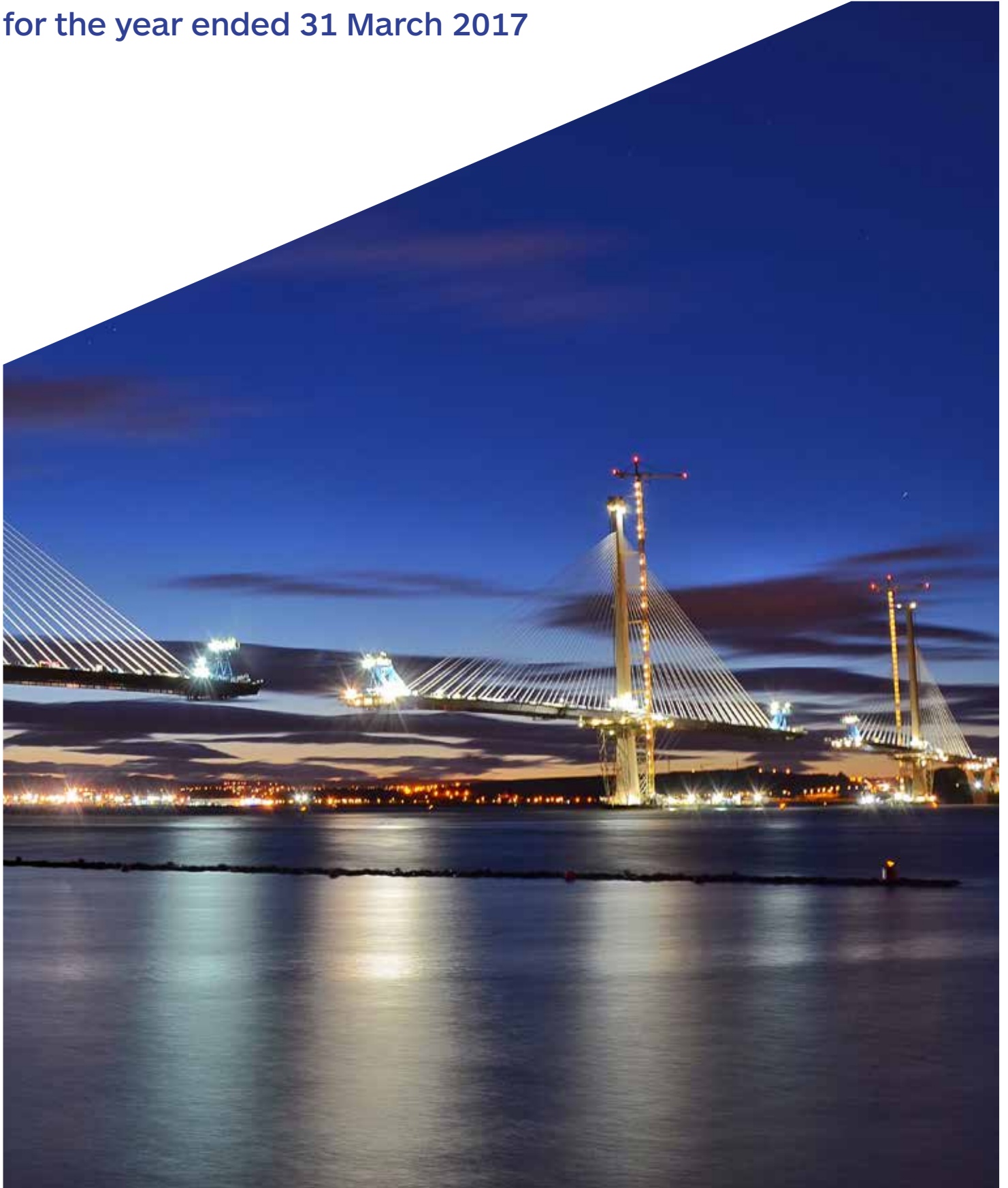




Annual Report and Accounts

for the year ended 31 March 2017



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Laid before the Scottish
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PERFORMANCE REPORT



OVERVIEW

Statement by Chief Executive

Introduction

The 2016-17 Annual Report and Accounts for Transport Scotland presents a review of the Agency's performance during the year, together with the audited accounts for the year. In the overview section on pages 3-4, the Agency's Chief Executive provides his summary on performance, sets out the key purposes of the Agency and the risks / challenges faced during the year. Performance is analysed in detail within the Performance Analysis section on pages 5-9.

I am pleased to introduce Transport Scotland's Annual Report and Accounts for 2016-2017. The past year has been another busy and exciting time within the Agency, as we continue to support Scottish Ministers in delivering transport projects and priorities across Scotland.

The start of the year marked the beginning of a number of important actions for our policy teams, with the refresh of the National Transport Strategy refocusing our roles and responsibilities in line with Minister's transport priorities, and work has now begun on a fuller strategy review.

May 2016 saw Derek Mackay MSP promoted to Cabinet Secretary for Finance and the Constitution, and we welcomed a new Minister for Transport and the Islands, Humza Yousaf MSP, and a new Cabinet Secretary for Rural Economy and Connectivity, Fergus Ewing MSP.

Our major projects continued at a pace this year, with the M8/M73/M74 Motorway Improvements Project reaching critical stages including the demolition of the M74 Bothwell Bridge and a number of altered junctions on the M8 becoming ready for use. In addition, our north east schemes continued to progress, with a £50 million design contract awarded for the A96 Inverness to Aberdeen dualling scheme, and new junctions

opened on the Aberdeen Western Peripheral Route/Balmedie to Tipperty (AWPR/B-T) Project.

In August 2016, our Rail directorate saw refurbishment of the Queen Street tunnel, which reopened early and on budget, and December 2016 also saw the opening of a new interchange station, Edinburgh Gateway, and refurbished trains coming into service. All these marked further significant milestones in the Scottish Government's five year £5 billion programme of investment.

Elsewhere our Aviation, Maritime, Freight and Canals team were successful in securing new air routes to the USA and beyond, and oversaw the award of a £900 million ferry services contract for the Clyde and Hebrides routes.

On the roads, maintenance remained a priority, as well as the repair of the truss end link on the Forth Road Bridge. The Saltirecard family of smart tickets continues to expand with multi-operator smart card tickets currently available on buses in Aberdeenshire and Tayside. Early in the year we updated our Strategic Road Safety Plan and we continue to see safety cameras, along with our Road Safety Scotland marketing campaigns, have significant positive effects on public safety.

The year has presented a range of challenges which the organisation has had to respond to, including the performance of the ScotRail franchise, cost increases and time delays on a range of major rail projects not directly delivered by the Agency, as well as the impact of weather on the opening date for the new Queensferry Crossing.

The Agency has responded well to these challenges through strengthened project governance, performance monitoring/ reporting and engagement with our delivery partners.

It is always pleasing to see the efforts of our Transport Scotland team, plus our partners and stakeholders, recognised for their hard work to improve the transport network. In summer 2016, we were awarded the *Scottish Transport Award for Travel and Marketing Information*, highlighting how working across directorates and with partner organisations, we can provide a better service for the travelling public. Further awards have acknowledged innovative road safety schemes, transport projects, the reopening of the Forth Road Bridge and of course, the Queensferry Crossing made it into the Guinness Book of Records.

I am 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 another very successful year in transport.

Purpose and Activities of the Organisation

Transport Scotland is an Agency of the Scottish Government responsible for national transport and 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 are responsible for securing 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.

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. Transport Scotland's 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.

Key Issues and Risks Affecting the Organisation

The principal risks and uncertainties facing Transport Scotland relate to our major contracts for, and financial investment in, 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 have 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.

Roy Brannen
Chief Executive, Transport Scotland

PERFORMANCE ANALYSIS

The following high level objectives were set out in our Corporate Plan 2012-15 which was extended to cover 2016-17 and thereby align with the Scottish Parliamentary cycle. The plan is currently being revised in 2017-18.

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 key contributions of each Directorate within Transport Scotland during 2016-17 are set out below. Many of the projects/programmes undertaken contribute to the achieving of multiple objectives. Regular formal progress reports are provided to senior management during the year, including details of progress against targets and narrative on measurement methodologies and variations from targets.

A more detailed analysis of our performance is reported more fully in our Transport Review 2016 which can be accessed from our website at www.transport.gov.scot/publication/annual-review-2016.

Trunk Roads and Bus Operations

Following the publication of the **Strategic Road Safety Plan** update in March 2016, we have been working with communities and partners to promote and action the *Safe System* approach set out within the plan to deliver improvements to our speed enforcement capability and innovative speed management solutions, through 2017 and beyond.

The **Average speed camera system and HGV speed limit pilot**, which came into force on the A9 between Dunblane and Inverness in 2014, continues to improve safety on this stretch of road, with significant improvements noted in driver behaviour. Figures for 2016 show the number of overall casualties fell by 37%, and the number of vehicles travelling at excess speed fell by 95%.

Following the 2015 **Safety Camera Programme Review**, the first new sites for safety camera enforcement were introduced in late 2016. The A77 safety scheme was upgraded to new digital cameras at a cost of £1 million and cameras have also been deployed on the A90 Forth Replacement Crossing (FRC); the M8 M73 M74 Motorway Improvement Project; the A9 Kincaig to Dalraddy and also to support the Aberdeen Western Peripheral Route /Balmedie to Tippetty (AWPR/B-T) project. In addition, camera enforcement of variable speed limits will be introduced for the first time in Scotland in 2017, as part of the FRC Intelligent Traffic Systems.

We continue to support the transport planning and delivery of all of **Scotland's Major Events** through working with event promoters and the wider transport sector. In 2016-17, we played a key role in the successful delivery of transport support for the *The Open Golf* at Troon, "*T in the Park*" and the *Royal Highland Show*.

We have continued to support our most vulnerable citizens by investing nearly £200 million in the Scotland-Wide **Free Bus Concessionary Travel Scheme for Older and Disabled People**. In 2016, 1.3 million national entitlement cards were renewed to incorporate the latest smartcard technology.

We are committed to promoting, supporting and advancing the rights of pedestrians to ensure that our roads and pavements are accessible for all. The stakeholder working group, comprising of disability groups, active travel and motoring services will carry out a review and public consultation on **improving parking in Scotland**. The findings will inform the development of legislation and guidance for implementation.

As well as continuing to invest in the maintenance of our trunk road structures such as the A985 Kincardine Bridge and the A898 Erskine Bridge, we have also implemented a strategy to protect our network from **overweight vehicles**. Using the latest Automatic Number Plate/Weigh In Motion we are working with key stakeholders to target overweight vehicles with a view to mitigating this practice.

As part of the Scottish Government's *Programme for Government*, to address wear and tear on the network, we successfully undertook the £2.4 million **replacement of two bridges** in the A830 programme, at Ranochan and Arienskill. Part of eight bridges being upgraded along the route, Ranochan opened to traffic in December 2016 and Arienskill opened in February 2017.

We continue to progress the delivery of the Scottish Government's vision for one **Saltirecard smart ticketing** system to be available across all public transport modes throughout Scotland. We continue to engage with the bus industry, local authorities and Regional Transport Projects (RTP's) as well as with ScotRail and the ferry franchises, and Scottish bus operators now deploy compatible ticketing equipment to dovetail into this programme. Discussions are on-going to expand the existing schemes and to introduce, as a priority, multi-operator smart ticketing in the Glasgow and Edinburgh areas. The smart Saltirecard has been introduced on all routes and was made available in 2017 across the network, for the majority of ticket types. It is anticipated that all ticket types will be available on Saltirecard by 2019, including some multi-modal tickets.

Major Transport Infrastructure Projects

The **Forth Replacement Crossing (FRC)** project is now expected to open to traffic by August 2017. The projects remains within a budget range of £1.325 – £1.35 billion. The project has now realised cumulative savings of £245 million since construction began in June 2011.

The **FRC Contact and Education Centre** has proven to be hugely popular, with local communities, schools, colleges, universities and other organisations taking advantage of the many events that continue to be organised by the project team. Since opening, over 70,000 people, including more than 20,000 school pupils, have been informed about the project through the outreach and education programme.

Progress continues on the **Aberdeen Western Peripheral Route/Balmedie to Tipperty** (AWPR/B-T) project. Phase 1 of the project, comprising the Craibstone and Dyce junctions on the A96, opened to traffic in late August 2016, and employment on the project peaked during 2016 at 2,500 people. It is estimated that, when complete, the AWPR/B-T project will cut journey times across Aberdeen by up to half at peak times and will generate over £6 billion of additional income (at 2004 prices). We have an extensive schools engagement programme, which is aimed at encouraging young

people to consider the construction industry as a career route, whilst informing them about the AWPR/B-T project in general. So far, the project team has reached out to almost 6,500 primary, secondary and college/university students.

The £500 million **M8/M73/M74 Motorway Improvements Project** entered its final stages in 2016-17. The M74 J5 Raith underpass opened to traffic in February 2017, providing immediate and substantial journey time improvements for drivers using the A725 and travelling between the Bellshill bypass and the East Kilbride expressway. This project, will improve journey times during peak periods, enhance connectivity and contribute to road safety across the Central Scotland motorway network. The project opened to traffic in Spring 2017.

Design work is well underway on the 11 road schemes that make up the 80 miles of **A9 Dualling** between Perth and Inverness – one of the biggest transport infrastructure projects in Scotland's history. The design and construction work for the A9 programme is helping support over 1,200 engineering jobs in Scotland. The first section to be dualled, at a cost of £35 million, is between Kinraig and Dalraddy and is scheduled to open in the summer of 2017.

We launched the **Academy9 Programme** to maximise the benefit of the A9 dualling by infusing elements of the various activities involved into the education curriculum and increasing awareness of STEM (science, technology, engineering and mathematics) and civil engineering-related careers, with the goal of getting pupils ready for the local jobs which the programme will create. Since the launch of the programme in August 2015, events have been held with over 2,600 students and 400 teachers in schools along the length of the A9.

