100k-£105k (2013-14 £100-£105k). This was 2.8 times (2013-14 2.8 times) the median remuneration of the workforce, which was £37,072 (2013-14 £37,072).

The ratio and median are unchanged from previous year.

In 2014-15, one (2013-14: one) employee received remuneration in excess of the highest paid director. Remuneration ranged from £16k-£118k (2013-14, £16k - £190k).

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.

## **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 2014. The accrued pension includes service previous to becoming a director 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 worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take into account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

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 of 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 £138,247 for the year to 31 March 2015. 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 2 to the accounts.

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

|                    | <b>Lump Sum at NRA as at 31 March 2015</b> | <b>Real Increase in Lump Sum at age NRA</b> | <b>Accrued Pension at age NRA as at 31 March 2015</b> | <b>Real Increase in Pension at age NRA</b> | <b>CETV as at 31 March 2015</b> | <b>CETV as at 31 March 2014</b> | <b>Real Increase in CETV in 2014-15</b> |
|--------------------|--------------------------------------------|---------------------------------------------|-------------------------------------------------------|--------------------------------------------|---------------------------------|---------------------------------|-----------------------------------------|
|                    | <b>£000</b>                                | <b>£000</b>                                 | <b>£000</b>                                           | <b>£000</b>                                | <b>£000</b>                     | <b>£000</b>                     | <b>£000</b>                             |
| David Middleton    | 151-155                                    | 2.5 - 5                                     | 50 - 55                                               | 0 - 2.5                                    | 1103                            | 1030                            | 20                                      |
| Mike Baxter        | 5 - 10                                     | 0 - 2.5                                     | 25 - 30                                               | 0 - 2.5                                    | 379                             | 375                             | 3                                       |
| Roy Brannen        | 60 - 65                                    | 0 - 2.5                                     | 20 - 25                                               | 0 - 2.5                                    | 353                             | 326                             | 9                                       |
| Donald Carmichael  | 80 - 85                                    | 0 - 2.5                                     | 25 - 30                                               | 0 - 2.5                                    | 589                             | 548                             | 12                                      |
| Ainslie McLaughlin | 100 - 105                                  | 2.5 - 5                                     | 30 - 35                                               | 0 - 2.5                                    | 763                             | 714                             | 14                                      |
| Aidan Grisewood    | 0                                          | 0                                           | 10 - 15                                               | 0 - 2.5                                    | 123                             | 104                             | 9                                       |
| Sharon Fairweather | 0                                          | 0                                           | 5 - 10                                                | 0 - 2.5                                    | 86                              | 67                              | 14                                      |
| John Nicholls      | 75 - 80                                    | 0 - 2.5                                     | 25 - 30                                               | 0 - 2.5                                    | 454                             | 425                             | 10                                      |

Calculated on normal retirement age (NRA) where pension entitlement due at that age or current age if over NRA.

The above pension data was supplied to Transport Scotland by MyCSP for all of the Directors.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)

David Middleton CBE  
Chief Executive  
19 August 2015

## **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 2015 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 2014/15 Government Financial Reporting Manual (the 2014/15 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 Accountable Officer'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 in accordance with the Public Finance and Accountability (Scotland) Act 2000.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures 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. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, 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 2015 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 2014/15 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 Management Commentary 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  
4th Floor South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
GLASGOW  
G2 1BT

August 2015

## TRANSPORT SCOTLAND ANNUAL ACCOUNTS 2014-15

### Statement of Comprehensive Net Expenditure for the year ended 31 March 2015

|                                                             |      | £'000         | £'000            | £'000          | 2014-15<br>£'000 | 2013-14<br>£'000 |
|-------------------------------------------------------------|------|---------------|------------------|----------------|------------------|------------------|
|                                                             | note | Staff Costs   | Other Cost       | Income         | Total            | Total            |
| <b>Administration costs</b>                                 |      |               |                  |                |                  |                  |
| Staff costs                                                 | 2    | 13,166        |                  |                | 13,166           | 12,189           |
| Other administration costs                                  | 3    |               | 5,312            |                | 5,312            | 5,331            |
| <b>Total administration costs</b>                           |      |               |                  |                | <b>18,478</b>    | <b>17,520</b>    |
| <b>Programme costs</b>                                      |      |               |                  |                |                  |                  |
| Staff costs                                                 | 2    | 4,038         |                  |                | 4,038            | 3,589            |
| Other programme costs                                       | 4    |               | 1,548,187        |                | 1,548,187        | 1,631,513        |
| Income                                                      | 5    |               |                  | (3,437)        | (3,437)          | (3,314)          |
| <b>Total programme costs</b>                                |      |               |                  |                | <b>1,548,788</b> | <b>1,631,788</b> |
| <b>Total</b>                                                |      | <b>17,204</b> | <b>1,553,499</b> | <b>(3,437)</b> | <b>1,567,266</b> | <b>1,649,308</b> |
| <b>Net operating costs for the year ended 31 March 2015</b> |      |               |                  |                | <b>1,567,266</b> | <b>1,649,308</b> |

### Other Comprehensive Net Expenditure

|                                                                             | note | 2014-15<br>£'000 | 2013-14<br>£'000 |
|-----------------------------------------------------------------------------|------|------------------|------------------|
| <b>Items that will not be reclassified to net operating costs:</b>          |      |                  |                  |
| Net (gain)/loss on:                                                         |      |                  |                  |
| -revaluation of property, plant and equipment                               | 6    | 383,208          | 242,446          |
| -revaluation of intangibles                                                 |      | 0                | 0                |
|                                                                             |      | <b>383,208</b>   | <b>242,446</b>   |
| <b>Items that may be reclassified subsequently to net operating costs:</b>  |      |                  |                  |
| Net (gain)/loss on:                                                         |      |                  |                  |
| -revaluation of assets held for sale                                        | 8    | 0                | 0                |
| <b>Total comprehensive net expenditure for the year ended 31 March 2015</b> |      | <b>1,950,474</b> | <b>1,891,754</b> |

All income and expenditure is derived from continuing activities.



# Statement of Financial Position as at 31 March 2015

|                                              |       |            | 31 March<br>2015<br>£'000 | 31 March<br>2014<br>£'000 |
|----------------------------------------------|-------|------------|---------------------------|---------------------------|
|                                              | note  | £'000      | £'000                     | £'000                     |
| <b>Non-current assets</b>                    |       |            |                           |                           |
| Property, plant & equipment                  | 6     | 18,171,965 |                           | 17,970,244                |
| Intangible assets                            | 7     | 0          |                           | 117                       |
| Financial assets                             | 9     | 99,947     |                           | 96,153                    |
| Other receivables                            | 10    | 38,452     |                           | 65,000                    |
| <b>Total non-current assets</b>              |       |            | 18,310,364                | 18,131,514                |
| <b>Current assets</b>                        |       |            |                           |                           |
| Assets held for sale                         | 8     | 76         |                           | 169                       |
| Financial assets                             | 9     | 3,767      |                           | 3,018                     |
| Trade and other receivables                  | 10    | 97,161     |                           | 91,644                    |
| Cash & cash equivalents                      |       | 0          |                           | 0                         |
| <b>Total current assets</b>                  |       |            | 101,004                   | 94,831                    |
| <b>Total assets</b>                          |       |            | 18,411,368                | 18,226,345                |
| <b>Current liabilities</b>                   |       |            |                           |                           |
| Trade and other payables                     | 11    | (214,231)  |                           | (294,436)                 |
| Provisions                                   | 12    | (30,901)   |                           | (47,879)                  |
| <b>Total current liabilities</b>             |       |            | (245,132)                 | (342,315)                 |
| <b>Total assets less current liabilities</b> |       |            | 18,166,236                | 17,884,030                |
| <b>Non-current liabilities</b>               |       |            |                           |                           |
| Other payables and financial liabilities     | 11    | (548,472)  |                           | (444,100)                 |
| Provisions                                   | 12    | (68,725)   |                           | (65,596)                  |
| <b>Total non-current liabilities</b>         |       |            | (617,197)                 | (509,696)                 |
| <b>Assets less liabilities</b>               |       |            | 17,549,039                | 17,374,334                |
| <b>Taxpayers' equity</b>                     |       |            |                           |                           |
| General fund                                 | SoCTE |            | 9,521,497                 | 8,921,828                 |
| Revaluation reserve                          | SoCTE |            | 8,027,542                 | 8,452,506                 |
| <b>Total taxpayers' equity</b>               |       |            | 17,549,039                | 17,374,334                |

David Middleton CBE  
Chief Executive  
19 August 2015

The notes on pages 59 to 89 form part of these accounts

## Cash Flow Statement for the year ended 31 March 2015

|                                                                                             | note  | 2014-15<br>£'000   | 2013-14<br>£'000   |
|---------------------------------------------------------------------------------------------|-------|--------------------|--------------------|
| <b>(A) Cash flows from operating activities</b>                                             |       |                    |                    |
| Net operating cost                                                                          | SoCNE | (1,567,266)        | (1,649,308)        |
| Adjustments for non-cash transactions                                                       | 3/4   | 59,097             | 56,683             |
| Decrease / (Increase) in trade and other receivables                                        | 13    | 21,123             | 1,297              |
| Adjustment for the revaluation element of Assets Held For Sale                              | 8     | 0                  | 0                  |
| Increase / (Decrease) in trade and other payables                                           | 13    | 36,538             | 39,495             |
| Increase / (Decrease) in provisions                                                         | 13    | (13,848)           | (12,505)           |
| Adjustment for the interest element of the PFI contract                                     | 4     | 30,689             | 31,341             |
| <b>Net cash outflow from operating activities</b>                                           |       | <b>(1,433,667)</b> | <b>(1,532,997)</b> |
| <b>(B) Cash flows from investing activities</b>                                             |       |                    |                    |
| Purchase of property, plant and equipment                                                   | 6     | (424,439)          | (293,949)          |
| Purchase of intangible assets                                                               | 7     | 0                  | 0                  |
| Roads Developer Contribution                                                                |       | 0                  | 3,495              |
| Transfer of assets held for sale to property, plant and equipment                           | 6/8   | (32)               | 0                  |
| Disposal of property, plant and equipment                                                   | 6     | 59                 | 3,394              |
| Impairment of property, plant and equipment                                                 |       | 0                  | 0                  |
| Increase / (Decrease) in capital accruals                                                   |       | (118,172)          | 51,927             |
| Voted loans                                                                                 | 9     | (4,543)            | (9,209)            |
| <b>Net cash outflow from investing activities</b>                                           |       | <b>(547,127)</b>   | <b>(244,342)</b>   |
| <b>(C) Cash flows from financing activities</b>                                             |       |                    |                    |
| Funding from the Scottish Government                                                        | SoCTE | 1,951,430          | 1,856,275          |
| Inter Entity transfers                                                                      |       | (45,748)           | (38,530)           |
| Capital element of payments in respect of finance leases and on balance sheet PFI contracts | 13    | 105,801            | (9,065)            |
| Interest element of the PFI contracts                                                       | 4     | (30,689)           | (31,341)           |
| <b>Net Financing</b>                                                                        |       | <b>1,980,794</b>   | <b>1,777,339</b>   |
| 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 2015

|                                                          | Note  | General Fund<br>£'000 | Revaluation<br>Reserve<br>£'000 | Total Reserves<br>£'000 |
|----------------------------------------------------------|-------|-----------------------|---------------------------------|-------------------------|
| <b>Balance at 31 March 2013</b>                          |       | <b>8,773,367</b>      | <b>8,694,952</b>                | <b>17,468,319</b>       |
| <b>Changes in taxpayers' equity for 2013-14</b>          |       |                       |                                 |                         |
| Net loss on revaluation of property, plant and equipment | 6     | 0                     | (242,446)                       | (242,446)               |
| Non-current assets adjustments                           |       | 0                     | 0                               | 0                       |
| Roads trunkings / de-trunkings                           |       | 0                     | 0                               | 0                       |
| Roads historic value adjustment                          |       | (23,651)              | 0                               | (23,651)                |
| Roads developer contribution                             |       | 3,495                 | 0                               | 3,495                   |
| Realised element of the revaluation reserve              |       | 0                     | 0                               | 0                       |
| Inter-Entity transfers                                   |       | (38,530)              | 0                               | (38,530)                |
| Non-cash charges - auditors remuneration                 | 3     | 181                   | 0                               | 181                     |
| Net operating costs for the year                         | SoCNE | (1,649,308)           | 0                               | (1,649,308)             |
| <b>Total recognised income and expense for 2013-14</b>   |       | <b>(1,707,813)</b>    | <b>(242,446)</b>                | <b>(1,950,259)</b>      |
| Funding from Scottish Government                         |       | 1,856,275             | 0                               | 1,856,275               |
| <b>Balance at 31 March 2014</b>                          |       | <b>8,921,828</b>      | <b>8,452,506</b>                | <b>17,374,334</b>       |
| <b>Changes in taxpayers' equity for 2014-15</b>          |       |                       |                                 |                         |
| Net loss on revaluation of property, plant and equipment | 6     | 0                     | (383,208)                       | (383,208)               |
| Non-current assets adjustments                           |       | 0                     | 0                               | 0                       |
| Roads trunkings / de-trunkings                           | 6     | 122,033               | 0                               | 122,033                 |
| Roads historic value adjustment                          | 6     | 97,326                | 0                               | 97,326                  |
| Transfers to Scottish Government                         | 6     | (44)                  | 0                               | (44)                    |
| Realised element of the revaluation reserve              |       | 41,756                | (41,756)                        | 0                       |
| Inter Entity transfers                                   |       | (45,748)              | 0                               | (45,748)                |
| Non-cash charges - auditors remuneration                 | 3     | 182                   | 0                               | 182                     |
| Net operating costs for the year                         | SoCNE | (1,567,266)           | 0                               | (1,567,266)             |
| <b>Total recognised income and expense for 2014-15</b>   |       | <b>(1,351,761)</b>    | <b>(424,964)</b>                | <b>(1,776,725)</b>      |
| Funding from Scottish Government                         |       | 1,951,430             | 0                               | 1,951,430               |
| <b>Balance at 31 March 2015</b>                          |       | <b>9,521,497</b>      | <b>8,027,542</b>                | <b>17,549,039</b>       |

## NOTES TO THE ACCOUNTS

### 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 90) 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. There is the possibility that there may be outcomes within the next financial year that differ from those made this year and consequently these may require a material adjustment to the carrying amount of an affected asset or liability.

#### 1.1 Accounting Convention

In accordance with Financial Reporting Manual (FReM) for the year these accounts have been prepared under the historical cost convention, modified by the revaluation of non-current assets and intangible assets to fair value as determined by the relevant accounting standard.

A number of new accounting standards have been issued and are mandatory for the financial year commencing 1 April 2015. The relevant revisions are highlighted below, together with the impact from their application within the accounts.

- IFRS 10 - Consolidated Financial Statements – no impact
- IFRS 11 - Joint Arrangements – no impact
- IFRS 12 - Disclosure of Interests in Other Entities – additional disclosure now included within Accounts in Note 9
- IAS 27 - Separate Financial Statements – no impact
- IAS 28 - Investments in Associated and Joint Ventures– no impact
- IAS 36 - Impairment of assets' on recoverable amount disclosures – will address the implications of references to IFRS 13 'Fair Value Measurement' and modify some of the disclosure requirements regarding measurement of the recoverable amount of impaired assets. Will be applied when IFRS 13 is introduced in the FReM.

The new or amended standards that are considered relevant and the anticipated impact on the accounts are as follows:

- IFRS 13 - Fair Value Measurement. IFRS 13 has not been adopted for 2014-15. It will be adopted prospectively for periods beginning or after 1 April 2015. Final details are still subject to on-going consultation.
- IFRS 9 - Financial Instruments. The adoption of this standard could change the classification and measurement of financial assets. The full IFRS has not yet been issued.
- IAS 17 replacement – Leases. No target date for IFRS. This standard proposes to eliminate current operating lease categorisation for virtually all leases except short term leases. Assets and liabilities will be recognised on a 'right of use' basis.
- IAS 18 replacement – Revenue Recognition and Liabilities Recognition. This standard has not been adopted for 2014-15. The adoption of this standard will affect the determination of when revenue is recognised in the financial statements. This is not expected to impact these accounts significantly.
- New Group Accounting Standards – not applicable to Transport Scotland.

## **1.2 Trunkings / Detrunkings**

The accounts reflect ownership of the trunk road network which it has responsibility to maintain. Transfers of the responsibility for maintaining sections 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 Authority control is treated as a transfer from or to other Government Departments at nil consideration with the associated charge processed through the General Fund.

## **1.3 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). 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 FReM Para 6.2.11. 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. Expenditure that does not replace or enhance service potential will be expensed as a charge to the Statement of Comprehensive Net Expenditure.

In accordance with International Accounting Standard 16 the cost of Non-Current Assets is capitalised for relevant 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.

Other non-current assets are capitalised where expenditure exceeds the following thresholds:

|                                              |         |
|----------------------------------------------|---------|
| Land & Buildings                             | £10,000 |
| Leasehold Improvements                       | £10,000 |
| Information & Communication Technology (ICT) | £25,000 |
| 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 are not on the Statement of Financial Position, as control of the economic benefit of the asset is determined to rest with Network Rail.

### **Valuation**

Land is held at current market values as assessed by the Valuation Office Agency (VOA). A revaluation exercise was carried out at 31 March 2013 on buildings and dwellings as part of the Scottish Government five year rolling programme, with indexation has been applied in the intervening years.

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**

In accordance with FReM Para 6.2., the road network is held at its depreciated replacement cost based on service potential and classed as a specialist asset for which a market valuation is not available. Land is valued at rates supplied by the 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 buildings released from road schemes and now deemed surplus to requirements are 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:

|                                                                  | <b>Life in years</b> |
|------------------------------------------------------------------|----------------------|
| 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             |

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

Structures and communications assets are depreciated on a straight line basis over the expected useful lives above.