As part of the ambitious programme to **dual the A96** between Inverness and Aberdeen, work is progressing on the design work for the **Inverness to Nairn (including Nairn Bypass)** scheme, and Draft Orders were published in November 2016. In addition, a design contract worth up to £50 million was awarded in June 2016 for the A96 Dualling western section between Hardmuir and Fochabers. Route options design and assessment work on this section has commenced and is expected to take two years to complete. The current phase of design work on the A96 Dualling is supporting over 100 graduate and apprentice jobs in Scotland.

Made Orders were published on the **A90/A96 Haudagain Junction Improvement** in February 2017 and on the **A9 Berriedale Braes Improvement** in March 2017 which, subject to there being no legal challenges, will complete the statutory procedures for these two much needed schemes.

In July 2016, four bidders were invited to participate in the competition for the main works on the **A737 Dalry Bypass**. Preparatory work began in February 2017 to ensure the site will be ready for the main contractor following the award of contract in spring 2017. Completion of the Dalry Bypass will enhance economic and employment opportunities, and improve journey times and reliability for motorists and businesses along the length of the A737, and it will facilitate separation of local from strategic traffic, thereby leading to improved safety for both rural road users and communities.

Aviation, Maritime, Freight and Canals

Aviation

We continued to improve Scotland's **international business connectivity** and in-bound tourism in partnership with Scottish Enterprise and Visit Scotland. New routes supported now include connections with Toronto, Montreal, Dusseldorf and Helsinki. We also supported the reinstatement of the link between Inverness and Heathrow via British Airways and a new KLM service between Inverness and Amsterdam.

The **contract for supported air services to Campbeltown, Tiree and Barra was renewed.**

The new contract will result in significant improvement to these services, including the expansion of the Tiree and Barra services from daily to twice a day in order to address capacity issues. Sunday services to Campbeltown will also commence earlier in the year, as part of the new contract.

The **Air Discount Scheme** continues on the Public Service Obligation (PSO) routes to Campbeltown, Barra and Tiree, with providers promoting day trip packages to help extend the season for summer visitors.

In October 2016, a Memorandum of Understanding with **Heathrow Airport** was finalised, providing a platform to grow connectivity with the UK's only World Hub Airport, thus securing further benefits for Scotland.

We also welcomed **Glasgow Prestwick Airport's** Strategic Plan 2017-2022 outlining the senior management team's ambitions to develop the business over the next five years, and this will be published in April 2017.

Ferries

A **£97 million contract was awarded** to Ferguson Marine Engineering Limited (FMEL), Port Glasgow to construct two new major 'dual-fuel' ferries for the Clyde and Hebrides Ferry Services network (CHFS). These will be the largest commercial vessels to be built on the Clyde since 2001, and will mark the beginning of a new era of commercial shipbuilding on the Clyde. The ferries will operate on liquefied natural gas and marine diesel.

A **third hybrid vessel, MV Catriona** began service in September, and work to construct two new dual fuel vessels (for the CHFS network) continues at Ferguson's shipyard on the Clyde. Delivery is due in the second half of 2018.

Funding of £17.8 million was provided towards the £30 million redevelopment of **Broddick Harbour** and the extension of slipways for the 'lifeline' **Kerrera** ferry service were completed in August 2016.

Rail

In the summer of 2016, the **Glasgow Queen Street Tunnel** was successfully remodelled to accept electrification ahead of the new longer, faster and greener Class 385 electric trains due to arrive in September 2017. A co-ordinated timetable and communications plan ensure that passenger disruption was kept to a minimum.

The **Edinburgh Gateway Interchange station** opened in December 2016, at a cost of £41 million. This new station offers huge benefits to rail passengers travelling to or from the Gogar area, integrating the rail network with the tram network and providing a convenient link to Edinburgh Airport.

The **Borders Railway** project team won the *prestigious 2016 Scottish Public Service Award in the category of Programme and Project Management*. In the first year of operation passenger journeys exceeded 1.3 million. New data published in January 2017 revealed that tourism in the Borders and Midlothian has received a major boost since the introduction of the Borders Railway, with a significant improvement in key tourism performance figures, compared to the first half of 2015, before the railway opened.

A contract was awarded during February 2017 to lengthen platforms at **Edinburgh Waverley** for the introduction of the new Class 385 trains between Edinburgh and Glasgow and on the East Coast main line.

A £3 million initiative, designed to encourage passengers to switch to the **ScotRail smart Saltirecard**, was introduced in 2016-17. Benefits include offering ScotRail monthly and annual season ticket holders an extra week's free travel, as well as additional ad hoc promotions if they switch to the new card. In addition, weekly season ticket holders converting to smart **Saltirecard** will also receive a one day return ticket to travel anywhere in Scotland. Other discounted fares initiatives for less frequent (leisure) passengers will be announced over the course of the coming year.

Seven fully refurbished trains – **C320/4s** – are now in service on the Strathclyde electric network. These trains are now fitted with Wi-Fi, power sockets, accessible toilets, two wheelchair spaces, new lighting, carpeting and interior/exterior branding. In addition, two **C385s** trains have been tested in the Czech Republic and Germany running in seven car formation.

The second year of the **Caledonian Sleeper franchise** has seen significant improvements to reliability and punctuality. Detailed preparations in year resulted in no weather-related cancellations or significant delays – a substantial improvement from the previous autumn/winter. In June 2016 a mock-up of the new trains was unveiled; providing sleeper users with a preview of the improvements anticipated once the new trains come into service in 2018. Construction of the new sleeper vehicles has already commenced.

In March 2016, **HS2 Ltd's** report on "*Broad options for upgraded and high speed railways to the North of England and Scotland*" was published, along with the Scottish Government's "*High Speed Rail Summary Report*". A working group, comprising representatives from the Department of Transport (DfT), Transport Scotland, HS2 Ltd and Network Rail, has been formed to deliver the UK and Scottish Governments' commitment to take forward liaison with Network Rail and identify any and all options for consideration.

There are now eight operational **Community Rail Partnerships (CRPs)** in Scotland. The delivery model currently being used sees the Rail franchise holder working with, and funding established CRPs to develop their plans for a particular rail line. These plans include promotion of the line, utilising vacant station buildings for community-based

projects and adoption of a station, which can involve anything from keeping the station tidy to external floral arrangements. Work continues with local community groups with a view to creating new CRPs and community initiatives.

Transport Policy

Smarter Choices, Smarter Places is a behaviour change programme which seeks to increase the number of journeys done by walking, cycling, using public transport and car sharing. Currently 184 projects are being delivered through this programme. The £5 million in grant funding has attracted £6.5 million in match funding from partners including local authorities, Road Transport Partnerships (RTPs) and the NHS.

We continued to invest in the **ChargePlace Scotland** network of electric vehicle charge points, which now comprises over 1200 public charging bays (equating to over 600 points) across Scotland, including over 150 'rapid' chargers, one of the most comprehensive networks in Europe.

Our interest-free loan scheme, operated by the **Energy Saving Trust**, is boosting electric vehicle sales by enabling consumers and businesses to make the switch to low emission cars, vans and taxis. In addition, our *Switched On Fleets* initiative, has provided £3.5 million to support the introduction of around 350 new electric cars and vans into the Scottish public sector fleet.

Following the success of the Transport Accessibility Summit in March 2015, we set up a Transport Accessibility Steering Group to co-produce an **Accessible Travel Framework** for Scotland '*Going further*'. This was launched by the Minister in September 2016. The aim is to identify and remove barriers to travel and ensure that all journeys are as pleasant an experience as possible.

A Mid-Term Review of the **Road Safety Framework to 2020** was completed and published in March 2016, and road safety partners agreed three new priority areas to help reach our 2020 casualty reduction targets, namely speed, age and vulnerable road users. The Framework consequently won a Prince Michael of Kent International Road Safety award.

Following devolution of powers on school bus safety to the Scottish Parliament in 2015 we continue to the **Seatbelts on School Transport Bill** in order to ensure that seat belts become a legal requirement on all dedicated home-to-school transport in Scotland. The Bill is scheduled for introduction to Parliament in 2017.

Road Safety Scotland (RSS) continues to promote road safety as a lifelong learning process, engaging with education professionals and providing learning resources to facilitate the promotion of road safety across all educational establishments. An evaluation of the Early Years' Approach, *Go Safe With Ziggy*, was positive and encouraging, and work has now begun to address the recommendations in the report. Campaign activity in year has focused on country roads, motorcycles, child in-car safety, drink-driving and vulnerable road users. RSS also took part in several events promoting road safety and ran their own Annual Seminar, which focused on the priority areas identified in the Framework Review.

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 delivered through the FRC project. This project has directly supported an average of 1,200 jobs, peaking at 1,300 with total indirect and induced benefits estimated to be worth around £6 billion to the Scottish economy. Up to December 2016, 308 out of 561 sub-contracts (55%) have been awarded to Scottish firms with a value of £183 million out of a total of £486 million (37.6%). In addition, 51,638 out of a total of 55,908 supply orders (92%) have been awarded to Scottish companies with a value of £152 million out of a total of £202 million (75%). In total therefore, as at 31 December 2016, Scottish firms have been awarded sub-contracts or supply orders on the FRC project alone totalling some £335 million out of a total of approximately £688 million (48.7%).

During each year of construction, the **FRC project** committed to 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. The project has actually delivered an annual average of 105, 32 and 51 positions in these categories respectively, with 795 places delivered for vocational and professional training and the long-term unemployed. The FRC project's commitment to engage with communities and share information

regarding construction methods and progress has resulted in over 70,000 people engaging with the Project Exhibition; Schools Programme; Wide Outreach and Education Programme for colleges, universities and professional groups; community group visits and presentations; and Community Forums.

Employment on the **M8 M73 M74 Motorway Improvement Project** peaked at 1,450 in September 2016. Over 150 local Small to Medium Enterprises (SME) have benefitted by being awarded contracts valued at in excess of £74 million. A sizeable proportion of the £171.8 million of contracts awarded to companies other than SMEs has been sublet to local sub-contractors and suppliers. The project has also delivered opportunities for a minimum of 30 graduate and apprentice positions during the three year construction period, with a further 20 construction jobs each year aimed specifically at long term unemployed people. The project is also expected to provide sustainable long-term employment opportunities for approximately 60 full-time staff during the operation and maintenance of these key routes over a 30 year period

Employment on the **AWPR/B-T** project peaked at 2,500 in 2016. The project will also deliver an annual average of 30 vocational (apprentice) training positions, 15 professional body (graduate) training places and 30 positions for the long-term unemployed. Following construction, during the operation and maintenance phase, it is expected that there will be an additional seven graduate and apprenticeship opportunities and five 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**, awarded to Serco, actively identifies opportunities for the third sector and supported businesses in the area and Serco remain committed to this principle. This affords opportunities for the third sector and supported businesses to benefit from a much larger range of opportunities and become involved in Serco's supplier forum.

The current **Caledonian Sleeper** Franchise Agreement requires an increasing proportion of its hospitality and catering spend to be undertaken with Small and Medium Enterprises (SMEs). Serco is so far exceeding this requirement, linking with a variety of local suppliers to provide on-board meals for the Caledonian Sleepers.

ScotRail currently makes available vacant rooms within station buildings at a “peppercorn” rent for use by small, start-up businesses in areas where a lack of accommodation for new business is restricting growth. This initiative helps to stimulate the local economy through job creation and community involvement. In addition, vacant rooms are also given to community groups including an Active Travel Hub at Kilmarnock Station; Artist’s studio at Aberdour Signal Box and a mixed martial arts gym at Helensburgh Central.

Sustainable Growth

We have contributed to the Scottish Government’s purpose of sustainable economic growth set out in the Climate Change (Scotland) Act. We have developed a range of policies and proposals within the draft Climate Change Plan, published in January 2017. The draft Plan, together with the new climate change bill will deliver an integrated approach to a low carbon transition in Scotland which promotes social inclusion and sustainable growth.

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 working with organisations to encourage their transitions to low carbon travel and transport choices.

Along with other key stakeholders we are working to deliver the aims of the Scottish Government’s Cleaner Air for Scotland Strategy, the purpose of which is to achieve further reductions in air pollution.

Future Developments

Transport Scotland is a major contributor to the Scottish Government’s Programme for Government 2016-17, which focuses on the themes of an education system providing opportunities for all, an economy with more jobs and fair work, public services fit for the future, empowering people and communities through

strengthened local democracy and safeguarding Scotland’s place in the world. Good transport links continue to play an essential role in creating a sustainable economy, and our transport network supports and connects communities and enables people to go about their daily lives.

The Programme for Government makes a commitment to review both the National Transport Strategy (NTS) and Strategic Transport Projects Review (STPR). Hence, STPR2 will be an examination of the strategic transport infrastructure interventions required to support the delivery of the Government’s Economic Strategy and continue to deliver a transport network which is fit for the 21st century, in the context of the priorities to be set out in the new National Transport Strategy. It will provide a clearer alignment with Scottish Government plans, policies and strategies such as the National Planning Framework as well as the Climate Change and Infrastructure Investment plans. Work on STPR2 will commence in 2017 and will be completed after the review of the NTS.

In February 2017, the Minister for Transport and the Islands committed to overseeing a policy review on the future procurement of lifeline ferry services. The review will consider the application a potential exemption from the requirement to tender, as well as the requirement to satisfy State aid and all other legal, policy and financial implications relevant to alternative models for procuring ferry services.

Financials

The financial statements for the year ended 31 March 2017 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 (FRM). The financial statements are consolidated within the Scottish Government Consolidated Resource Accounts.

These financial statements were authorised for issue on 22 August 2017.

Our Annual Review is also published on our website at: www.transport.gov.scot, and the Scottish Government Consolidated Resource Accounts at www.gov.scot.

Significant accounting policies

The areas where accounting judgements have significant impact are outlined below:

• Valuation of the Trunk Road Network

The trunk 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 Road Authorities Asset Valuation System (RAAVS), and work is currently undertaken by WS Atkins using standard costs to value the individual components of the network asset and indices to revalue these on an annual basis through a joint contract with the other UK Road Authorities.

• 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.

• Valuation of accruals

Due to the timing and availability of final year end information from external parties and operating companies within Concessionary Travel, Rail and also Roads maintenance contracts, certain assumptions and judgments are required to be made when processing final accruals.

• Public Private Partnerships (PPP)

We have three Public Private Partnerships (PPP) agreements in the form of Private Finance Initiative (PFI) contracts (M77-Connect, M74/M6-Autolink & the M80 Highway Management (Scotland) Limited). These arrangements meet the definition of Service Concession Arrangements in accordance with the disclosure requirements of IPSAS 32.

We also have 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 Limited (ARL) for the new AWPR/B-T. Both SRP and ARL 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 Statement of Financial Position (SFP).

We have reviewed the degree of control exercised by each of the parties in existing PPP contracts and conclude that the degree of control we retain satisfies the requirements that the related assets created are required to be accounted for on our SFP. Details of the accounting treatment can be found in notes 1 and 16 to the annual accounts.

For details of the differences between NPD and PFI contracts, see the Scottish Futures Trust website at www.scottishfuturestrust.org.uk

Rail infrastructure in Scotland

Our responsibility for rail strategy includes setting strategic outcomes, primarily through Network Rail and the ScotRail and Caledonian Sleeper franchises, and defining the level of public expenditure available to support this.

Network Rail outputs and associated funding for Control Period 5 from 1 April 2014 to 31 March 2019 in Scotland was determined by the Office of Rail Regulation (ORR). Following their reclassification as a central government body in 2014, Network Rail now borrows from the UK Government to cover its future financing requirements. The major projects specified by Scottish Ministers for delivery by 2019 are largely funded through this agreement, which includes a ring-fenced borrowing limit to protect the delivery of Network Rail's programme in Scotland. Under the Memorandum of Understanding agreed with the UK Government following reclassification, the Scottish Government, with regulatory oversight from the ORR, continues to manage its own relationship with Network Rail 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 2016-17.

The choice between public and private funding is governed by suitability for alternative forms of finance (including value for money as well as availability). The policy decision set out in the 2016-17 budget 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 which forms part of the Rural Economy and Connectivity portfolio. During the year, the 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 and comparison with the outturn.

| | Original Budget 2016-17 £000's | ABR Adjust £000's | SBR Adjust £000's | Revised Budget 2016-17 £000's | Outturn 2016-17 £000's | Variance £000's |
|-------------------------|-----------------------------------|----------------------|----------------------|----------------------------------|---------------------------|--------------------|
| Rail Services | 737,246 | - | 3,100 | 740,346 | 737,865 | 2,481 |
| Concessionary Travel | 261,300 | - | - | 261,300 | 250,196 | 11,104 |
| Motorways & Trunk Roads | 744,176 | 281 | 15,150 | 759,607 | 717,116 | 42,491 |
| Ferries | 198,600 | - | - | 198,600 | 209,677 | (11,077) |
| Air | 50,800 | - | - | 50,800 | 48,083 | 2,717 |
| Other Transport | 97,500 | 70 | (735) | 96,835 | 93,195 | 3,640 |
| Scottish Futures Fund | 20,250 | - | - | 20,250 | 18,893 | 1,357 |
| Local Authority Grants | 21,934 | - | - | 21,934 | 21,681 | 253 |
| Total DEL | 2,131,806 | 351 | 17,515 | 2,149,672 | 2,096,706 | 52,966 |
| AME | - | - | - | - | 7 | (7) |
| AME ODEL Capital | | | | | 1,522 | (1,522) |
| ODEL PFI Resource | 87,586 | - | - | 87,586 | 73,164 | 14,422 |
| ODEL PFI Capital | - | 157,000 | - | 157,000 | 157,269 | (269) |
| TOTAL | 2,219,392 | 157,351 | 17,515 | 2,394,258 | 2,328,668 | 65,590 |

A total of £2,150 million of budget cover was allocated from the Scottish Government Departmental Expenditure Limit (DEL) budget (15-16: £2,071 million). Annually Managed Expenditure (AME) relates to land compensation claims on the trunk road network. The remaining £244 million of budget (15-16: £180 million) represents on-balance sheet PFI/PPP projects

scored outwith DEL. Of this, £88 million is scored against resource and includes payments for the, M77, M80, and M6 schemes. The capital element relates to the construction costs of the M8 M73 M74 project. These budgets form part of the overall budget of the Scottish Government, and contribute to the overall Scottish Government position.

Outturn Analysis

| Transport Scotland 2016-17 | Budget £000's | Actual £000's | Variance £000's |
|----------------------------------|------------------|------------------|--------------------|
| Resource – Operating Costs | 863,210 | 854,842 | 8,368 |
| Resource – Investment | 656,516 | 687,792 | (31,276) |
| Resource Depreciation (non-cash) | 111,365 | 79,367 | 31,998 |
| Capital | 518,581 | 474,705 | 43,876 |
| DEL total | 2,149,672 | 2,096,706 | 52,966 |
| AME | - | 1529 | (1,529) |
| PFI Resource (ODEL) | 87,586 | 73,164 | 14,422 |
| PFI Capital (ODEL) | 157,000 | 157,269 | (269) |
| Total | 2,394,258 | 2,328,668 | 65,590 |

Outturn Analysis

The final outturn for the year against the main budget areas is shown in the outturn analysis table. The DEL underspend of £52.9 million, comprises a cash underspend of £21 million and a non-cash underspend of £31.9 million. In year savings include lower than expected levels of expenditure within the demand led area of Free Bus Travel and slippage due to delays in the

procurement of integrated ticketing hardware (£13.2 million), reduction in the service charges and management agent fees on the M6 and M80 schemes and the M8 M73 M74 unitary charges (£14.4 million) and savings in Rail due to slippage in cross border rail costs, the impact of which is not expected to be felt until 2018-19 (£2.5 million). These are being partially offset by increased pressures within major projects such

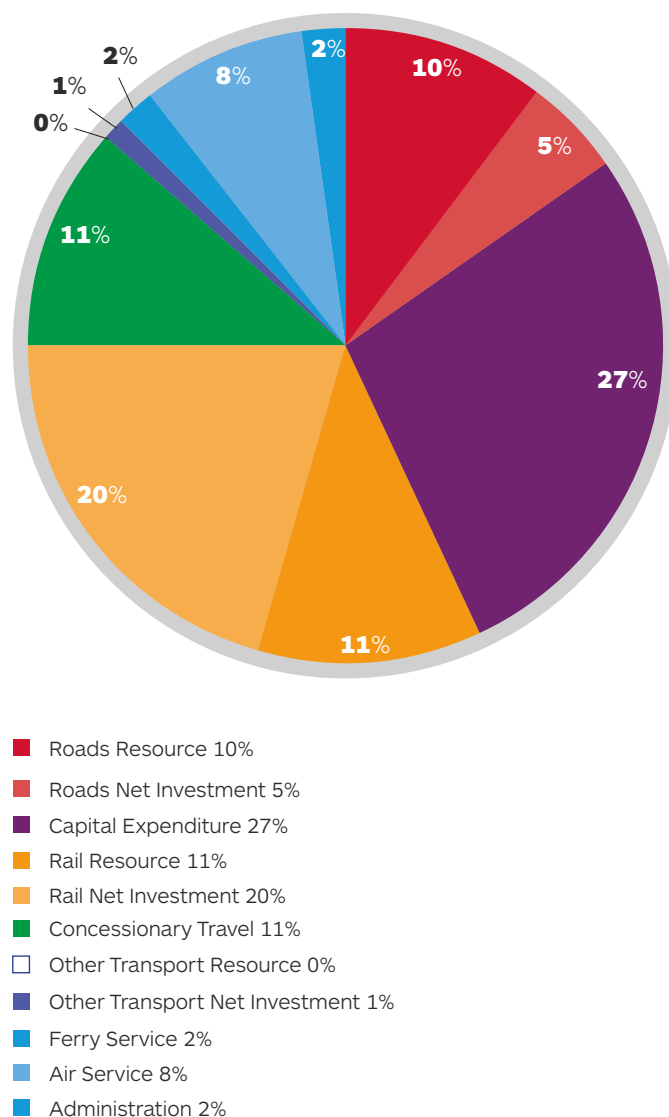
as the M8/M73/74, A9 Kincaig to Dalraddy and Pulpit Rock. The underspend on non-cash DEL is due to the RAAVS condition outturning lower than budget. The ODEL Capital figures reflect only the construction costs of M8/M73/M74 project, together with the budget allocated in the Spring Budget Revision.

The total underspend of £65.5 million (15-16: £21 million underspend) represents approximately 2.0% (15-16: 0.9%) of the overall budget.

The Statement of Comprehensive Net Expenditure (SoCNE) on page 28 identifies net operating costs of £1,695 million. Capital expenditure is not recognised as in-year expenditure within the SoCNE, but the table below provides a reconciliation of overall outturn to SoCNE.

| | £000's |
|--|------------------|
| Net Operating Costs per SoCNE | 1,695,172 |
| Add: Additions to Intangible Assets (note 7) | 63 |
| Add: Additions to PPE (note 6) | 591,565 |
| Add: Additions to Investments (note 9) | 46,012 |
| Less: Disposals of Intangible Assets (note 7) | 0 |
| Less: Disposals of PPE (note 6) | (74) |
| Less: Repayments of Investments (note 9) | (3,929) |
| Less: Disposals on Assets held for Sale (note 8) | (98) |
| Less: De-trunkings (note 6) | (59) |
| Add: De-trunkings depreciation (note 6) | 16 |
| Outturn per Management Commentary | 2,328,668 |

The majority of Transport Scotland's budget is spent, either directly or indirectly, with private sector companies. Only 2% 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 £18.7 billion, the majority of which relates to the trunk road network. Additions to the value of the asset include the A96 Inveramsy Bridge.

Relationship with suppliers

We are committed to prompt payment of bills for goods and services and aim to settle all undisputed invoices within contract terms and also in line with the Scottish Government 10 day payment policy. We settled 96% of invoices within this timescale (15-16: 96%). The amount owed to trade creditors at the year-end as a proportion of the aggregate amount invoiced during the year, represented 1.4 days in proportion to the total number of days in 2016-17 (15-16: 0.3 days).

Future Spending Plans

The *Scottish Budget Draft Budget 2017-18*, provides details of our spending plans that will help deliver sustainable economic growth. These allocations are included in the table overleaf for the coming financial year.

| | 2017-18* £000's |
|----------------------------|--------------------|
| Resource – Operating Costs | 921,311 |
| Resource – Investment | 654,812 |
| Non-Cash | 97,511 |
| Capital | 560,982 |
| Total | 2,234,616 |
| ODEL | 121,163 |
| Total | 2,355, 779 |

*Source – Scottish Budget Act 2017-18

Sustainability

The Climate Change (Scotland) Act 2009 requires us to report on corporate operational emissions across activities such as office energy use and business travel. Collectively, these actions underpin the commitments in our Carbon Management Plan (CMP).

Following the completion of Carbon Management Plan v.2 and the introduction of the mandatory Public Bodies Climate Change Duties Reporting in 2016, the agency published a new Carbon Management Plan – 3rd Edition (CMP v.3). CMP v.3 set a new corporate carbon emission baseline, along with associated targets and projects, until 2019/20. The emission scope has widened to cover both operational emissions from our buildings and travel, as well as trunk road lighting emissions (also known as Network Energy emissions). As such, our baseline targets and projects are now broken down to reflect the technical and source-apportionment diversity of our in-scope emission sources.

Corporate Operational Carbon Emissions 2016-17

| Element | Metric | Baseline in 2015-16 | Actual in 2016-17 | % change compared to previous year | Indicator | |
|----------------------------------|-----------------|---------------------|-------------------|------------------------------------|-----------|---|
| Total Emissions | - | kg/CO2e | 1,377,607 | 1,358,408 | -1.2% | ↓ |
| Energy (Scope 1&2 GHG emissions) | Electricity | kg/CO2e | 764,976 | 788,226 | 3% | ↑ |
| | Gas | kg/CO2e | 265,257 | 279,682 | 5.4% | ↑ |
| Travel (Scope 3 GHG emissions) | Business Travel | kg/CO2e | 187,717 | 206,788 | 10% | ↑ |
| Travel (Scope 3 GHG emissions) | Commute Travel | kg/CO2e | 154,504 | 77,804 | -49% | ↓ |
| Water | Water | kg/CO2e | 3,131 | 3,670 | 17% | ↑ |
| Waste | Waste (BH) | kg/CO2e | 2,022 | 2,238 | 10.6% | ↑ |

Roy Brannen
Chief Executive
21 August 2017

The performance against the overall baseline will be reported via the Public Bodies Climate Change Duties Reporting portal, however for the purposes of this report, information will only relate to the operational Carbon Footprint based on the baseline set using the 2015/16 data.

A detailed Sustainability Report will be published in late 2017, providing fuller details of our operational carbon footprint.

During the course of the financial year 2016/17, Transport Scotland's operational emissions have decreased by 1.2% when compared to the previous year.

Energy: Emissions from electricity use in our our offices (Buchanan House/Victoria Quay/Traffic Control Centre) have increased by 3%. Gas consumption has increased by 5.4%.

Water: Consumption Emissions have increased by 17%.

Waste: Emissions from waste disposal have increased by 10.6%.

Commute Travel: Emissions associated with commute travel have decreased by 49%.

Business Travel: Emissions attributed to business travel have increased by 10% when compared to the 2015/16 baseline. Emission reductions were achieved for Underground Travel (Down 59%) and Car Hire (Down 2%). Emissions increases are attributed to Taxi Travel (Up 1.6%) Ferry Travel (Up 1368.83%) Air Travel (Up 28%) Bus Travel (58%) and Rail Travel (Up 21%).

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

02

Introduction

The purpose of the Accountability Report is to demonstrate how Transport Scotland meets its accountability requirements to Parliament. The Agency's auditors have reviewed it for consistency with the information contained in the financial statements for 2016-17 and their opinion, provided on pages 26-27 covers these disclosures.