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

### **Non-Infrastructure Assets**

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

|                     | <b>Life in years</b>                              |
|---------------------|---------------------------------------------------|
| Freehold buildings  | 5 to 100                                          |
| Leasehold buildings | Shorter of length of lease or specific asset life |
| IT Equipment        | 3 to 10                                           |
| Plant and Machinery | 5                                                 |

## **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 we expect 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 £25,000 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**

We measure financial instruments in accordance with IAS32, IAS39, and IFRS7 as interpreted and adapted by the Government Financial Reporting Manual (FRm). IAS39 requires the classification of financial instruments into separate categories



for which the accounting treatment is different. Financial instruments are classified 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 cash and cash equivalents and current non-interest bearing monetary financial assets and financial liabilities approximate their carrying value.

Financial instruments subsequent measurement depends on their classification:

- loans and receivables and other liabilities are held at amortised cost and not revalued. 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 resource expenditure relates to infrastructure expenditure that is capital in nature, but the asset created or enhanced is reflected by external bodies. The expenditure reflects direct activity in the year and the grant and Regulated Asset Base charges paid to Network Rail.

## **1.10 Operating Income**

Operating income relates to operating activities and 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 rail, 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 2. The PCSPS is an unfunded multi-employer defined benefit scheme. Transport Scotland's contributions are recognised as a cost in the year. This complies with IAS26.

#### **1.14 Private Finance Initiative (PFI) Transactions**

PFI transactions are accounted for in accordance with the FReM. PFI contracts that meet the definition of service concession arrangements are accounted for in accordance with IPSAS 32. We have three existing operational PFI schemes and two Non Profit Distributing (NPD) scheme currently under construction (see note 16 for more details). In each case these are examples of service concessions under IPSAS 32. The private sector operator is contractually obliged to provide the services related to the infrastructure, which is recognised as a non-current asset.

The unitary payment comprises service charge, repayment of capital and the interest charged.

#### **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 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 out with 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**

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 supplies.

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.

### 1.23 Critical Accounting Estimates

Critical accounting estimates are used in the calculation of the valuations for the road network, for the recognition and valuation of provisions, for the Concessionary Travel Scheme and for the Public Private Partnerships (PPP's). These are detailed in the section on Significant Accounting Policies on page 22 of the Annual Report.

## 2. Staff Numbers and Costs

Staff costs comprise:

|                                                                  | 2014-15                                   |                 |                | 2013-14                                   |                 |                |
|------------------------------------------------------------------|-------------------------------------------|-----------------|----------------|-------------------------------------------|-----------------|----------------|
|                                                                  | Permanently<br>Employed<br>Staff<br>£'000 | Others<br>£'000 | Total<br>£'000 | Permanently<br>Employed<br>Staff<br>£'000 | Others<br>£'000 | Total<br>£'000 |
| <b>Administration:</b>                                           |                                           |                 |                |                                           |                 |                |
| Wages and salaries costs                                         | 9,368                                     | 585             | 9,953          | 8,841                                     | 851             | 9,692          |
| Social security costs                                            | 791                                       | 0               | 791            | 733                                       | 0               | 733            |
| Other pension costs                                              | 1,792                                     | 0               | 1,792          | 1,673                                     | 0               | 1,673          |
| Early Retiral Costs                                              | 630                                       | 0               | 630            | 91                                        | 0               | 91             |
|                                                                  | <b>12,581</b>                             | <b>585</b>      | <b>13,166</b>  | <b>11,338</b>                             | <b>851</b>      | <b>12,189</b>  |
| <b>Programme:</b>                                                |                                           |                 |                |                                           |                 |                |
| Wages and salaries costs                                         | 2,921                                     | 254             | 3,175          | 2,696                                     | 100             | 2,796          |
| Social security costs                                            | 278                                       | 0               | 278            | 245                                       | 0               | 245            |
| Other pension costs                                              | 585                                       | 0               | 585            | 548                                       | 0               | 548            |
|                                                                  | <b>3,784</b>                              | <b>254</b>      | <b>4,038</b>   | <b>3,489</b>                              | <b>100</b>      | <b>3,589</b>   |
| Total staff costs to be charged to Comprehensive Net Expenditure | 16,365                                    | 839             | 17,204         | 14,827                                    | 951             | 15,778         |

The cost of staff employed on the design, procurement and management of capital projects undertaken by Transport Scotland is charged to capital expenditure in respect of the projects identified in year. These have been identified in the table below along with prior year figures to reflect costs that were similarly capitalised in that year, albeit this was less significant as they only related to the Forth Replacement Crossing. These costs are included with the project costs in Note 6 and are identified below.

The costs of early retirals in the table above, include the costs in year and also continuing payments in relations to previous years packages.

**Staff costs comprise:**

|                                                         | 2014-15                                   |                 |                | 2013-14                                   |                 |                |
|---------------------------------------------------------|-------------------------------------------|-----------------|----------------|-------------------------------------------|-----------------|----------------|
|                                                         | Permanently<br>Employed<br>Staff<br>£'000 | Others<br>£'000 | Total<br>£'000 | Permanently<br>Employed<br>Staff<br>£'000 | Others<br>£'000 | Total<br>£'000 |
| <b>Capitalised Programme:</b>                           |                                           |                 |                |                                           |                 |                |
| Wages and salaries costs                                | 3,246                                     | 52              | 3,298          | 3,158                                     | 42              | 3,200          |
| Social security costs                                   | 275                                       | 0               | 275            | 270                                       | 0               | 270            |
| Other pension costs                                     | 621                                       | 0               | 621            | 594                                       | 0               | 594            |
|                                                         | <b>4,142</b>                              | <b>52</b>       | <b>4,194</b>   | <b>4,022</b>                              | <b>42</b>       | <b>4,064</b>   |
| <b>Total staff costs charged to capital expenditure</b> | <b>4,142</b>                              | <b>52</b>       | <b>4,194</b>   | <b>4,022</b>                              | <b>42</b>       | <b>4,064</b>   |
| <b>Total Staff Costs</b>                                | <b>20,507</b>                             | <b>891</b>      | <b>21,398</b>  | <b>18,849</b>                             | <b>993</b>      | <b>19,842</b>  |

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.

Within Transport Scotland eight members of staff agreed departures under the Civil Service Compensation Scheme rules in 2014-15. No similar departures were agreed in 2013-14. One member of staff retired early on ill-health grounds.

## Reporting of Civil Service and other compensation scheme - exit packages

### Reporting of Civil Service and other compensation scheme - exit packages

|                               | 2014-15                                 |                                            |                                                        |                                         | 2013-14                                    |                                                        |
|-------------------------------|-----------------------------------------|--------------------------------------------|--------------------------------------------------------|-----------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                               | Number of<br>compulsory<br>redundancies | Number of<br>other<br>departures<br>agreed | Total<br>number of<br>exit<br>packages by<br>cost band | Number of<br>compulsory<br>redundancies | Number of<br>other<br>departures<br>agreed | Total<br>number of<br>exit<br>packages by<br>cost band |
| Exit package cost band        |                                         |                                            |                                                        |                                         |                                            |                                                        |
| less than £10,000             | 0                                       | 0                                          | 0                                                      | 0                                       | 0                                          | 0                                                      |
| £10,000 to £25,000            | 0                                       | 0                                          | 0                                                      | 0                                       | 0                                          | 0                                                      |
| £25,000 to £50,000            | 0                                       | 3                                          | 3                                                      | 0                                       | 0                                          | 0                                                      |
| £50,000 to £100,000           | 0                                       | 2                                          | 2                                                      | 0                                       | 0                                          | 0                                                      |
| £100,000 to £150,000          | 0                                       | 3                                          | 3                                                      | 0                                       | 0                                          | 0                                                      |
| £150,000 to £200,000          | 0                                       | 0                                          | 0                                                      | 0                                       | 0                                          | 0                                                      |
| over £200,000                 | 0                                       | 0                                          | 0                                                      | 0                                       | 0                                          | 0                                                      |
| Total Number of exit packages | 0                                       | 8                                          | 8                                                      | 0                                       | 0                                          | 0                                                      |

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. As a result this scheme is accounted for as a defined contribution scheme. 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.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007 civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. Benefits in classic accrue at the rate 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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 panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

New Career Average pension arrangements will be introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme. Further details of this new scheme are available at [http://www.civilservicepensionschemw.org.uk/members/the -new-pension-scheme-alpha/](http://www.civilservicepensionschemw.org.uk/members/the-new-pension-scheme-alpha/)

For 2014-15, employers' contributions of £2,998k 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 have been unchanged since 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 2014-15 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

#### Average numbers of persons employed

|                                      | 2014-15   |        |       | 2013-14   |        |       |
|--------------------------------------|-----------|--------|-------|-----------|--------|-------|
|                                      | Permanent |        |       | Permanent |        |       |
|                                      | Staff     | Others | Total | Staff     | Others | Total |
| Trunk roads major projects           | 81        | 4      | 85    | 79        | 3      | 82    |
| Trunk road maintenance               | 131       | 9      | 140   | 126       | 11     | 137   |
| Rail                                 | 59        | 1      | 60    | 60        | 1      | 61    |
| Finance and other                    | 62        | 1      | 63    | 59        | 4      | 63    |
| Aviation, maritime, freight & canals | 27        | 3      | 30    | 25        | 0      | 25    |
| Transport policy                     | 41        | 2      | 43    | 41        | 2      | 43    |
| Total average staff numbers          | 401       | 20     | 421   | 390       | 21     | 411   |

The above figures exclude Consultants, in post and not in post.

### 3. Other Administration Costs

|                                                | note | 2014-15 | 2013-14 |
|------------------------------------------------|------|---------|---------|
|                                                |      | £'000   | £'000   |
| Rentals under operating leases                 |      | 1,221   | 1,220   |
| Accommodation                                  |      | 1,373   | 1,359   |
| Office costs and supplies                      |      | 1,321   | 1,350   |
| Hospitality                                    |      | 49      | 60      |
| Travel                                         |      | 528     | 505     |
| Training                                       |      | 99      | 110     |
| Consultancy                                    |      | 3       | 5       |
| <b>Non-cash items</b>                          |      |         |         |
| Depreciation                                   | 6/7  | 536     | 542     |
| Auditors' remuneration and expenses - external | 22   | 182     | 180     |
| Total administration costs                     |      | 5,312   | 5,331   |

## 4. Programme Costs

|                                                | note | 2014-15<br>£'000 | 2013-14<br>£'000 |
|------------------------------------------------|------|------------------|------------------|
| <b>Other programme expenditure</b>             |      |                  |                  |
| <b>Roads</b>                                   |      |                  |                  |
| Capital maintenance                            |      | 72,369           | 94,364           |
| Current maintenance                            |      | 93,121           | 90,353           |
| Other PFI Interest charges                     |      | 281              | 357              |
| PFI service charges                            |      | 30,689           | 31,341           |
|                                                |      | 37,381           | 27,591           |
| <b>Rail</b>                                    |      |                  |                  |
| ScotRail franchise                             |      | 261,100          | 492,216          |
| Rail infrastructure in Scotland                |      | 426,458          | 285,362          |
| Other                                          |      | 2,296            | 3,612            |
| <b>Concessionary travel</b>                    |      |                  |                  |
| Smartcard applications                         |      | 1,727            | 2,729            |
| Concessionary travel schemes                   |      | 195,205          | 191,085          |
| <b>Other public transport</b>                  |      |                  |                  |
| Major public transport projects - rail         |      | 2,471            | 55,771           |
| Transport information                          |      | 565              | 1,014            |
| Strategic projects review                      |      | 0                | 800              |
| Ferry services in Scotland                     |      | 168,634          | 138,301          |
| Air services in Scotland                       |      | 43,013           | 30,203           |
| Bus services in Scotland                       |      | 54,382           | 51,517           |
| Other transport directorate programmes         |      | 54,579           | 55,211           |
| Scottish Futures Fund Projects                 |      | 15,002           | 2,893            |
| Central government grants to local authorities |      | 30,535           | 20,832           |
| <b>Non-cash items</b>                          |      |                  |                  |
| Depreciation                                   | 6/7  | 58,379           | 55,961           |
| <b>Total other programme costs</b>             |      | <b>1,548,187</b> | <b>1,631,513</b> |

\* The Rail infrastructure in Scotland capital figure of £426,458k was paid directly to Network Rail

\*\*\* Payments to Scotrail Franchise in 2014-15 totalled £261,112k as per note 17. This included depreciation costs totalling £12k which are included within the Depreciation charges (under non-cash items) as required by the International Financial Reporting Standards (IFRS).



## 5. Operating Income

|                                   | 2014-15<br>£'000 | 2013-14<br>£'000 |
|-----------------------------------|------------------|------------------|
| <b>Programme income</b>           |                  |                  |
| Interest receivable - loans       | (3,207)          | (2,949)          |
| Rental income - land & properties | (11)             | (4)              |
| Other income                      | (195)            | (124)            |
| Ports income                      | (30)             | (14)             |
| Profit on disposal of land        | 6                | (223)            |
| <b>Total operating income</b>     | <b>(3,437)</b>   | <b>(3,314)</b>   |

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.

## 6. Property, Plant and Equipment

| 2014-15                             | Road Network<br>£'000 | Land<br>£'000 | Buildings<br>£'000 | Transport<br>£'000 | IT<br>£'000 | Leasehold<br>Improvements<br>£'000 | Assets under<br>Construction<br>£'000 | Total<br>£'000 |
|-------------------------------------|-----------------------|---------------|--------------------|--------------------|-------------|------------------------------------|---------------------------------------|----------------|
| <b>Cost or Valuation</b>            |                       |               |                    |                    |             |                                    |                                       |                |
| At 1 April 2014                     | 20,321,649            | 5,510         | 10,486             | 62                 | 4,609       | 1,507                              | 827,755                               | 21,171,579     |
| Detrunings                          | (28,788)              | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | (28,788)       |
| Additions                           | 8,843                 | 0             | 0                  | 138                | 0           | 0                                  | 415,458                               | 424,439        |
| Disposals                           | 0                     | (59)          | 0                  | 0                  | 0           | 0                                  | 0                                     | (59)           |
| Revaluation                         | (482,325)             | 54            | 103                | 0                  | 0           | 0                                  | 0                                     | (482,168)      |
| Current valuation adjustments       | 0                     | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | 0              |
| Historic valuation adjustments      | 105,730               | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | 105,730        |
| Transfers and reclassifications     | 239,153               | 2,612         | 0                  | (46)               | 0           | 0                                  | (84,857)                              | 156,862        |
| Transfers from assets held for sale | 0                     | 38            | 0                  | 0                  | 0           | 0                                  | (6)                                   | 32             |
| Balance at 31 March 2015            | 20,164,262            | 8,155         | 10,589             | 154                | 4,609       | 1,507                              | 1,158,350                             | 21,347,627     |
| <b>Depreciation</b>                 |                       |               |                    |                    |             |                                    |                                       |                |
| At 1 April 2014                     | 3,193,841             | 0             | 1,791              | 16                 | 4,364       | 1,322                              | 0                                     | 3,201,334      |
| Detrunings                          | (3,780)               | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | (3,780)        |
| Charge for the year                 | 58,200                | 0             | 460                | 14                 | 98          | 26                                 | 0                                     | 58,798         |
| Disposals                           | 0                     | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | 0              |
| Revaluation                         | (98,982)              | 0             | 22                 | 0                  | 0           | 0                                  | 0                                     | (98,960)       |
| Current valuation adjustments       | 0                     | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | 0              |
| Historic valuation adjustments      | 8,404                 | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | 8,404          |
| Transfers and reclassifications     | 9,867                 | 0             | 0                  | (2)                | 0           | 0                                  | 0                                     | 9,865          |
| Balance at 31 March 2015            | 3,167,550             | 0             | 2,273              | 28                 | 4,462       | 1,348                              | 0                                     | 3,175,661      |
| Net Book Value at 31 March 2015     | 16,996,712            | 8,155         | 8,316              | 126                | 147         | 159                                | 1,158,350                             | 18,171,965     |
| Net Book Value at 31 March 2014     | 17,127,808            | 5,510         | 8,695              | 46                 | 245         | 185                                | 827,755                               | 17,970,244     |
| <b>Asset Financing</b>              |                       |               |                    |                    |             |                                    |                                       |                |
| Owned                               | 15,105,343            | 8,155         | 8,316              | 126                | 147         | 159                                | 1,042,830                             | 16,165,076     |
| Finance Leased                      | 0                     | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | 0              |
| On Balance Sheet PFI                | 1,891,369             | 0             | 0                  | 0                  | 0           | 0                                  | 115,520                               | 2,006,889      |
| Donated                             | 0                     | 0             | 0                  | 0                  | 0           | 0                                  | 0                                     | 0              |
| Net Book Value at 31 March 2015     | 16,996,712            | 8,155         | 8,316              | 126                | 147         | 159                                | 1,158,350                             | 18,171,965     |