Corporate Governance Report

The Corporate Governance section explain the composition and governance structure of the Agency and how that supports the achievement of Agency objectives.

Directors Report

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 opposite. The Accountable Officer is also supported by an Audit and Risk Committee, chaired by a non-executive member (Alex Smith resigned 30 January 2017 and was replaced by Susan Dunn on 30 January 2017), and including two further external members.

Susan Dunn and Pamela Mclauchlan served as non-executive members during 2016-17. Susan Dunn took over as chair of the Committee on 30 January 2017. Bill Bound became a non-executive member on 23 November 2016.

Current Directors:

- Roy Brannen; Chief Executive
- Hugh Gillies; Trunk Road & Bus Operations
- Donald Carmichael; Transport Policy
- Aidan Grisewood; Rail (until 12 September 2016, replaced by Bill Reeve)
- Bill Reeve; Rail (from 5 October 2016)
- Michael Baxter; Finance, Corporate & Analytical Services
- Michelle Rennie; Major Transport Infrastructure Projects
- John Nicholls; Aviation, Maritime, Freight and Canals

Directors and Non-Executive Members Interests

Directors' and Audit & Risk Committee Non Executive Members' interests are recorded on the electronic HR system. The 2016-17 statements of assurance completed by Directors in post as at 31 March 2017 also confirmed that no conflict of interest arose in the exercise of their duties.

Appointed Auditors

The financial statements for 2016-17 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 £171,030 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 (15-16: none).

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

The Accountable Officer has taken all the necessary steps to make himself aware of any relevant audit information and to establish that the body's auditors are aware of that information. There is no relevant audit information of which the body's auditors are unaware.

The annual report and accounts as a whole are fair, balanced and understandable and the Accountable Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance Statement

The Governance Statement explains our approach to corporate governance, which is vital to effective financial and risk management.

The Scottish Public Finance Manual (SPFM) 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 our 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. Transport Scotland complies with all governance related guidance in the SPFM, the Civil Service Code and relevant elements of the Good Governance Standard for Public Services, produced by the Independent Commission on Good Governance in Public Services.

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 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 Scottish 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 non-executive member and including two further non-executive members.

Transport Scotland Audit and Risk Committee

The Audit and Risk Committee non-executive members bring independent judgement and challenge to the governance of the Agency. The Committee meets four times a year, although the Chair may convene additional meetings and

regularly meets myself and the Director of Finance, Corporate & Analytical Services to keep abreast of developments. Audit and Risk Committee meetings will normally be attended by myself as Accountable Officer, the Director of Finance, Corporate & Analytical Services, a representative of Internal Audit 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 Directors meetings, as well as monthly finance reports, and also meets directors individually every six months. In addition, the Committee meets with Internal 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.

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. All public bodies must have 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, as follows.

Performance Review

All members of the Senior Management Team are subject to annual objectives and year end performance appraisals, which are both formally recorded. These are focussed on Transport Scotland's delivery priorities, which are closely linked to the Government's National Outcomes.

Performance against our objectives within the Corporate Business Plan is monitored throughout the year and measured against targets at year end. Progress on key achievements is highlighted. 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. We have an annual target to achieve overall efficiency savings as a percentage of our budget and progress on this is reported to the Scottish Government and published at the end of each financial year.

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.

Financial Management

The Senior Management Team reviews financial performance monthly, as well as ensuring the timely production of the Annual Report and Accounts, in compliance with relevant standards of Corporate Governance. Monthly financial reports considered by the Senior Management Team are shared with External Audit and Risk Committee Members. Our budgets are set in the context of the Scottish Government's annual budget process, and forecast expenditure, in addition to internal financial management and reporting within Transport Scotland is continuously monitored with Scottish Government Finance Directorate.

Programme and Project Management

All investment projects are overseen by a Project Board, chaired by the Project Sponsor, incorporating appropriate procurement, legal, technical and financial expertise. 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.

In light of emerging issues associated with the delivery of Major Rail Enhancement Projects and the findings of an external assessment commissioned by Transport Scotland, additional governance has been put in place to scrutinise and provide challenge to the delivery of such projects. Two programme Boards, an Electrification Programme Board and a North of Scotland Programme Board provide oversight on projects within their remit. The Programme Boards are overseen by a Major Rail Projects Portfolio Board, Chaired by the Accountable Officer and with senior input from all key stakeholders and External Members.

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 set objectives for the Directors within Transport Scotland to undertake regular review processes 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 our 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 their likelihood and impact, and to manage them efficiently, economically and effectively. This system of internal control has been in place for the year ended 31 March 2017 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 is provided by Directors' annual certificates of assurance covering their areas of responsibility. This is underpinned by an internal control checklist, covering all areas of corporate governance. The content of this checklist is reviewed each year.

In addition we maintain an assurance map, which sets out both corporate and directorate processes that provide assurance on achievement of our objectives 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.

Our internal auditor is provided by the Scottish Government Internal Audit Directorate and they submit regular reports to the Audit and Risk Committee on the adequacy and effectiveness of the organisation's system of internal control, together with any recommendations for improvement. Follow up work is carried out to confirm the effective implementation of recommendations agreed as a result of the audits.

The Performance Audit Group (company CH2M, working in association with PricewaterhouseCoopers) audits, monitors and reports on the financial, technical and performance aspects of the work carried out by the Trunk Road Operating Companies, and this provides external assurance for trunk road maintenance.

Internal Audit Reports 2016-17

| Audit Area & Scope | Outcome |
|-------------------------------------|--|
| 1. Trunk Road Maintenance | Assurance Provided: Substantial |
| 2. Risk Management | Assurance Provided: Substantial |
| 3. Health and Safety | Assurance Provided: Reasonable |
| 4. Financial Reporting Arrangements | Assurance Provided: Review Deferred as a result of prioritisation of workload. Will complete in 2017-18 |

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

All public bodies in Scotland are responsible for achieving Best Value through ensuring sound governance, good management, public reporting on performance and a focus on improvement. 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. We demonstrate achievement of best value through undertaking reviews of our achievement or specific areas of it each year, using the Audit Scotland self-assessment toolkit.

A Best Value review on Procurement was undertaken in 2016-17, which demonstrated a robust and forward looking approach to the area and made a number of key recommendations for further improvement, relating to the communication of procurement strategies and increased training and awareness, all of which will be progressed in 2017-18.

A follow up review was also conducted on People Management. Significant progress has been made in this area and actions from the previous review have been taken forward. We continue to demonstrate Best Value in this area.

In 2017-18, it is the intention to conduct a further Best Value review on Information Management.

Risk Management

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 Finance, Corporate & Analytical Services is the Transport Scotland Risk Champion. 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 Senior 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 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.

Our overall Risk Strategy sets out a consistent approach to the implementation of risk management at strategic, programme and project levels. The Risk Management Group (Chaired by the Director of Finance, Corporate and Analytical Services) 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.

The most significant highest scoring risks currently identified by the Agency include the funding and delivery of the A9 and A96 dualling programmes, funding for Network Rail Control Period 6, the management of the condition of the trunk road network and delivering the Edinburgh Glasgow Improvement Programme on budget and with minimum disruption to passengers.

The Risk Management Framework was subject to a detailed review by the senior management team and Audit & Risk Committee in 2016-17 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 enhanced to ensure accuracy and consistency in layout and terminology and rigour of review. In addition, the Internal Audit Review of the systems for Risk Management within the Agency, has provided substantial assurance that Transport Scotland demonstrated best practice in this area.

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 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's key principles for good information management 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 our users of information technology must comply with the IT Code of Conduct and be familiar with its contents.

Counter Fraud/Review of risk of financial loss

All cases of actual or suspected fraud are investigated promptly and appropriate action is taken, in accordance with our fraud, bribery and whistleblowing procedures which specify 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. The Plan is reviewed on an annual basis and recent additions have included references to both 'bribery and corruption' and 'whistleblowing in the public sector'. 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 the Fraud Log 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 its unique operating environment. 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.

Business Continuity

Our Business Continuity Plan has been reviewed and updated during 2016-17. 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.

REMUNERATION AND STAFF REPORT

The Remuneration and Staff Report sets out the Agency’s remuneration policy for directors and reports on how it has been implemented, along with the amounts awarded to directors. There is also information on staffing structures, staff composition and policies and details on staff numbers and staff related expenditure.

Staff Report

Equal opportunities

Transport Scotland is committed to increasing the diversity of staff within the organisation. We aim to develop our staff and we will positively value their different perspectives and skills and make full use of these in our work. It is our aim to be fully reflective of the people of Scotland. We are an equal opportunities employer with policies in place to guard against discrimination and to ensure against barriers to employment or advancement. We are also committed to meeting our duties under the Equality Act 2010, and to ensuring that all staff are treated equally irrespective of their sex, marital/civil partnership status, maternity/paternity status, age, race, ethnic origin, sexual orientation, disability, religion or belief, working pattern, employment status, gender identity (transgender), caring responsibility, or trade union membership.

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 | 1 | 178 | 179 |
| Male | 7 | 283 | 290 |

Figures based on Agency numbers at the end of March 2017

The Department for Work and Pensions is responsible for developing, formulating and disseminating equal opportunities guidance for the Civil Service as a whole, but operational responsibility rests with individual departments.

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 2016-17 an average of 6.5 working days (15-16: 6.3) were lost due to sickness absence per staff year for Transport Scotland.

Employment of disabled persons

We are a “Confident about Disabled People Employer”, which recognises our commitment to our positive attitude towards our disabled staff.

In doing so, we offer interviews to all disabled applicants and staff who meet the minimum criteria for any post; reminding line managers of their management responsibilities; helping staff balance their work and their disability; and offering advice and training to staff and managers about issues related to disability.

The number of staff as at 31 March 2017 who had declared a disability employed by Transport Scotland was 36.

Staff Costs

Details of Agency staff numbers and costs for the year are contained within Note 2 to the Accounts. Transport Scotland incurred £18.2 million in relation to staff costs in the year 2016-17 (2015-16: £18.1 million). Of this, £17.0 million was in relation to permanent staff, who are civil servants with an employment contract with Transport Scotland (2015-16: £16.9 million). The balance of £1.2 million related to agency staff (2015-16: £1.2 million).

In addition, the agency paid out £3.7 million in professional consultancy costs in 2016-17 (2015-16: £2.91 million) in relation to professional services required in the procurement of key projects and the delivery of the Agency’s transport objectives.

At the end of financial year 2016-17, the Agency headcount totalled 461, analysed in the table below. The full time equivalent figure was 379.8.

| Staff Category | Headcount at 31 March 2017 |
|----------------------|----------------------------|
| Permanent Staff | 394 |
| Agency Staff | 19 |
| Consultants employed | 48 |
| Total | 461 |

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.

Remuneration Report

Remuneration Policy

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

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

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

Further information about the work of the SSRB can be found at: <https://www.gov.uk/government/organisations/review-body-on-senior-salaries>.

The remuneration of staff below senior civil service level is determined by the Scottish Government. In determining policy, account is taken of the need for pay to be set at a level which will ensure the recruitment, retention and motivation of staff. Also taken into account is the Government's policy on the Civil Service and public sector pay and the need to observe public spending controls.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments 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. 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

Whilst Transport Scotland does not have a Board with non-executive directors, the Audit and Risk Committee has three external members to ensure independent oversight and challenge : Alex Smith – appointed March 2011, resigned 30 January 2017; Susan Dunn – appointed December 2014, took over as chair on 30 January 2017; Pamela Mclauchlan – appointed May 2015 and Bill Bound appointed 23 November 2016.

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 the salary, the value of any bonuses or taxable benefits in kind and the pension benefits of the directors for the year 2016-17, along with comparative figures are shown in the table below.

Single total figure of remuneration

| Directors | Salary | | Bonus Payments | | Benefits In Kind (To Nearest £100) | | Pension Benefits (To Nearest £1,000) | | Total | |
|---------------------|---------|---------|----------------|---------|------------------------------------|---------|--------------------------------------|---------|---------|---------|
| | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 |
| Bill Reeve (1) | 50-55 | - | - | - | - | - | 48,000 | - | 100-105 | - |
| Mike Baxter | 70-75 | 70-75 | - | - | - | - | 29,000 | 48,000 | 100-105 | 120-125 |
| Roy Brannen | 95-100 | 85-90 | - | - | - | - | 113,000 | 129,000 | 205-210 | 210-215 |
| Donald Carmichael | 70-75 | 65-70 | - | - | - | - | 31,000 | 32,000 | 100-105 | 100-105 |
| Hugh Gillies (3) | 70-75 | 5-10 | - | - | - | - | 45,000 | 4,000 | 115-120 | 5-10 |
| Aidan Grisewood (2) | 30-35 | 70-75 | - | - | - | - | 11,000 | 30,000 | 45-50 | 100-105 |
| John Nicholls | 70-75 | 65-70 | - | - | - | - | 25,000 | 21,000 | 95-100 | 85-90 |
| Michelle Rennie | 70-75 | 60-65 | - | - | - | - | 32,000 | 35,000 | 100-105 | 95-100 |

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) Bill Reeve was Commercial Director Franchise until 5 October 2016. He took up post as Director of Rail on 5 October 2016. (The £50-£55k represents his salary from that date. Full year equivalent banding £100k- £105k).

(2) Aidan Grisewood left the post of Director of Rail on 12 September 2016 (The £30k-£35k represents his salary to that date. Full year equivalent banding £70-£75k).

(3) Hugh Gillies took up the post of Director of Trunk Roads and Bus Operations in March 2016 (The £5-£10k identified as his salary in 2015-16 represents his salary for the time he was a Director. Full year equivalent banding £60k-£65k)

Salary

Salary and allowances cover both pensionable and non-pensionable amounts and include: 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 are 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 2016-17 are as follows:

| | |
|-------------------|-----------------|
| Alex Smith | £232 daily rate |
| Pamela Mclauchlan | £232 daily rate |
| Susan Dunn | £232 daily rate |
| Bill Bound | £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 full year equivalent banded remuneration of the highest paid director was £95k – £100k (15-16: £90k – £95k). This was 2.7 times (15-16: 2.4 times) the median remuneration of the workforce, which was £39,787 (15-16: £38,960).