| <b>2013-14</b>                         | <b>Road<br/>Network<br/>£'000</b> | <b>Land<br/>£'000</b> | <b>Buildings<br/>£'000</b> | <b>Transport<br/>£'000</b> | <b>IT<br/>£'000</b> | <b>Leasehold<br/>Improvements<br/>£'000</b> | <b>Assets under<br/>Construction<br/>£'000</b> | <b>Total<br/>£'000</b> |
|----------------------------------------|-----------------------------------|-----------------------|----------------------------|----------------------------|---------------------|---------------------------------------------|------------------------------------------------|------------------------|
| <b>Cost or Valuation</b>               |                                   |                       |                            |                            |                     |                                             |                                                |                        |
| At 1 April 2013                        | 20,585,227                        | 5,819                 | 10,214                     | 31                         | 4,602               | 1,508                                       | 553,507                                        | 21,160,908             |
| Detrunings                             | (5,693)                           | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | (5,693)                |
| Additions                              | 14,486                            | 54                    | 0                          | 31                         | 7                   | 0                                           | 279,371                                        | 293,949                |
| Disposals                              | 0                                 | (520)                 | 0                          | 0                          | 0                   | 0                                           | 0                                              | (520)                  |
| Revaluation                            | (252,296)                         | 157                   | 272                        | 0                          | 0                   | 0                                           | 0                                              | (251,867)              |
| Current valuation adjustments          | 0                                 | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 0                      |
| Historic valuation adjustments         | (25,198)                          | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | (25,198)               |
| Transfers and reclassifications        | 5,123                             | 0                     | 0                          | 0                          | 0                   | 0                                           | (5,123)                                        | 0                      |
| Transfers from assets held for sale    | 0                                 | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 0                      |
| <b>Balances at 31 March 2014</b>       | <b>20,321,649</b>                 | <b>5,510</b>          | <b>10,486</b>              | <b>62</b>                  | <b>4,609</b>        | <b>1,508</b>                                | <b>827,755</b>                                 | <b>21,171,579</b>      |
| <b>Depreciation</b>                    |                                   |                       |                            |                            |                     |                                             |                                                |                        |
| At 1 April 2013                        | 3,151,926                         | 0                     | 1,297                      | 5                          | 4,216               | 1,294                                       | 0                                              | 3,158,738              |
| Detrunings                             | (1,324)                           | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | (1,324)                |
| Charge for the year                    | 52,499                            | 0                     | 449                        | 11                         | 148                 | 26                                          | 0                                              | 53,133                 |
| Disposals                              | 0                                 | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 0                      |
| Revaluation                            | (9,467)                           | 0                     | 45                         | 0                          | 0                   | 0                                           | 0                                              | (9,422)                |
| Current valuation adjustments          | 0                                 | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 0                      |
| Historic valuation adjustments         | 209                               | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 209                    |
| Transfers and reclassifications        | 0                                 | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 0                      |
| <b>Balances at 31 March 2014</b>       | <b>3,193,843</b>                  | <b>0</b>              | <b>1,791</b>               | <b>16</b>                  | <b>4,364</b>        | <b>1,320</b>                                | <b>0</b>                                       | <b>3,201,334</b>       |
| <b>Net Book Value at 31 March 2014</b> | <b>17,127,806</b>                 | <b>5,510</b>          | <b>8,695</b>               | <b>46</b>                  | <b>245</b>          | <b>188</b>                                  | <b>827,755</b>                                 | <b>17,970,245</b>      |
| <b>Net Book Value at 1 April 2013</b>  | <b>17,433,301</b>                 | <b>5,819</b>          | <b>8,917</b>               | <b>26</b>                  | <b>386</b>          | <b>214</b>                                  | <b>553,507</b>                                 | <b>18,002,170</b>      |
| <b>Asset Financing</b>                 |                                   |                       |                            |                            |                     |                                             |                                                |                        |
| Owned                                  | 15,673,320                        | 5,510                 | 8,695                      | 46                         | 245                 | 187                                         | 827,755                                        | 16,515,758             |
| Finance Leased                         | 0                                 | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 0                      |
| On Balance Sheet PFI                   | 1,454,486                         | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 1,454,486              |
| Donated                                | 0                                 | 0                     | 0                          | 0                          | 0                   | 0                                           | 0                                              | 0                      |
| <b>Net Book Value at 31 March 2014</b> | <b>17,127,806</b>                 | <b>5,510</b>          | <b>8,695</b>               | <b>46</b>                  | <b>245</b>          | <b>187</b>                                  | <b>827,755</b>                                 | <b>17,970,244</b>      |

Detrunckings reflect the transfer of road assets to Local Authority control, with the corresponding entry flowing through the General Fund (SoCTE). Transfers and reclassifications include roads, and associated land and buildings, which have transferred from Local Authority control as a result of the trunking of those particular sections of the trunk road network.

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 with the exception of land. Land is valued at market rates based on information supplied by the Valuation Office Agency. All revaluation movements are reflected through the revaluation reserve (SoCTE).

## 7. Intangible Assets

|                                         | 2014-15<br>£'000 | 2013-14<br>£'000 |
|-----------------------------------------|------------------|------------------|
| <b>At replacement cost or valuation</b> |                  |                  |
| At 1 April                              | 461              | 461              |
| Additions                               | 0                | 0                |
| Disposals                               | 0                | 0                |
| Balance at 31 March                     | 461              | 461              |
| <b>Accumulated Amortisation</b>         |                  |                  |
| At 1 April                              | 344              | 226              |
| Charge for the year                     | 117              | 118              |
| Revaluations                            | 0                | 0                |
| Disposals                               | 0                | 0                |
| Balance at 31 March                     | 461              | 344              |
| Net Book Value at 31 March              | 0                | 117              |

Purchased computer software licences are capitalised as intangible non-current assets where expenditure of £25,000 or more is incurred. These are valued at historic cost and amortised on a straight line basis over the expected life of the asset.

## 8. Assets Held For Sale

|                                   | 2014-15<br>£'000 | 2013-14<br>£'000 |
|-----------------------------------|------------------|------------------|
| Balance at 1 April                | 169              | 174              |
| Transfers to Non-Current Assets   | (49)             | 0                |
| Transfers from Non-Current Assets | 11               | 0                |
| Disposals                         | (55)             | (5)              |
| Change arising on revaluation     | 0                | 0                |
| Balance at 31 March               | 76               | 169              |

The above land assets have been presented for sale by Transport Scotland with an expected completion date within 12 months. Assets classified as held for sale are measured at the lower of their carrying amount immediately prior to their classification as

held for sale and their fair value less costs to sell. Assets held for sale are not subject to depreciation or amortisation.

## 9. Financial Assets

| 2014-15                                                        | Interests in<br>Nationalised<br>Industries &<br>Limited | Voted Loans | Other Funds | Total   |
|----------------------------------------------------------------|---------------------------------------------------------|-------------|-------------|---------|
|                                                                | Companies<br>£'000                                      | £'000       | £'000       | £'000   |
| Balance at 1 April 2014                                        | 20,550                                                  | 69,776      | 5,827       | 96,153  |
| Add element reported within current assets                     | 0                                                       | 3,018       | 0           | 3,018   |
| Advances and repayments                                        |                                                         |             |             |         |
| Cash advances                                                  | 0                                                       | 3,680       | 6,800       | 10,480  |
| Repayments                                                     | 0                                                       | (5,937)     | 0           | (5,937) |
| Balance at 31 March 2015                                       | 20,550                                                  | 70,537      | 12,627      | 103,714 |
| Loans repayable within 12 months transferred to current assets | 0                                                       | (3,767)     | 0           | (3,767) |
| Balance at 31 March 2015                                       | 20,550                                                  | 66,770      | 12,627      | 99,947  |

| 2013-14                                                        | Interests in<br>Nationalised<br>Industries &<br>Limited | Voted Loans | Other Funds | Total   |
|----------------------------------------------------------------|---------------------------------------------------------|-------------|-------------|---------|
|                                                                | Companies<br>£'000                                      | £'000       | £'000       | £'000   |
| Balance at 1 April 2013                                        | 20,550                                                  | 66,394      | 0           | 86,944  |
| Add element reported within current assets                     | 0                                                       | 3,018       | 0           | 3,018   |
| Advances and repayments                                        |                                                         |             |             |         |
| Cash advances                                                  | 0                                                       | 6,400       | 5,827       | 12,227  |
| Repayments                                                     | 0                                                       | (3,018)     | 0           | (3,018) |
| Balance at 31 March 2014                                       | 20,550                                                  | 72,794      | 5,827       | 99,171  |
| Loans repayable within 12 months transferred to current assets | 0                                                       | (3,018)     | 0           | (3,018) |
| Balance at 31 March 2014                                       | 20,550                                                  | 69,776      | 5,827       | 96,153  |

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 Scottish Ministers, represented by Transport Scotland, are the sole shareholders in Caledonian Maritime Assets Limited, David MacBrayne Limited, Highlands and Islands Airports Limited and TS Prestwick Holdco Limited. 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     |
| TS Prestwick Holdco Limited            | 1 ordinary share of £1                |

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.

|                                         | Prestwick<br>Holdco Limited | Highlands and<br>Islands<br>Airports Ltd | Caledonian<br>Maritime<br>Assets Ltd | David<br>MacBrayne Ltd |
|-----------------------------------------|-----------------------------|------------------------------------------|--------------------------------------|------------------------|
|                                         | £m                          | £m                                       | £m                                   | £m                     |
| Net assets (liabilities) as at 31 March | (11.5)                      | (26.0)                                   | 57.1                                 | 19.6                   |
| Turnover                                | 12.4                        | 19.4                                     | 29.9                                 | 172.0                  |
| Profit/(Loss) for the financial year    | (8.9)                       | (1.1)                                    | (9.0)                                | (1.1)                  |

All results are draft and subject to audit. 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)**

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 11 airports; 10 in the Highlands and Islands and also Dundee, via a wholly owned subsidiary, 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.

### **TS Prestwick Holdco Limited**

In 2013 Transport Scotland purchased the entire share capital of Prestwick Aviation Holdings Limited, which is the Holding Company of subsidiaries who own and operate Glasgow Prestwick Airport, through a company set up for this specific purpose – TS Prestwick Holdco Limited. Subsequently Transport Scotland advanced loan funding to the group to cover the cash deficit arising from its operating deficit and capital expenditure.

### **Other Interests: Voted Loans**

Transport Scotland provides loans to Caledonian Maritime Assets Limited to be used for the construction of new shipping.

In respect of IFRS12, it should be noted that both Highland and Islands Airport (HIAL) and David MacBrayne are classed as Non Departmental Public Bodies (NDPB's), and are treated in accordance with the HM Treasury Consolidated Budgeting guidance <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2014-to-2015/consolidated-budgeting-guidance-2014-to-2015> and Transport Scotland has taken account of these bodies forecast expenditure within its budget. Scottish Canals is also

classed as an NDPB but HM Treasury agreed not to apply the budgeting or accounting impact of this up to 31 March 2015, after which they will review the position. CMAL and Prestwick are classed as Public Corporations and are not included in the accounting or budgetary boundary.

## 10. Trade Receivables and Other Assets

| 10a Analysis by classification                       | as at 31/03/15<br>£'000 | as at 31/03/14<br>£'000 |
|------------------------------------------------------|-------------------------|-------------------------|
| <b>Amounts falling due within one year:</b>          |                         |                         |
| <b>Trade and other receivables</b>                   |                         |                         |
| Trade and other receivables                          | 1,107                   | 10                      |
| Damage claims                                        | 1,719                   | 3,112                   |
| Prepayments and accrued income                       | 94,335                  | 88,523                  |
|                                                      | 97,161                  | 91,644                  |
| <b>Amounts falling due after more than one year:</b> |                         |                         |
| Prepayments and other receivables                    | 38,452                  | 65,000                  |
|                                                      | 38,452                  | 65,000                  |

| 10b Intra-Government balances                        | as at 31/03/15<br>£'000 | as at 31/03/14<br>£'000 |
|------------------------------------------------------|-------------------------|-------------------------|
| <b>Amounts falling due within one year:</b>          |                         |                         |
| <b>Intra-Government balances</b>                     |                         |                         |
| Other Central Government bodies                      | 939                     | 26                      |
| Local Authorities                                    | 56                      | 4                       |
| Public Corporations and trading funds                | 792                     | 1,985                   |
|                                                      | 1,787                   | 2,015                   |
| <b>Balances with bodies external to Government</b>   | 95,374                  | 89,629                  |
| <b>Total receivables</b>                             | 97,161                  | 91,644                  |
| <b>Amounts falling due after more than one year:</b> |                         |                         |
| <b>Intra-Government balances</b>                     |                         |                         |
| Other Central Government bodies                      | 0                       | 0                       |
| Local Authorities                                    | 0                       | 0                       |
| Public Corporations and trading funds                | 0                       | 0                       |
|                                                      | 0                       | 0                       |
| <b>Balances with bodies external to Government</b>   | 38,452                  | 65,000                  |
| <b>Total receivables</b>                             | 38,452                  | 65,000                  |

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

|                          | as at 31/03/15<br>£'000 | as at 31/03/14<br>£'000 |
|--------------------------|-------------------------|-------------------------|
| At 1 April               | 0                       | 3                       |
| Charge for the year      | 0                       | 0                       |
| Unused amount released   | 0                       | 0                       |
| Utilised during the year | 0                       | (3)                     |
| At 31 March              | 0                       | 0                       |

## 11. Trade Payables and Other Liabilities

| 11a Analysis by classification                       | as at 31/03/15<br>£'000         | as at 31/03/14<br>£'000         |
|------------------------------------------------------|---------------------------------|---------------------------------|
| <b>Amounts falling due within one year:</b>          |                                 |                                 |
| <b>Trade and other payables</b>                      |                                 |                                 |
| Trade payables                                       | 3,681                           | 35,741                          |
| Accruals                                             | 168,634                         | 97,560                          |
| Other payables                                       | 27,970                          | 146,986                         |
| Financial liabilities - PFI                          | 10,418                          | 9,718                           |
| Deferred Income                                      | 3,528                           | 4,431                           |
|                                                      | 214,231                         | 294,436                         |
| <b>Amounts falling due after more than one year:</b> |                                 |                                 |
| Other payables                                       | 1,152                           | 1,882                           |
| Financial liabilities - PFI                          | 547,320                         | 442,218                         |
|                                                      | 548,472                         | 444,100                         |
| <b>11b Intra-Government balances</b>                 | <b>as at 31/03/15<br/>£'000</b> | <b>as at 31/03/14<br/>£'000</b> |
| <b>Amounts falling due within one year:</b>          |                                 |                                 |
| <b>Intra-Government balances</b>                     |                                 |                                 |
| Other Central Government bodies                      | 448                             | 123                             |
| Local Authorities                                    | 22,321                          | 37,195                          |
| Public corporations and trading funds                | 369                             | 13,712                          |
|                                                      | 23,137                          | 51,030                          |
| <b>Balances with bodies external to Government</b>   | 191,094                         | 243,406                         |
| <b>Total payables</b>                                | <b>214,231</b>                  | <b>294,436</b>                  |
| <b>Amounts falling due after more than one year:</b> |                                 |                                 |
| <b>Intra-Government balances</b>                     |                                 |                                 |
| Other Central Government bodies                      | 0                               | 0                               |
| Local Authorities                                    | 107,439                         | 110,412                         |
| Public corporations and trading funds                | 0                               | 0                               |
|                                                      | 107,439                         | 110,412                         |
| <b>Balances with bodies external to Government</b>   | 441,033                         | 333,688                         |
| <b>Total payables</b>                                | <b>548,472</b>                  | <b>444,100</b>                  |



## 12. Provisions for Liabilities and Charges

|                                                       | Land and<br>Property<br>Acquisition | Major Projects | Other | Total    |
|-------------------------------------------------------|-------------------------------------|----------------|-------|----------|
| 12a Provisions for liabilities and charges<br>2014-15 | £'000                               | £'000          | £'000 | £'000    |
| Balance as at 1 April 2014                            | 101,261                             | 11,121         | 1,093 | 113,475  |
| Provided in year                                      | 0                                   | 0              | 45    | 45       |
| Provisions not required written back                  | 0                                   | (1,934)        | (9)   | (1,943)  |
| Provisions utilised in year                           | (9,857)                             | (789)          | (108) | (10,754) |
| Discount amortised                                    | (1,053)                             | (145)          | 2     | (1,196)  |
| Balance as at 31 March 2015                           | 90,351                              | 8,253          | 1,023 | 99,627   |

| 2013-14                              |          |         |       |          |
|--------------------------------------|----------|---------|-------|----------|
| Balance as at 1 April 2013           | 112,643  | 12,124  | 1,212 | 125,979  |
| Provided in year                     | 280      | 0       | 3     | 283      |
| Provisions not required written back | (1,000)  | (1,000) | (2)   | (2,002)  |
| Provisions utilised in year          | (10,554) | 0       | (138) | (10,692) |
| Discount amortised                   | (108)    | (3)     | 18    | (93)     |
| Balance as at 31 March 2014          | 101,261  | 11,121  | 1,093 | 113,475  |

| 12b Analysis of expected timing of discounted flows | Land and<br>Property<br>Acquisition | Major Projects | Other | Total  |
|-----------------------------------------------------|-------------------------------------|----------------|-------|--------|
|                                                     | £'000                               | £'000          | £'000 | £'000  |
| In the remainder of the period to 2016              | 28,695                              | 1,938          | 268   | 30,901 |
| Between 2017 and 2020                               | 61,655                              | 6,315          | 755   | 68,725 |
| Between 2021 and 2024                               | 0                                   | 0              | 0     | 0      |
| Thereafter                                          | 0                                   | 0              | 0     | 0      |
| Balance as at 31 March 2015                         | 90,350                              | 8,253          | 1,023 | 99,626 |

|                                        |         |        |       |         |
|----------------------------------------|---------|--------|-------|---------|
| In the remainder of the period to 2015 | 42,958  | 4,498  | 423   | 47,879  |
| Between 2016 and 2019                  | 58,303  | 6,623  | 660   | 65,586  |
| Between 2020 and 2024                  | 0       | 0      | 10    | 10      |
| Thereafter                             | 0       | 0      | 0     | 0       |
| Balance as at 31 March 2014            | 101,261 | 11,121 | 1,093 | 113,475 |

### 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 from 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 agreed to meet the additional agreed cost of benefits payable to specific employees who retired early until they reach the age of 60 at which point the

liability is assumed by the PCSPS. The cost of these benefits is provided in full when the employee retires.