In 2016-17, one (15-16: one) employee received remuneration in excess of the highest paid director. Remuneration across Transport Scotland ranged from £17k – £118k (15-16: £16k – £118k).

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.

Civil Service and other Compensation Scheme

Within Transport Scotland, no members of staff agreed departures under the Civil Service Compensation Scheme rules in 2016-17. There were no members of staff who agreed departures under the scheme in 2015-16. No members of staff retired on ill health grounds in 2016-17 or in 2015-16.

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 2017. 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 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 £143,903 for the year to 31 March 2017. 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:

| | Lump Sum at NRA as at 31 March 2017 | Real Increase in Lump Sum at age NRA | Accrued Pension at age NRA as at 31 March 2017 | Real Increase in Pension at age NRA | CETV as at 31 March 2017 | CETV as at 31 March 2016 | Real Increase in CETV in 2016-17 |
|-------------------|-------------------------------------|--------------------------------------|--|-------------------------------------|--------------------------|--------------------------|----------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Roy Brannen | 85-90 | 10-15 | 30-35 | 5-7.5 | 587 | 483 | 80 |
| Bill Reeve | 70-75 | 0 | 55-60 | 0 | 828 | 0 | 0 |
| Mike Baxter | 5-10 | 0-2.5 | 30-35 | 0-2.5 | 488 | 452 | 14 |
| Donald Carmichael | 85-90 | 2.5-5 | 30-35 | 0-2.5 | 737 | 675 | 31 |
| Michelle Rennie | 0 | 0 | 10-15 | 0-2.5 | 159 | 136 | 14 |
| Aidan Grisewood | 0 | 0 | 10-15 | 0-2.5 | 163 | 152 | 4 |
| Hugh Gillies | 0 | 0 | 20-25 | 0-2.5 | 305 | 264 | 26 |
| John Nicholls | 85-90 | 2.5-5 | 25-30 | 0-2.5 | 558 | 512 | 21 |

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, with the exception of Bill Reeve, whose information was supplied by RPMI.

From 2015-16, the majority of staff within the civil service pension scheme changed from the PCSP to the Alpha scheme. Consequently, the figures included above, provided by MyCSP, contain figures for both schemes for directors – Michelle Rennie, Hugh Gillies, Mike Baxter, Aidan Grisewood and Roy Brannen.

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

Parliamentary Accountability Report

The following Parliamentary Accountability section summarises all of the key accountability documents for the Agency, including the Audit Report for the year.

Regularity of Expenditure

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.

Fees and Charges

Transport Scotland does not raise any significant income through fees and charges.

Remote Contingent Liabilities

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. Transport Scotland has a number of these liabilities and they are disclosed in Note 19 (c) to the Annual Accounts.

Roy Brannen
Chief Executive
21 August 2017

Independent Auditors' Report

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

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 120 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.

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Transport Scotland for the year ended 31 March 2017 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 notes to the financial statements, including a summary of significant accounting policies. 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 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In my opinion the accompanying 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 2017 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 2016/17 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Chief Executive's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts 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 or inconsistencies I consider the implications for my report.

Report on regularity of expenditure and income

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.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

In my opinion, the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been 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 Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Mark Taylor CPFA
Assistant Director – Audit Scotland

102 West Port
Edinburgh
EH3 9DN

22 August 2017

ANNUAL ACCOUNTS 2016-17

FINANCIAL STATEMENTS

03

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

| | Note | £'000 Staff Costs | £'000 Other Cost | £'000 Income | 2016-17 £'000 Total | 2015-16 £'000 Total |
|---|------|----------------------|---------------------|-----------------|---------------------------|---------------------------|
| Administration costs | | | | | | |
| Staff costs | 2 | 13,302 | | | 13,302 | 12,916 |
| Other administration costs | 3 | | 4,685 | | 4,685 | 4,988 |
| Total administration costs | | | | | 17,987 | 17,904 |
| Programme costs | | | | | | |
| Staff costs | 2 | 4,875 | | | 4,875 | 5,168 |
| Other programme costs | 4 | | 1,677,955 | | 1,677,955 | 1,664,528 |
| Income | 5 | | | (5,645) | (5,645) | (22,117) |
| Total programme costs | | | | | 1,677,185 | 1,647,579 |
| Total | | 18,177 | 1,682,640 | (5,645) | 1,695,172 | 1,665,483 |
| Net operating costs for the year ended 31 March 2017 | | | | | 1,695,172 | 1,665,483 |

Other Comprehensive Net Expenditure

| | Note | 2016-17 £'000 | 2015-16 £'000 |
|---|------|------------------|------------------|
| Items that will not be reclassified to net operating costs: | | | |
| Net (gain)/loss on: | | | |
| -revaluation of property, plant and equipment | 6 | (715,636) | 281,146 |
| -revaluation of intangibles | | 0 | 0 |
| | | (715,636) | 281,146 |
| Items that may be reclassified subsequently to net operating costs: | | | |
| Net (gain)/loss on: | | | |
| -revaluation of assets held for sale | 8 | 0 | 0 |
| Total comprehensive net expenditure for the year ended 31 March 2017 | | 979,536 | 1,946,629 |

All income and expenditure is derived from continuing activities.

Statement of Financial Position as at 31 March 2017

| | Note | £'000 | 31 March 2017 £'000 | 31 March 2016 £'000 |
|--|-------|-------------|---------------------------|---------------------------|
| Non-current assets | | | | |
| Property, plant & equipment | 6 | 19,931,009 | | 18,827,990 |
| Intangible assets | 7 | 86 | | 30 |
| Financial assets | 9 | 191,664 | | 149,904 |
| Other receivables | 10 | 15,665 | | 30,665 |
| Total non-current assets | | | 20,138,424 | 19,008,589 |
| Current assets | | | | |
| Assets held for sale | 8 | 0 | | 204 |
| Financial assets | 9 | 4,077 | | 3,754 |
| Trade and other receivables | 10 | 51,674 | | 49,858 |
| Cash & cash equivalents | | 0 | | 0 |
| Total current assets | | | 55,751 | 53,816 |
| Total assets | | | 20,194,175 | 19,062,405 |
| Current liabilities | | | | |
| Trade and other payables | 11 | (177,908) | | (170,384) |
| Provisions | 12 | (34,122) | | (33,722) |
| Total current liabilities | | | (212,030) | (204,106) |
| Total assets less current liabilities | | | 19,982,145 | 18,858,299 |
| Non-current liabilities | | | | |
| Other payables and financial liabilities | 11 | (1,106,505) | | (777,427) |
| Provisions | 12 | (49,893) | | (49,300) |
| Total non-current liabilities | | | (1,156,398) | (826,727) |
| Assets less liabilities | | | 18,825,747 | 18,031,572 |
| Taxpayers' equity | | | | |
| General fund | SoCTE | | 10,608,165 | 10,385,288 |
| Revaluation reserve | SoCTE | | 8,217,582 | 7,646,284 |
| Total taxpayers' equity | | | 18,825,747 | 18,031,572 |

Roy Brannen
Chief Executive
21 August 2017

The notes on pages 32 to 35 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2017

| | Note | 2016-17 £'000 | 2015-16 £'000 |
|---|-------|--------------------|--------------------|
| (A) Cash flows from operating activities | | | |
| Net operating cost | SoCNE | (1,695,172) | (1,665,483) |
| Adjustments for non-cash transactions | 3/4 | 80,155 | 94,397 |
| Decrease/(increase) in trade and other receivables | 13 | 13,389 | 54,962 |
| Adjustment for the revaluation element of assets held for sale | 8 | 0 | 0 |
| Increase/(decrease) in trade and other payables | 13 | 2,066 | (21,146) |
| Increase/(decrease) in provisions | 13 | 993 | (16,604) |
| Adjustment for interest element of PFI contracts | 4 | 29,236 | 29,989 |
| Net cash outflow from operating activities | | (1,569,333) | (1,523,885) |
| (B) Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 6 | (591,565) | (557,363) |
| Purchase of intangible assets | 7 | (63) | (30) |
| Roads Developer Contribution | | 0 | 0 |
| Transfer of assets held for sale to property, plant and equipment | 6/8 | (106) | 132 |
| Disposal of property, plant and equipment | 6 | 74 | 1,464 |
| Impairment of property, plant and equipment | | 0 | 0 |
| Increase/(decrease) in capital accruals | 13 | 5,439 | (23,549) |
| Voted loans | 9 | (42,082) | (49,944) |
| Net cash outflow from investing activities | | (628,303) | (629,290) |
| (C) Cash flows from financing activities | | | |
| Funding from the Scottish Government | SoCTE | (5,539,501) | 1,553,259 |
| Inter Entity transfers | | 7,437,275 | 400,101 |
| Capital element of payments – finance leases and On Balance Sheet PFI contracts | 13 | 329,098 | 229,804 |
| Interest element of PFI contracts | 4 | (29,236) | (29,989) |
| Net Financing | | 2,197,636 | 2,153,175 |
| 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 2017

| | Note | General Fund £'000 | Revaluation Reserve £'000 | Total Reserves £'000 |
|---|-------|-----------------------|------------------------------|-------------------------|
| Balance at 31 March 2015 | | 9,521,496 | 8,027,542 | 17,549,038 |
| Changes in taxpayers' equity for 2015-16 | | | | |
| Net gain/(loss) on revaluation of property, plant and equipment | 6 | 0 | (281,146) | (281,146) |
| Non-current assets adjustments | | 0 | 0 | 0 |
| Roads trunkings/de-trunkings | 6 | 514,452 | 0 | 514,452 |
| Roads historic value adjustment | 6 | (38,692) | 0 | (38,692) |
| Transfers to Scottish Government | 6 | (139) | 0 | (139) |
| Realised element of the revaluation reserve | | 100,112 | (100,112) | 0 |
| Inter Entity transfers | | 400,101 | 0 | 400,101 |
| Non-cash charges – auditors remuneration | 3 | 182 | 0 | 182 |
| Net operating costs for the year | SoCNE | (1,665,483) | 0 | (1,665,483) |
| Total recognised income and expense for 2015-16 | | (689,467) | (381,258) | (1,070,725) |
| Funding from Scottish Government | | 1,553,259 | 0 | 1,553,259 |
| Balance at 31 March 2016 | | 10,385,288 | 7,646,284 | 18,031,572 |
| Changes in taxpayers' equity for 2016-17 | | | | |
| Net gain/(loss) on revaluation of property, plant and equipment | 6 | 0 | 715,636 | 715,636 |
| Non-current assets adjustments | | 108 | 0 | 108 |
| Roads trunkings/de-trunkings | 6 | (44) | 0 | (44) |
| Roads historic value adjustment | 6 | (124,167) | 0 | (124,167) |
| Transfers to Scottish Government | 6 | (131) | 0 | (131) |
| Realised element of the revaluation reserve | | 144,338 | (144,338) | 0 |
| Inter Entity transfers | | 7,437,275 | 0 | 7,437,275 |
| Non-cash charges - auditors remuneration | 3 | 171 | 0 | 171 |
| Net operating costs for the year | SoCNE | (1,695,172) | 0 | (1,695,172) |
| Total recognised income and expense for 2016-17 | | 5,762,378 | 571,298 | 6,333,676 |
| Funding from Scottish Government | | (5,539,501) | 0 | (5,539,501) |
| Balance at 31 March 2017 | | 10,608,165 | 8,217,582 | 18,825,747 |

Notes to the Accounts

1. Statement of Accounting Policies

The accounts have been prepared in compliance with the principles and disclosure requirements of the Government Financial Reporting Manual (FRem). The particular accounting policies applied by Transport Scotland are described below. The accounts are prepared using, 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. 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

The accounts have been prepared under the historical cost convention, modified by the revaluation of non-current assets and intangible assets to fair value. New or amended accounting standards that are considered relevant and their anticipated impact on the accounts are as follows:

- IFRS 16 – Leases replaces IAS 17, however FRAB is still considering applicability within the FRem. This would effectively eliminate accounting for operating leases and recognise ‘right of use’ assets specified to operators in contracts for the provision of services.
- Other standards issued but not yet effective, including IFRS7, IAS1, IAS16, IAS39 and IFRS 11, have minimal relevance to Transport Scotland and are not considered likely to impact the Agency.

1.2 Trunkings/Detrunkings

The accounts reflect ownership and responsibility to maintain the trunk road network. Transfers of the responsibility for maintaining sections of the trunk road network to/from the Local Authority network are referred to as ‘de-trunkings’ or ‘trunkings’ respectively and are treated as transfers to/from other Government Departments at nil consideration 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.

1.4 Capitalisation Policy

The trunk road network is recognised as a single infrastructure asset in accordance with FRem. However it comprises four distinct elements that are accounted for differently: Land; Road Pavement; Structures; and Communications.

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 Authority Asset Valuation System (RAAVS). Expenditure that does not replace or enhance service potential will be expensed as a charge to the Statement of Comprehensive Net Expenditure. 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 project, such as a major relocation exercise.

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 applied in the intervening years.

Other items of property, plant and equipment are held at current value in existing use. Since 1 April 2007 these assets have not been re-valued, as the movement in their relevant indices was considered to be negligible and the economic lives of the assets so short that the impact of any adjustment was not considered significant.

Infrastructure Assets – the road network

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, structures and communications elements are valued using agreed rates determined to identify the gross replacement cost of applicable types of road, structure or communications 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. However special structures, which tend to be one off by their nature, are valued using specific costs that are updated to current prices.

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 re-valued 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 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 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:

| | Life in years |
|--|----------------------|
| Road surface, sub-pavement layer, fencing, drainage and lighting | 20 to 50 |
| Road bridges, tunnels and underpasses | 20 to 120 |
| Culverts, retaining walls and gantries | 20 to 120 |
| Road communications assets | 15 to 50 |

The annual depreciation charge for the road surface is determined by the annual condition variance.