### 13. Movement on Working Capital Balances

|                                                 | note | as at<br>31/03/15<br>£'000 | as at<br>31/03/14<br>£'000 | 2014-15 Net<br>Movement<br>£'000 | 2013-14 Net<br>Movement<br>£'000 |
|-------------------------------------------------|------|----------------------------|----------------------------|----------------------------------|----------------------------------|
| <b>Receivables</b>                              |      |                            |                            |                                  |                                  |
| Due within one year                             | 8/10 | 97,237                     | 91,813                     | (5,424)                          | (33,703)                         |
| Due after more than one year                    | 10   | 38,452                     | 65,000                     | 26,548                           | 35,000                           |
| Net decrease/(increase)                         |      | 135,690                    | 156,813                    | 21,123                           | 1,297                            |
| <b>Payables</b>                                 |      |                            |                            |                                  |                                  |
| Due within one year                             | 11   | 214,231                    | 294,436                    | (80,205)                         | 93,109                           |
| Due after more than one year                    | 11   | 548,472                    | 444,100                    | 104,372                          | (10,752)                         |
|                                                 |      | 762,703                    | 738,536                    | 24,167                           | 82,357                           |
| Less: Lease and PFI creditors included in above | 11   | 557,738                    | 451,936                    | 105,802                          | (9,065)                          |
| Less: Capital accruals included in the above    |      | 25,830                     | 144,002                    | (118,172)                        | 51,927                           |
| Net (decrease)/increase                         |      | 179,135                    | 142,598                    | 36,537                           | 39,495                           |
| Provisions                                      | 12   | 99,627                     | 113,475                    | (13,848)                         | (12,505)                         |
| Net (decrease)/increase                         |      | 99,627                     | 113,475                    | (13,848)                         | (12,505)                         |
| Net movement (decrease)/increase                | -    | 414,452                    | 412,886                    | 1,566                            | 28,287                           |

### 14. Capital Commitments

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

|                                                                           | as at 31/03/15<br>£'000 | as at 31/03/14<br>£'000 |
|---------------------------------------------------------------------------|-------------------------|-------------------------|
| Property, plant and equipment                                             | 539,236                 | 802,462                 |
| Total contracted capital commitments for which no provision has been made | 539,236                 | 802,462                 |

### 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 31/03/15<br>£'000 | as at 31/03/14<br>£'000 |
|----------------------------------------------|-------------------------|-------------------------|
| <b>Land &amp; buildings</b>                  |                         |                         |
| Due within 1 year                            | 1,444                   | 1,444                   |
| Due after 1 year but not more than 5 years   | 5,313                   | 5,467                   |
| Commitments thereafter                       | 1,290                   | 2,579                   |
|                                              | 8,047                   | 9,490                   |

## 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 (A74M) - the contract covers the design, construction and financing of 28.3km of new motorway, as well as the operation and maintenance of 90km of existing 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 motorway and 9km local road to 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 motorway and associated roads, junctions, structures and associated works and their on-going maintenance for a period of 30 years. Unitary charge payments commenced in September 2011 and will cease in September 2041.

Under IPSAS 32, the substance of these PFI contracts is a finance lease, with the asset being recognised. Payments under PFI contracts are comprised of two elements; imputed finance lease charges and services charges.

We have also entered into the following contract for the design, build, finance and maintenance of assets yet to be completed.

M8, M73, M74 Improvements - the project will upgrade the A8 Baillieston to Newhouse, completing the M8 motorway between Glasgow and Edinburgh, including improvements to the M74 Raith Interchange and widening of key sections of the M8, M73 and M74. The Non Profit Distributing (NPD) contract also incorporates the management, operation and maintenance of this motorway for the next 30 years. The unitary charge payments will become committed after construction completion in 2017 and will cease in 2047.

AWPR / BT - the project will construct a new dual carriageway to by-pass the City of Aberdeen and upgrade the road between Balmedie and Tippetty to dual carriageway. The Non Profit Distributing (NPD) contract also incorporates the management, operation and maintenance of these roads for the next 30 years. The unitary charge payments will become committed after construction completion in 2018 and will cease in 2048.

Imputed finance lease obligations under PFI contracts comprise:

Imputed finance lease obligations under PFI contracts comprise:

|                                       | as at 31/03/15 | as at 31/03/14 | as at 31/03/13 |
|---------------------------------------|----------------|----------------|----------------|
|                                       | £'000          | £'000          | £'000          |
| Rentals due within 1 year             | 40,407         | 40,407         | 40,407         |
| Rentals due within 2 to 5 years       | 161,627        | 161,627        | 161,627        |
| Rentals due thereafter                | 776,325        | 701,212        | 741,619        |
|                                       | 978,359        | 903,246        | 943,653        |
| Less: Interest element (finance cost) | (420,622)      | (451,311)      | (482,652)      |
| <b>Total capital cost</b>             | <b>557,737</b> | <b>451,935</b> | <b>461,001</b> |

Imputed service charge obligations under PFI contracts comprise:

Imputed service charge obligations under PFI contracts comprise:

|                                        | as at 31/03/15 | as at 31/03/14 | as at 31/03/13 |
|----------------------------------------|----------------|----------------|----------------|
|                                        | £'000          | £'000          | £'000          |
| Service charge due within 1 year       | 54,995         | 44,086         | 27,743         |
| Service charge due within 2 to 5 years | 206,619        | 217,540        | 200,768        |
| Service charge due thereafter          | 394,262        | 433,518        | 487,948        |
| <b>Total service charge</b>            | <b>655,876</b> | <b>695,144</b> | <b>716,459</b> |

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 Abellio and Serco under the Franchise Agreements.

Network Rail Control Period 4 ran from April 2009 to March 2014. The Determination for the next control period from April 2014 to March 2019 has now been set by the Office of Rail Regulation for the Deed of Grant and Track Access charges and is therefore reflected below.

First ScotRail - the ScotRail franchise extension ended on 31 March 2015.

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

|                | 2014-15        | 2013-14        |
|----------------|----------------|----------------|
|                | £'000          | £'000          |
| Network Rail   | 426,458        | 285,361        |
| First ScotRail | 261,112        | 492,228        |
| <b>Total</b>   | <b>687,570</b> | <b>777,589</b> |

Following expiry of the contract with First Group, further contracts were awarded to Abellio for the ScotRail Franchise, and Serco for the Caledonian Sleeper Franchise, from April 2015. Amounts due under these contracts in future years, analysed between those periods where commitment falls are :

|                            | Network Rail<br>Deed of Grant | Abellio<br>Scotrail | Serco Caledonian<br>Sleeper Limited | Total            |
|----------------------------|-------------------------------|---------------------|-------------------------------------|------------------|
|                            | £'000                         | £'000               | £'000                               | £'000            |
| Expiry within 0-12 months  | 446,900                       | 292,564             | 16,930                              | 756,394          |
| Expiry within 1 to 2 years | 463,343                       | 249,038             | 16,090                              | 728,471          |
| Expiry within 2 to 5 years | 1,161,341                     | 1,078,053           | 56,395                              | 2,295,789        |
| <b>Total</b>               | <b>2,071,584</b>              | <b>1,619,655</b>    | <b>89,415</b>                       | <b>3,780,654</b> |

## 18. Financial Instruments

### 18a Financial Instruments by Category

| Assets per statement of financial position                                                           | note | Assets at Fair Value through Profit & Loss<br>£'000 | Loans & Receivables<br>£'000 | Total<br>£'000 |
|------------------------------------------------------------------------------------------------------|------|-----------------------------------------------------|------------------------------|----------------|
| Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable. |      | 0                                                   | 107,246                      | 107,246        |
| Balance as at 31 March 2015                                                                          |      | 0                                                   | 107,246                      | 107,246        |

| Liabilities per statement of financial position                                                | note               | Assets at Fair Value through Profit and Loss<br>£'000 | Other Financial Liabilities<br>£'000 | Total<br>£'000 |
|------------------------------------------------------------------------------------------------|--------------------|-------------------------------------------------------|--------------------------------------|----------------|
| PFI liabilities                                                                                | <a href="#">16</a> | 0                                                     | 557,737                              | 557,737        |
| Trade and other payables excluding statutory liabilities (VAT, income tax and social security) |                    | 0                                                     | 199,744                              | 199,744        |
| Balance as at 31 March 2015                                                                    |                    | 0                                                     | 757,481                              | 757,481        |

### 18b Financial Risk Factors

#### Exposure to Risk

Due to 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 review of risk management 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 which may be used only for the purposes and 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<br>value<br>£'000 | 0-12<br>months<br>£'000 | 1-2 years<br>£'000 | 2-5 years<br>£'000 | 5-10 years<br>£'000 | >10 years<br>£'000 |
|------------------------------------|----------------------------|-------------------------|--------------------|--------------------|---------------------|--------------------|
| Non-derivative liabilities         | 732,395                    | 288,972                 | 11,623             | 36,001             | 79,774              | 316,025            |
| Derivative liabilities             | 0                          | 0                       | 0                  | 0                  | 0                   | 0                  |
| <b>Total financial liabilities</b> | <b>732,395</b>             | <b>288,972</b>          | <b>11,623</b>      | <b>36,001</b>      | <b>79,774</b>       | <b>316,025</b>     |

### 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 loans to CMAL accrue interest at the rate set for the National Loans Fund and those to Prestwick at the rate specified by the European Commission. Income and expenditure and cash flows are dependent on 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. The process of recovering the expenses awarded by the Court of Session is continuing.