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

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:

| | Life in years |
|---------------------|---|
| 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 when:

- 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

Financial instruments are measured in accordance with IAS32, IAS39, and IFRS7, as interpreted and adapted by the Government Financial Reporting Manual (FReM). The extent of the financial instruments disclosures included in the Annual Report and Accounts reflects Transport Scotland's financial risk exposure.

1.9 Other Infrastructure Expenditure

Other infrastructure expenditure is differentiated between capital and resource. The resource expenditure relates to infrastructure expenditure that is not capital in nature, or expenditure that is capital in nature but the asset created or enhanced is reflected by external bodies. Such expenditure includes 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. 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. Administration costs reflect the costs of running the Agency and include staff costs as well as accommodation, services and supplies. Programme costs reflect the costs of operating, maintaining, managing and improving the road, rail, aviation and maritime infrastructure for which we have responsibility, as well as those 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.

1.14 Private Finance Transactions (PFI/PPP/NPD)

Private finance transactions that meet the definition of service concession arrangements are accounted for in accordance with IPSAS 32. We have three such existing operational PFI schemes and two Non Profit Distributing (NPD) schemes currently under construction (see Note 16 for more details). The private sector operator is contractually obliged to provide the services related to the infrastructure that they construct, which is recognised as a non-current asset. The unitary charge payments comprise service charges, repayment of capital and interest and are accounted for as such.

1.15 Leases

At their inception, leases are classified as operating or finance leases, based on the allocation of the risks and rewards of ownership of the underlying assets. Land and buildings elements are separately accounted for where applicable.

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. Where the arrangement includes incentives, such as rent-free periods, the value is recognised 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.

1.16 Provisions

Legal and constructive obligations that are of uncertain timing or amount are provided for 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 provisions 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 disclosed 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. Transport Scotland is part of the Scottish Government VAT registration and any outstanding VAT balances are accounted for by the Scottish Government.

1.19 Segmental Reporting

Segmental reporting identifies components of expenditure that are regularly reviewed by the Senior Management Team in order to manage 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 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 Private Finance arrangements. These are detailed in the section on Significant Accounting Policies contained within the Performance Report.

2. Staff Numbers and Costs

Staff costs comprise:

| | 2016-17 | | | 2015-16 | | |
|--|-------------------------------------|-----------------|----------------|-------------------------------------|-----------------|----------------|
| | Permanently Employed Staff £'000 | Others £'000 | Total £'000 | Permanently Employed Staff £'000 | Others £'000 | Total £'000 |
| Administration: | | | | | | |
| Wages and salaries costs | 9,749 | 362 | 10,111 | 9,587 | 421 | 10,008 |
| Social security costs | 1,065 | 0 | 1,065 | 813 | 0 | 813 |
| Other pension costs | 2,057 | 0 | 2,057 | 1,987 | 0 | 1,987 |
| Early retirement costs | 69 | 0 | 69 | 108 | 0 | 108 |
| | 12,940 | 362 | 13,302 | 12,495 | 421 | 12,916 |
| Programme: | | | | | | |
| Wages and salaries costs | 3,051 | 854 | 3,905 | 3,384 | 729 | 4,113 |
| Social security costs | 332 | 0 | 332 | 308 | 0 | 308 |
| Other pension costs | 638 | 0 | 638 | 747 | 0 | 747 |
| | 4,021 | 854 | 4,875 | 4,439 | 729 | 5,168 |
| Total staff costs to be charged to Comprehensive Net Expenditure | 16,961 | 1,216 | 18,177 | 16,934 | 1,150 | 18,084 |

The costs of staff employed on the design, procurement and management of capital projects undertaken by Transport Scotland have been charged to capital expenditure in respect of the projects identified in the year. These have been identified in the table below along with prior year

figures to reflect costs similarly capitalised in that year. These costs are included with the project costs in Note 4. The cost of early retirements in the table above, include the costs in year and also continuing payments in relation to previous years packages.

Staff costs comprise:

| | 2016-17 | | | 2015-16 | | |
|--|-------------------------------------|-----------------|----------------|-------------------------------------|-----------------|----------------|
| | Permanently Employed Staff £'000 | Others £'000 | Total £'000 | Permanently Employed Staff £'000 | Others £'000 | Total £'000 |
| Capitalised Programme: | | | | | | |
| Wages and salaries costs | 2,933 | 6 | 2,939 | 2,456 | 48 | 2,504 |
| Social security costs | 300 | 0 | 300 | 198 | 0 | 198 |
| Other pension costs | 599 | 0 | 599 | 487 | 0 | 487 |
| | 3,832 | 6 | 3,838 | 3,141 | 48 | 3,189 |
| Total staff costs charged to capital expenditure | 3,832 | 6 | 3,838 | 3,141 | 48 | 3,189 |
| Total Staff Costs | 20,793 | 1,222 | 22,015 | 20,075 | 1,198 | 21,273 |

Permanent employed staff are civil servants who have an employment contract with Transport Scotland, others are agency staff.

Wages and 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 allowances to the extent that it is subject to UK taxation. The payment of legitimate expenses is not part of salary.

Pension Costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and as a result Transport Scotland is unable to identify its share of the underlying liabilities. The scheme is therefore accounted for as a defined contribution scheme. The scheme Actuary valued the scheme liabilities at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office at www.civilservicepensionscheme.org.uk.

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 civil servants may be in one of five defined benefit schemes; either a final salary scheme (Classic, Premium or Classic Plus); or a whole career scheme (Nuvos or Alpha). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable 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).

From 1 April 2015, employee contributions are salary-related and range between 1.5% and 8.05% of pensionable earnings for Classic and 4.6% and 8.05% for Premium, Classic Plus, Nuvos and Alpha. 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, but 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 and Alpha members build up a pension based on 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. From October 2015, the employer makes a basic contribution of between 8% and 14.75% (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 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 0.5% 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. Pension age in Alpha is linked to the members state pension age.

Further details about the Civil Service pension arrangements can be found at: www.civilservicepensionscheme.org.uk.

New career average pension arrangements were introduced on 1 April 2015 and the majority of Classic, Premium, Classic Plus and Nuvos members joined the new scheme. Further details of this new scheme are available at <http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/>.

For 2016-17, employers' contributions of £3,294k (2015-16, £3,221k) were payable to the PCSPS at one of four rates in the range 20% to 24.5% of pensionable pay, based on salary bands. The scheme 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 2016-17 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Average numbers of persons employed

| | 2016-17 | | | 2015-16 | | |
|--------------------------------------|-----------------|--------|-------|-----------------|--------|-------|
| | Permanent Staff | Others | Total | Permanent Staff | Others | Total |
| Trunk roads major projects | 69 | 10 | 79 | 72 | 7 | 79 |
| Trunk road maintenance | 114 | 9 | 123 | 133 | 13 | 146 |
| Rail | 55 | 3 | 58 | 54 | 3 | 57 |
| Finance and other | 61 | 4 | 65 | 47 | 2 | 49 |
| Aviation, maritime, freight & canals | 29 | 0 | 29 | 28 | 1 | 29 |
| Transport policy | 44 | 3 | 47 | 43 | 1 | 44 |
| Total average staff numbers | 373 | 29 | 402 | 377 | 27 | 404 |

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

3. Other Administration Costs

| | Note | 2016-17 | 2015-16 |
|--|------|---------|---------|
| | | £'000 | £'000 |
| Rentals under operating leases | | 1,212 | 1,221 |
| Accommodation | | 789 | 1,240 |
| Office costs and supplies | | 1,310 | 1,170 |
| Hospitality | | 40 | 40 |
| Travel | | 407 | 457 |
| Training | | 86 | 104 |
| Consultancy | | 53 | 32 |
| Non-cash items | | | |
| Depreciation | 6/7 | 617 | 542 |
| Auditors' remuneration and expenses – external | 22 | 171 | 182 |
| Total administration costs | | 4,685 | 4,988 |

4. Programme Costs

| | Note | 2016-17 £'000 | 2015-16 £'000 |
|--|------|------------------|------------------|
| Other programme expenditure | | | |
| Roads | | | |
| Capital maintenance | | 103,138 | 67,630 |
| Current maintenance | | 101,556 | 102,122 |
| Other | | 0 | 0 |
| PFI interest charges | | 29,236 | 29,989 |
| PFI service charges | | 43,928 | 50,333 |
| Rail | | | |
| ScotRail franchise* | | 265,870 | 314,874 |
| Rail infrastructure in Scotland** | | 463,588 | 446,972 |
| Other | | 1,664 | 249 |
| Concessionary travel | | | |
| Smartcard applications | | 1,055 | 1,224 |
| Concessionary travel schemes | | 193,398 | 193,520 |
| Other public transport | | | |
| Major public transport projects – rail | | 6,189 | 3,439 |
| Transport information | | 1,010 | 964 |
| Ferry services in Scotland | | 188,801 | 166,845 |
| Air services in Scotland | | 38,542 | 48,293 |
| Bus services in Scotland | | 54,444 | 56,239 |
| Other transport directorate | | 65,598 | 43,651 |
| Scottish Futures Fund Projects | | 18,890 | 14,550 |
| Central Government grants to Local Authorities | | 21,681 | 29,961 |
| Non-cash items | | | |
| Depreciation | 6/7 | 79,367 | 93,673 |
| Total other programme costs | | 1,677,955 | 1,664,528 |

*Payments to Abellio (£247m) and Serco (£19m) totalled £266m.

**The Rail infrastructure in Scotland capital figure of £464m was paid directly to Network Rail.

5. Operating Income

| | 2016-17 £'000 | 2015-16 £'000 |
|---------------------------------------|------------------|------------------|
| Programme income | | |
| Interest receivable - loans | (4,709) | (3,878) |
| Rental income - land & properties | (24) | (10) |
| Other income | (153) | (196) |
| European Structural Fund (ESF) Income | (419) | |
| Ports income | (14) | 10 |
| Profit on disposal of land | (326) | (543) |
| Borders roof tax income | 0 | (17,500) |
| Total operating income | (5,645) | (22,117) |

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; and
- ESF funding.

6. Property, Plant and Equipment

| 2016-17 | Road Network £'000 | Land £'000 | Buildings £'000 | Transport £'000 | IT £'000 | Leasehold Improvements £'000 | Assets under Construction £'000 | Total £'000 |
|--|-----------------------|---------------|--------------------|--------------------|-------------|------------------------------------|---------------------------------------|----------------|
| Cost or Valuation | | | | | | | | |
| At 1 April 2016 | 20,777,298 | 6,535 | 10,725 | 62 | 4,609 | 1,507 | 1,690,593 | 22,491,329 |
| Detrunckings | (59) | 0 | 0 | 0 | 0 | 0 | 0 | (59) |
| Additions | 11,998 | 0 | 0 | 131 | 0 | 0 | 579,436 | 591,565 |
| Disposals | 0 | (74) | 0 | 0 | 0 | 0 | 0 | (74) |
| Revaluation | 870,259 | 214 | 347 | 0 | 0 | 0 | 0 | 870,820 |
| Current valuation adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Historic valuation adjustments | (132,689) | 0 | 0 | 0 | 0 | 0 | 0 | (132,689) |
| Transfers and reclassifications | 15,138 | 0 | 0 | (131) | 0 | 0 | (15,138) | (131) |
| Transfers (to)/from assets held for sale | 0 | 106 | 0 | 0 | 0 | 0 | 0 | 106 |
| Balance at 31 March 2017 | 21,541,945 | 6,781 | 11,072 | 62 | 4,609 | 1,507 | 2,254,891 | 23,820,867 |
| Depreciation | | | | | | | | |
| At 1 April 2016 | 3,654,611 | 0 | 2,772 | 41 | 4,539 | 1,376 | 0 | 3,663,339 |
| Detrunckings | (15) | 0 | 0 | 0 | 0 | 0 | 0 | (15) |
| Charge for the year | 79,300 | 0 | 472 | 12 | 63 | 25 | 0 | 79,872 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revaluation | 155,080 | 0 | 104 | 0 | 0 | 0 | 0 | 155,184 |
| Current valuation adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Historic valuation adjustments | (8,522) | 0 | 0 | 0 | 0 | 0 | 0 | (8,522) |
| Transfers and reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance at 31 March 2017 | 3,880,454 | 0 | 3,348 | 53 | 4,602 | 1,401 | 0 | 3,889,858 |
| Net Book Value at 31 March 2017 | 17,661,491 | 6,781 | 7,724 | 9 | 7 | 106 | 2,254,891 | 19,931,009 |
| Net Book Value at 31 March 2016 | 17,122,687 | 6,535 | 7,953 | 21 | 70 | 131 | 1,690,593 | 18,827,990 |
| Asset Financing | | | | | | | | |
| Owned | 15,252,141 | 6,781 | 7,514 | 9 | 7 | 0 | 1,558,880 | 16,825,332 |
| Finance leased | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| On Balance Sheet PFI | 2,409,350 | 0 | 0 | 0 | 0 | 0 | 696,011 | 3,105,361 |
| Donated | 0 | 0 | 210 | 0 | 0 | 106 | 0 | 316 |
| Net Book Value at 31 March 2017 | 17,661,491 | 6,781 | 7,724 | 9 | 7 | 106 | 2,254,891 | 19,931,009 |

Detrunckings reflect the transfer of road assets to Local Authority control, with the corresponding entry flowing through the General Fund (SoC TE). 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 road network.

Atkins (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 movement is reflected through the revaluation reserve (SoC TE).