### **19b Contingent Liabilities disclosed under IAS37**

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 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 £5 million but it is not considered likely that any 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 agreements (ScotRail and Caledonian Sleeper Rail Franchise Agreements) with indemnities to Abellio ScotRail Limited and Serco Caledonian Sleepers Limited commencing on 1 April 2015;
- 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 9 years.

#### **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 Abellio ScotRail and Serco Caledonian Sleepers Limited pension funds from 1 April 2015 in line with that provided to other train operators by DfT

#### **iii. Other contingent liabilities held by Transport Scotland:**

- Monklands Canal - maintenance of pipes under trunk roads.

#### iv. Procurement

- Two legal challenges in respect of contracts awarded are on-going in respect of the procurement of the Northern Isles Ferry Service and additional road salt for winter maintenance. Transport Scotland intends to defend its position in respect of these challenges through the appropriate legal processes.

## 20. Related Party Transactions

Transport Scotland is an Executive Agency of the Scottish Government, which is regarded as a related party with which it had various material transactions during the year. David MacBrayne Limited, Caledonian Maritime Assets Limited (CMAL), TS Prestwick Holdco Limited and Highlands & Islands Airports Limited (HIAL) are wholly owned subsidiaries of Transport Scotland with whom it also had various material transactions during the year.

Loans were also advanced to and repaid from CMAL to fund vessel construction and grants paid to HIAL to subsidise its operating and capital expenditure and to CMAL to fund agreed pier and harbour infrastructure projects. David MacBrayne Limited is the parent company of Calmac Ferries Limited, Argyll Ferries Limited and Northlink Ferries Limited who operated Ferry Services under contracts with Transport Scotland, which Transport Scotland supported by the payment of subsidies. TS Prestwick Holdco Limited is the parent company of subsidiaries who own and operate Glasgow Prestwick Airport. Transport Scotland advanced loan funding to the group to cover the cash deficit arising from its operating deficit and capital expenditure.

Transport Scotland paid grants to British Waterways Scotland, trading as Scottish Canals, for the operation and maintenance of Scottish canals and related infrastructure and capital grants for related investments during the year. We also made payments to Network Rail under the deed of grant and arrangements identified in note 17.

Transport Scotland also had significant transactions with Local Authorities, Sustrans, the Energy Saving Trust, Loganair Limited, Forth Estuary Transport Authority, Northern Isles Ferries Limited, Cycling Scotland, Strathclyde Partnership for Transport, Tay Road Bridge Joint Board and Lothian Buses during the year, principally in relation to payment of grants to deliver specific transport objectives.

All interests declared by members of the Transport Scotland Senior Management Team 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

| 2014-15                                | Resource | Net Investment | Income  | Non Cash | AME/ ODEL | Total     |
|----------------------------------------|----------|----------------|---------|----------|-----------|-----------|
|                                        | £'000    | £'000          | £'000   | £'000    | £'000     | £'000     |
| <b>Total continuing segments</b>       |          |                |         |          |           |           |
| Roads                                  | 93,407   | 73,667         | (200)   | 58,200   | 68,069    | 293,143   |
| Rail                                   | 263,397  | 429,848        | 0       | 14       | 0         | 693,259   |
| Concessionary travel & bus services    | 251,425  | 1,110          | 0       | 163      | 0         | 252,698   |
| Other public transport                 | 19,943   | 34,140         | 0       | 0        | 0         | 54,083    |
| Ferry services in Scotland             | 146,205  | 22,474         | (3,014) | 0        | 0         | 165,665   |
| Air services in Scotland               | 29,113   | 13,969         | (222)   | 0        | 0         | 42,860    |
| Other transport directorate programmes | 20,022   | 0              | 0       | 0        | 0         | 20,022    |
| Scottish Futures Fund                  | 581      | 14,421         | 0       | 0        | 0         | 15,002    |
| Grants to local authorities            | 0        | 30,535         | 0       | 0        | 0         | 30,535    |
|                                        | 824,093  | 620,164        | (3,436) | 58,377   | 68,069    | 1,567,267 |

| 2013-14                                | Resource  | Net Investment | Income  | Non Cash | AME    | Total     |
|----------------------------------------|-----------|----------------|---------|----------|--------|-----------|
|                                        | £'000     | £'000          | £'000   | £'000    | £'000  | £'000     |
| <b>Total continuing segments</b>       |           |                |         |          |        |           |
| Roads                                  | 88,079    | 98,997         | (351)   | 55,750   | 58,932 | 301,407   |
| Rail                                   | 493,831   | 344,187        | 0       | 13       | 0      | 838,031   |
| Concessionary travel & bus services    | 245,204   | 1,278          | 0       | 198      | 0      | 246,680   |
| Other public transport                 | 18,534    | 36,245         | 0       | 0        | 0      | 54,779    |
| Ferry services in Scotland             | 128,345   | 9,999          | (2,927) | 0        | 0      | 135,417   |
| Air services in Scotland               | 23,084    | 7,118          | (35)    | 0        | 0      | 30,167    |
| Other transport directorate programmes | 19,101    | 0              | 0       | 0        | 0      | 19,101    |
| Scottish Futures Fund                  | 1,000     | 1,893          | 0       | 0        | 0      | 2,893     |
| Grants to local authorities            | 0         | 20,833         | 0       | 0        | 0      | 20,833    |
|                                        | 1,017,178 | 520,550        | (3,313) | 55,961   | 58,932 | 1,649,308 |

### 21b Business Segments – Capital Expenditure

| 2014-15                                        | Trunk Road Maintenance | Capital Projects | Other Assets | Voted Loans | Total Capital Expenditure |
|------------------------------------------------|------------------------|------------------|--------------|-------------|---------------------------|
|                                                | £'000                  | £'000            | £'000        | £'000       | £'000                     |
| <b>Total continuing segments</b>               |                        |                  |              |             |                           |
| Roads                                          | 8,843                  | 415,399          | 83           | 0           | 424,325                   |
| Rail                                           | 0                      | 0                | 0            | 0           | 0                         |
| Other public transport                         | 0                      | 0                | 0            | 0           | 0                         |
| Ferry, aviation and other services in Scotland | 0                      | 0                | 0            | 4,543       | 4,543                     |
|                                                | 8,843                  | 415,399          | 83           | 4,543       | 428,868                   |

| 2013-14                                        | Trunk Road Maintenance | Capital Projects | Other Assets | Voted Loans | Total Capital Expenditure |
|------------------------------------------------|------------------------|------------------|--------------|-------------|---------------------------|
|                                                | £'000                  | £'000            | £'000        | £'000       | £'000                     |
| <b>Total continuing segments</b>               |                        |                  |              |             |                           |
| Roads                                          | 14,487                 | 275,974          | 87           | 0           | 290,548                   |
| Rail                                           | 0                      | 0                | 0            | 0           | 0                         |
| Other public transport                         | 0                      | 0                | 0            | 0           | 0                         |
| Ferry, aviation and other services in Scotland | 0                      | 0                | 0            | 9,209       | 9,209                     |
|                                                | 14,487                 | 275,974          | 87           | 9,209       | 299,757                   |

## 22. Notional Charges

The following notional charges have been included in the accounts:

|                        | note              | 2014-15<br>£'000 | 2013-14<br>£'000 |
|------------------------|-------------------|------------------|------------------|
| Auditors' remuneration | <a href="#">3</a> | 182              | 180              |
|                        |                   | 182              | 180              |

## 23. Losses and Special Payments

|                                | number of cases | 2014-15<br>£'000 | 2013-14<br>£'000 |
|--------------------------------|-----------------|------------------|------------------|
| Total cash losses              | 40              | 549              | 1,777            |
| Details of cases over £250,000 | 0               | 0                | 1,192            |
| Including - claims abandoned   | 40              | 549              | 1,777            |

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 there has been a fatal injury. The costs are held in a debtor account until the recovery is successful. In 2014-15 a detailed review of the costs held in the debtor account identified those deemed recoverable. Irrecoverable costs no longer being pursued amounted to £0.5 million in respect of 40 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 branchline 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 2014-15 were £46,000 (2013-14 £39,000), with revenues of £nil generated (2013-14 £50,000)



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* (FRM) 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.

A handwritten signature in black ink, appearing to read 'Alison Stiff'.

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 کیوئی 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 অনুর আকারে এবং সম্প্রদায়ের ভাষায় অনুরোধের মাধ্যমে পাওয়া যাবে, অনুরোধ করে যোগাযোগ করুন:

Gheibhear lethbhreac a bharrachd ann an cruth ris an eistear, ann an clò mòr agus ann an cànan coimhearsnachd. Cuir fios gu:

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

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

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

يمكن أن تطلب النسخ الأخرى من هذا المستند كالتسجيل الصوتي والخط الكبير 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:

Transport Scotland, Buchanan House,  
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