6. Property, Plant and Equipment

| 2015-16 | Road Network £'000 | Land £'000 | Buildings £'000 | Transport £'000 | IT £'000 | Leasehold Improvements £'000 | Assets under Construction £'000 | Total £'000 |
|--|-----------------------|---------------|--------------------|--------------------|-------------|------------------------------------|---------------------------------------|----------------|
| Cost or Valuation | | | | | | | | |
| At 1 April 2015 | 20,164,262 | 8,155 | 10,589 | 154 | 4,609 | 1,507 | 1,158,350 | 21,347,626 |
| Detrunings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 14,101 | 0 | 0 | 47 | 0 | 0 | 543,216 | 557,364 |
| Disposals | 0 | (1,464) | 0 | 0 | 0 | 0 | 0 | (1,464) |
| Revaluation | (357,351) | (24) | 136 | 0 | 0 | 0 | 0 | (357,239) |
| Current valuation adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Historic valuation adjustments | (44,406) | 0 | 0 | 0 | 0 | 0 | 0 | (44,406) |
| Transfers and reclassifications | 1,000,692 | 0 | 0 | (139) | 0 | 0 | (10,973) | 989,580 |
| Transfers (to)/from assets held for sale | 0 | (132) | 0 | 0 | 0 | 0 | 0 | (132) |
| Balances at 31 March 2016 | 20,777,298 | 6,535 | 10,725 | 62 | 4,609 | 1,507 | 1,690,593 | 22,491,329 |
| Depreciation | | | | | | | | |
| At 1 April 2015 | 3,167,550 | 0 | 2,273 | 29 | 4,461 | 1,349 | 0 | 3,175,662 |
| Detrunings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Charge for the year | 93,600 | 0 | 465 | 12 | 78 | 27 | 0 | 94,182 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revaluation | (76,093) | 0 | 34 | 0 | 0 | 0 | 0 | (76,059) |
| Current valuation adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Historic valuation adjustments | (5,714) | 0 | 0 | 0 | 0 | 0 | 0 | (5,714) |
| Transfers and reclassifications | 475,268 | 0 | 0 | 0 | 0 | 0 | 0 | 475,268 |
| Balances at 31 March 2016 | 3,654,611 | 0 | 2,772 | 41 | 4,539 | 1,376 | 0 | 3,663,339 |
| Net Book Value at 31 March 2016 | 17,122,687 | 6,535 | 7,953 | 21 | 70 | 131 | 1,690,593 | 18,827,990 |
| Net Book Value at 31 March 2015 | 16,996,712 | 8,155 | 8,316 | 125 | 148 | 158 | 1,158,350 | 18,171,964 |
| Asset Financing | | | | | | | | |
| Owned | 14,772,377 | 6,535 | 7,658 | 21 | 70 | (1) | 1,334,850 | 16,121,510 |
| Finance Leased | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| On Balance Sheet PFI | 2,350,310 | 0 | 0 | 0 | 0 | 0 | 355,743 | 2,706,053 |
| Donated | 0 | 0 | 295 | 0 | 0 | 132 | 0 | 427 |
| Net Book Value at 31 March 2016 | 17,122,687 | 6,535 | 7,953 | 21 | 70 | 131 | 1,690,593 | 18,827,990 |

7. Intangible Assets

| | 2016-17 £'000 | 2015-16 £'000 |
|---|------------------|------------------|
| At replacement cost or valuation | | |
| At 1 April | 491 | 461 |
| Additions | 63 | 30 |
| Disposals | 0 | 0 |
| Balance at 31 March | 554 | 491 |
| Accumulated Amortisation | | |
| At 1 April | 461 | 461 |
| Charge for the year | 7 | 0 |
| Revaluations | 0 | 0 |
| Disposals | 0 | 0 |
| Balance at 31 March | 468 | 461 |
| Net Book Value at 31 March | 86 | 30 |

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

| | 2016-17 £'000 | 2015-16 £'000 |
|-----------------------------------|------------------|------------------|
| Balance at 1 April | 204 | 76 |
| Transfers to non-current assets | (106) | 0 |
| Transfers from non-current assets | 0 | 132 |
| Disposals | (98) | (4) |
| Change arising on revaluation | 0 | 0 |
| Balance at 31 March | 0 | 204 |

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

| 2016-17 | Interests in Nationalised Industries & Limited Companies £'000 | Voted Loans £'000 | Other Funds £'000 | Total £'000 |
|--|---|-------------------------|-------------------------|----------------|
| Balance at 1 April 2016 | 20,550 | 104,176 | 25,178 | 149,904 |
| Add element reported within current assets | 0 | 3,754 | 0 | 3,754 |
| Advances and repayments | | | | |
| Cash advances | 0 | 28,726 | 17,286 | 46,012 |
| Repayments | 0 | (3,929) | 0 | (3,929) |
| Balance at 31 March 2017 | 20,550 | 132,727 | 42,464 | 195,741 |
| Loans repayable within 12 months transferred to current assets | 0 | (4,077) | 0 | (4,077) |
| Balance at 31 March 2017 | 20,550 | 128,650 | 42,464 | 191,664 |

| 2015-16 | Interests in Nationalised Industries & Limited Companies £'000 | Voted Loans £'000 | Other Funds £'000 | Total £'000 |
|--|---|-------------------------|-------------------------|----------------|
| Balance at 1 April 2015 | 20,550 | 66,770 | 12,627 | 99,947 |
| Add element reported within current assets | 0 | 3,767 | 0 | 3,767 |
| Advances and repayments | | | | |
| Cash advances | 0 | 41,160 | 12,551 | 53,711 |
| Repayments | 0 | (3,767) | 0 | (3,767) |
| Balance at 31 March 2016 | 20,550 | 107,930 | 25,178 | 153,658 |
| Loans repayable within 12 months transferred to current assets | 0 | (3,754) | 0 | (3,754) |
| Balance at 31 March 2016 | 20,550 | 104,176 | 25,178 | 149,904 |

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 shareholder in Caledonian Maritime Assets Ltd, David MacBrayne Ltd, Highlands and Islands Airports Ltd and TS Prestwick HoldCo Ltd. Scottish Ministers hold the following share investments:

| | |
|------------------------------------|---------------------------------------|
| Caledonian Maritime Assets Ltd | 1,500,000 ordinary shares of £10 each |
| David MacBrayne Ltd | 5,500,002 ordinary shares of £1 each |
| Highlands and Islands Airports Ltd | 50,000 ordinary shares of £1 each |
| TS Prestwick Holdco Ltd | 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 all publish an annual report and accounts. The net assets and results of the above bodies are summarised below.

| | Prestwick HoldCo Ltd £m | Highlands and Islands Airports Ltd £m | Caledonian Maritime Assets Ltd £m | David MacBrayne Ltd £m |
|---|-------------------------------|--|--|---------------------------------|
| Net assets/(liabilities) as at 31 March | (26.9) | (27.9) | 57.4 | 18.9 |
| Turnover | 11.7 | 22.1 | 35.8 | 199.0 |
| Profit/(loss) for the financial year | (9.0) | (0.9) | 5.4 | 5.1 |

All results are draft and subject to audit with final accounts yet to be published.

Highlands and Islands Airports Limited (HIAL)

Scottish Ministers are the sole shareholder 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, which it assumed responsibility for in December 2007 and now operates via a wholly owned subsidiary company, Dundee Airport Ltd.

Caledonian Maritime Assets Limited (CMAL)

Following a restructure of the Caledonian MacBrayne Group in 2006, Caledonian MacBrayne Ltd became known as Caledonian Maritime Assets Ltd (CMAL) and CalMac Ferries Ltd (CFL) was incorporated. CFL took over operation of the Clyde & Hebrides Ferry Services as successor to Caledonian MacBrayne Ltd. 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 two shares of £1 in a dormant company, David MacBrayne Ltd. In the course of the restructuring of the Caledonian MacBrayne Group in 2006, Scottish Ministers' shareholding in David MacBrayne Ltd was increased by 5,500,000 shares to 5,500,002 ordinary shares of £1. David MacBrayne Ltd is now the holding company for the ferry operating companies CalMac Ferries Ltd, Argyll Ferries Ltd and Northlink Ferries Ltd, and for the dormant companies Cowal Ferries Ltd and Rathlin Ferries Ltd.

TS Prestwick HoldCo Limited

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

Voted Loans

Transport Scotland provides loans to CMAL to be used for the construction of new shipping.

Other Funds

These represent loans that Transport Scotland provide to Prestwick Airport as noted above, and to the Energy Savings Trust to fund energy efficient transport initiatives.

In respect of IFRS12, it should be noted that both 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 which can be found at <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2015-to-2016>.

Transport Scotland has taken account of these bodies forecast expenditure within its budget.

Scottish Canals is currently classed as an NDPB, however HM Treasury have agreed not to apply the budgeting or accounting impact of this until the Office of National Statistics (ONS) complete a planned forthcoming classification after which they will review the position.

CMAL and Prestwick Airport 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 31/03/17 £'000 | As at 31/03/16 £'000 |
|--|----------------------------|----------------------------|
| Amounts falling due within one year: | | |
| Trade and other receivables | | |
| Trade and other receivables | 414 | 1,562 |
| Damage claims | 1,320 | 1,398 |
| Prepayments and accrued income | 49,940 | 46,898 |
| | 51,674 | 49,858 |
| Amounts falling due after more than one year: | | |
| Prepayments and other receivables | 15,665 | 30,665 |
| | 15,665 | 30,665 |

| 10b Intra-Government balances | As at 31/03/17 £'000 | As at 31/03/16 £'000 |
|--|----------------------------|----------------------------|
| Amounts falling due within one year: | | |
| Intra-Government balances | | |
| Other Central Government bodies | 0 | 1,279 |
| Local Authorities | 0 | 30 |
| Public corporations and trading funds | 4,161 | 1,921 |
| | 4,161 | 3,230 |
| Balances with bodies external to Government | 47,513 | 46,628 |
| Total receivables | 51,674 | 49,858 |
| Amounts falling due after more than one year: | | |
| Intra-Government balances | | |
| Other Central Government bodies | 0 | 0 |
| Local Authorities | 15,665 | 15,665 |
| Public corporations and trading funds | 0 | 0 |
| | 15,665 | 15,665 |
| Balances with bodies external to Government | 0 | 15,000 |
| Total receivables | 15,665 | 30,665 |

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

| | As at 31/03/17 £'000 | As at 31/03/16 £'000 |
|--------------------------|----------------------------|----------------------------|
| At 1 April | 0 | 0 |
| Charge for the year | 0 | 0 |
| Unused amount released | 0 | 0 |
| Utilised during the year | 0 | 0 |
| At 31 March | 0 | 0 |

11. Trade Payables and Other Liabilities

| 11a Analysis by classification | As at 31/03/17 £'000 | As at 31/03/16 £'000 |
|--|----------------------------|----------------------------|
| Amounts falling due within one year: | | |
| Trade and other payables | | |
| Trade payables | 5,319 | 1,216 |
| Accruals | 150,272 | 153,216 |
| Other payables | 10,064 | 4,710 |
| Financial liabilities - PFI | 11,980 | 11,171 |
| Deferred income | 273 | 71 |
| | 177,908 | 170,384 |
| Amounts falling due after more than one year: | | |
| Other payables | 1,845 | 1,056 |
| Financial liabilities - PFI | 1,104,660 | 776,371 |
| | 1,106,505 | 777,427 |
| 11b Intra-Government balances | | |
| Amounts falling due within one year: | | |
| Intra-Government balances | | |
| Other Central Government bodies | 26,354 | 858 |
| Local Authorities | 12,489 | 14,314 |
| Public corporations and trading funds | 279 | (11) |
| | 39,122 | 15,161 |
| Balances with bodies external to Government | 138,786 | 155,223 |
| Total payables | 177,908 | 170,384 |
| Amounts falling due after more than one year: | | |
| Intra-Government balances | | |
| Other Central Government bodies | 0 | 0 |
| Local Authorities | 0 | 0 |
| Public corporations and trading funds | 0 | 0 |
| | 0 | 0 |
| Balances with bodies external to Government | 1,106,505 | 777,427 |
| Total payables | 1,106,505 | 777,427 |

12. Provisions for Liabilities and Charges

| 12a Provisions for liabilities and charges | Land and Property Acquisition £'000 | Major Projects £'000 | Other £'000 | Total £'000 |
|---|--|---------------------------------|------------------------|------------------------|
| 2016-17 | | | | |
| Balance as at 1 April 2016 | 72,141 | 5,271 | 5,610 | 83,022 |
| Provided in year | 0 | 0 | 38 | 38 |
| Provisions not required written back | 0 | (145) | (1) | (146) |
| Provisions utilised in year | (275) | (149) | (108) | (532) |
| Discount amortised | 1,653 | (24) | 4 | 1,633 |
| Balance as at 31 March 2017 | 73,519 | 4,953 | 5,543 | 84,015 |
| 2015-16 | | | | |
| Balance as at 1 April 2015 | 90,350 | 8,253 | 1,023 | 99,626 |
| Provided in year | 0 | 0 | 5,023 | 5,023 |
| Provisions not required written back | (1,376) | 0 | (59) | (1,435) |
| Provisions utilised in year | (16,227) | (2,767) | (356) | (19,350) |
| Discount amortised | (606) | (215) | (21) | (842) |
| Balance as at 31 March 2016 | 72,141 | 5,271 | 5,610 | 83,022 |

| 12b Analysis of expected timing of discounted flows | Land and Property Acquisition £'000 | Major Projects £'000 | Other £'000 | Total £'000 |
|--|--|---------------------------------|------------------------|------------------------|
| In the remainder of the period to 2018 | 24,156 | 4,500 | 5,466 | 34,122 |
| Between 2019 and 2022 | 49,363 | 453 | 77 | 49,893 |
| Between 2023 and 2027 | 0 | 0 | 0 | 0 |
| Thereafter | 0 | 0 | 0 | 0 |
| Balance as at 31 March 2017 | 73,519 | 4,953 | 5,543 | 84,015 |
| In the remainder of the period to 2017 | 24,431 | 3,818 | 5,473 | 33,722 |
| Between 2018 and 2021 | 47,710 | 1,453 | 137 | 49,300 |
| Between 2022 and 2026 | 0 | 0 | 0 | 0 |
| Thereafter | 0 | 0 | 0 | 0 |
| Balance as at 31 March 2016 | 72,141 | 5,271 | 5,610 | 83,022 |

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, it is often 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 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 VOA are reviewed bi-annually.

Major Projects

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

Other

Transport Scotland agreed to meet the additional costs 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 31/03/17 £'000 | As at 31/03/16 £'000 | 2016-17 Net Movement £'000 | 2015-16 Net Movement £'000 |
|---|------|----------------------------|----------------------------|----------------------------------|----------------------------------|
| Receivables | | | | | |
| Due within one year | 8/10 | 51,674 | 50,063 | (1,611) | 47,173 |
| Due after more than one year | 10 | 15,665 | 30,665 | 15,000 | 7,787 |
| Net (increase)/decrease | | 67,339 | 80,728 | 13,389 | 54,960 |
| Payables | | | | | |
| Due within one year | 11 | 177,908 | 170,383 | 7,525 | (43,847) |
| Due after more than one year | 11 | 1,106,505 | 777,427 | 329,078 | 228,955 |
| | | 1,284,413 | 947,810 | 336,603 | 185,108 |
| Less: Lease and PFI creditors included in above | 11 | 1,116,640 | 787,542 | 329,098 | 229,804 |
| Less: Capital accruals included in the above | | 7,720 | 2,281 | 5,439 | (23,549) |
| Net increase/(decrease) | | 160,053 | 157,987 | 2,066 | (21,147) |
| Provisions | 12 | 84,015 | 83,022 | 993 | (16,604) |
| Net increase/(decrease) | | 84,015 | 83,022 | 993 | (16,604) |
| Net movement increase/(decrease) | | 311,407 | 321,737 | (10,330) | (92,711) |

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 31/03/17 £'000 | As at 31/03/16 £'000 |
|---|----------------------------|----------------------------|
| Property, plant and equipment | 3,059,367 | 770,609 |
| Total contracted capital commitments for which no provision has been made | 3,059,367 | 770,609 |

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.

| | As at 31/03/17 £'000 | As at 31/03/16 £'000 |
|---|----------------------------|----------------------------|
| Obligations under operating leases comprise: | | |
| Land & buildings | | |
| Due within 1 year | 1,290 | 1,444 |
| Due after 1 year but not more than 5 years | 3,869 | 5,159 |
| Commitments thereafter | 0 | 0 |
| | 5,159 | 6,603 |

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 that of a finance lease, with the asset being recognised. Payments under PFI contracts comprise two elements; imputed finance lease charges and services charges.

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

The M8, M73, M74 Motorway Improvements Project will upgrade the A8 Baillieston to Newhouse, complete the M8 between Glasgow and Edinburgh, and include improvements to the M74 Raith Interchange and the widening of other key sections of the M8, M73 and M74. The NPD contract also incorporates the management, operation and maintenance of this section of the motorway for the next 30 years. The unitary charge payments will become committed after construction completion in 2017 and will cease in 2047.

AWPR/B-T – the project will construct a new dual carriageway around the City of Aberdeen and upgrade the road between Balmedie and Tipperty to dual carriageway. The NPD contract also incorporates the management, operation and maintenance of these roads for the next 30 years. The unitary charge payments will become committed in phases from Autumn 2016 until after construction completion in 2018 and will cease in 2048.

| | As at 31/03/17 £'000 | As at 31/03/16 £'000 | As at 31/03/15 £'000 |
|---|----------------------------|----------------------------|----------------------------|
| Imputed finance lease obligations under PFI contracts comprise: | | | |
| 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 | 1,276,003 | 976,141 | 776,325 |
| | 1,478,037 | 1,178,175 | 978,359 |
| Less: Interest element (finance cost) | (361,397) | (390,633) | (420,622) |
| Total capital cost | 1,116,640 | 787,542 | 557,737 |
| Imputed service charge obligations under PFI contracts comprise: | | | |
| Service charge due within 1 year | 55,284 | 52,831 | 54,995 |
| Service charge due within 2 to 5 years | 178,612 | 194,441 | 206,619 |
| Service charge due thereafter | 314,155 | 348,791 | 394,262 |
| Total service charge | 548,051 | 596,063 | 655,876 |

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 ScotRail Ltd and Serco Caledonian Sleeper Ltd under the Franchise Agreements.

Network Rail – Control Period 4 ran from April 2009 to March 2014. The Determination for the current control period, CP5 from April 2014 to March 2019, was set by the Office of Rail and Road for the Deed of Grant and track access charges and is reflected below.

The total amount charged to the Statement of Comprehensive Net Expenditure in respect of these schemes reflects the cessation of the First ScotRail franchise on 31 March 2015 and the commencement on 1 April 2015 of the Abellio ScotRail and Serco Caledonian Sleeper franchises.

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

| | 2016-17 £'000 | 2015-16 £'000 |
|----------------------------------|------------------|------------------|
| Network Rail | 463,588 | 446,972 |
| First ScotRail | 0 | 0 |
| Abellio ScotRail | 249,677 | 293,478 |
| Serco Caledonian Sleeper Limited | 19,085 | 21,207 |
| Total | 732,350 | 761,657 |

Following expiry of the contract with First Group, further contracts from April 2015 were awarded to Abellio for the ScotRail franchise, and to Serco for the Caledonian Sleeper franchise. Amounts due

under these contracts in future years, analysed between those periods where the commitment falls are:

| | Network Rail Deed of Grant £'000 | Abellio ScotRail £'000 | Serco Caledonian Sleeper Limited £'000 | Total £'000 |
|----------------------------|---|------------------------------|--|----------------|
| Expiry within 0-12 months | 425,446 | 291,437 | 22,664 | 739,547 |
| Expiry within 1 to 2 years | 335,610 | 379,981 | 27,207 | 742,798 |
| Expiry within 2 to 5 years | 1,726,406 | 1,371,180 | 78,300 | 3,175,886 |
| Total | 2,487,462 | 2,042,598 | 128,171 | 4,658,231 |

18. Financial Instruments

18a Financial Instruments by Category

| 2016-17 | Note | Assets at Fair Value through Profit & Loss £'000 | Loans & Receivables £'000 | Total £'000 |
|---|------|---|------------------------------|----------------|
| Assets per statement of financial position | | | | |
| Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable | | 0 | 217,302 | 217,302 |
| Balance as at 31 March 2017 | | 0 | 217,302 | 217,302 |

| | Note | Assets at Fair Value through Profit & Loss £'000 | Other Financial Liabilities £'000 | Total £'000 |
|--|------|---|--------------------------------------|----------------|
| Liabilities per statement of financial position | | | | |
| PFI liabilities | 16 | 0 | 1,116,640 | 1,116,640 |
| Trade and other payables excluding statutory liabilities (VAT, income tax and social security) | | 0 | 200,499 | 200,499 |
| Balance as at 31 March 2017 | | 0 | 1,317,139 | 1,317,139 |

| 2015-16 | Note | Assets at Fair Value through Profit & Loss £'000 | Loans & Receivables £'000 | Total £'000 |
|---|------|---|------------------------------|----------------|
| Assets per statement of financial position | | | | |
| Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable | | 0 | 174,207 | 174,207 |
| Balance as at 31 March 2016 | | 0 | 174,207 | 174,207 |

| | Note | Assets at Fair Value through Profit & Loss £'000 | Other Financial Liabilities £'000 | Total £'000 |
|--|------|---|--------------------------------------|----------------|
| Liabilities per statement of financial position | | | | |
| PFI liabilities | 16 | 0 | 787,542 | 787,542 |
| Trade and other payables excluding statutory liabilities (VAT, income tax and social security) | | 0 | 158,598 | 158,598 |
| Balance as at 31 March 2016 | | 0 | 946,140 | 946,140 |

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 many other business entities. A high level review of risk management is now considered at each meeting of the Audit and Risk Committee.

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date. The amounts disclosed 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.

| 2016-17 | Carrying value £'000 | 0-12 months £'000 | 1-2 years £'000 | 2-5 years £'000 | 5-10 years £'000 | > 10 years £'000 |
|-----------------------------|-------------------------|----------------------|--------------------|--------------------|---------------------|---------------------|
| Non-derivative liabilities | 1,116,640 | 11,980 | 12,850 | 44,449 | 98,693 | 948,668 |
| Derivative liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Total financial liabilities | 1,116,640 | 11,980 | 12,850 | 44,449 | 98,693 | 948,668 |

| 2015-16 | Carrying value £'000 | 0-12 months £'000 | 1-2 years £'000 | 2-5 years £'000 | 5-10 years £'000 | > 10 years £'000 |
|-----------------------------|-------------------------|----------------------|--------------------|--------------------|---------------------|---------------------|
| Non-derivative liabilities | 732,395 | 288,972 | 11,623 | 36,001 | 79,774 | 316,025 |
| Derivative liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Total financial liabilities | 732,395 | 288,972 | 11,623 | 36,001 | 79,774 | 316,025 |

Cash Flow and Fair Value Interest Rate Risk

Transport Scotland's 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, 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 in to and, as such, the related income, expenditure and cash flows are substantially independent of changes in market interest rates.

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 now in the hands of the Accountant in Bankruptcy.

Transport Scotland successfully defended a legal challenge in respect of the procurement of the Northern Isles Ferry Service. The legal judgement was confirmed in March 2016. 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's normal course of business, the Forestry Commission grants the right to use a forestry track as an emergency diversion route on the A83 Rest and Be Thankful on the understanding that Transport Scotland has the 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 considered unlikely that any liability will occur.

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

The FReM 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 Ltd and Serco Caledonian Sleeper Ltd commencing 1 April 2015.
- Indemnity clauses 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 seven 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 the pension funds of Abellio ScotRail Ltd and Serco Caledonian Sleeper Ltd from 1 April 2015 in line with that provided to other train operators by the DfT.
- Guarantee to Strathclyde Pension fund in relation to admission of Scottish Canals.

iii. Other contingent liabilities held by Transport Scotland:

- Monklands Canal – maintenance of pipes under trunk roads.

There is a contingent liability in respect of any further payment required to the Lothian Pension Fund in respect of employees transferred from the Forth Estuary Transport Authority (in excess of the agreed settlement amount for the value of the cessation deficit if it subsequently exceeds the prudent basis on which it was calculated). This is considered to be a remote possibility due to the assumptions made in the calculation of the deficit payment. It is not possible to predict what any subsequent valuation of the pension deficit will be to inform any further contribution required by Transport Scotland.

Transport Scotland received advance payments from the Department for Transport, in relation to the Arc Atlantique Project, to improve the efficiency of the road network. As these monies are Pre-financing payments there is an outside risk that Transport Scotland could fail to meet all the obligations and requirements set out by the Grant Agreement and as such may be required to return part thereof or all these payments.

20. Related Party Transactions

Transport Scotland is an Executive Agency of the Scottish Government. The Scottish Government is regarded as a related party with which it had various material transactions during the year. David MacBrayne Ltd, CMAL, TS Prestwick HoldCo Ltd and HIAL are wholly owned subsidiaries of Transport Scotland with whom it also had various material transactions during the year.

Loans were advanced to and repaid by CMAL to fund vessel construction. Grants were paid to HIAL to subsidise its operating and capital expenditure and also to CMAL to fund agreed pier and harbour infrastructure projects. David MacBrayne Ltd is the parent company of Calmac Ferries Ltd, Argyll Ferries Ltd and Northlink Ferries Ltd who operated ferry services under contracts with Transport Scotland, and which Transport Scotland supported via the payment of subsidies. TS Prestwick Holdco Limited is the parent company of the group 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.

Transport Scotland also had significant transactions with Local Authorities, Sustrans, the Energy Saving Trust, Loganair, Forth Estuary Transport Authority, Northern Isles Ferries, Cycling Scotland, Strathclyde Partnership for Transport and the Tay Road Bridge Joint Board 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

| 2016-17 | Resource £'000 | Net Investment £'000 | Income £'000 | Non Cash £'000 | AME | ODEL £'000 | Total £'000 |
|--|-------------------|----------------------------|-----------------|-------------------|-----|---------------|----------------|
| Total continuing segments | | | | | | | |
| Roads | 90,677 | 115,215 | (504) | 79,300 | 0 | 73,164 | 357,852 |
| Rail | 267,534 | 470,331 | 0 | 0 | 0 | 0 | 737,865 |
| Concessionary travel & bus services | 250,483 | (80) | (337) | 67 | 0 | 0 | 250,133 |
| Other public transport | 18,999 | 0 | 0 | 0 | 0 | 0 | 18,999 |
| Ferry services in Scotland | 172,625 | 16,232 | (3,978) | 0 | 0 | 0 | 184,879 |
| Air services in Scotland | 28,210 | 10,332 | (745) | 0 | 0 | 0 | 37,797 |
| Other transport directorate programmes | 31,911 | 35,236 | (82) | 0 | 0 | 0 | 67,065 |
| Scottish Futures Fund | 48 | 18,845 | 0 | 0 | 0 | 0 | 18,893 |
| Grants to Local Authorities | 0 | 21,681 | 0 | 0 | 0 | 0 | 21,681 |
| | 860,487 | 687,792 | (5,646) | 79,367 | 0 | 73,164 | 1,695,164 |

| 2015-16 | Resource £'000 | Net Investment £'000 | Income £'000 | Non Cash £'000 | AME | ODEL £'000 | Total £'000 |
|--|-------------------|----------------------------|-----------------|-------------------|---------|---------------|----------------|
| Total continuing segments | | | | | | | |
| Roads | 100,254 | 72,419 | (728) | 93,600 | (1,035) | 80,322 | 344,832 |
| Rail | 315,124 | 433,453 | 0 | 10 | 0 | 0 | 748,587 |
| Concessionary travel & bus services | 252,074 | 265 | 0 | 63 | 0 | 0 | 252,402 |
| Other public transport | 21,425 | 0 | 0 | 0 | 0 | 0 | 21,425 |
| Ferry services in Scotland | 160,026 | 6,869 | (3,394) | 0 | 0 | 0 | 163,501 |
| Air services in Scotland | 30,173 | 18,120 | (494) | 0 | 0 | 0 | 47,799 |
| Other transport directorate programmes | 25,486 | 16,940 | 0 | 0 | 0 | 0 | 42,426 |
| Scottish Futures Fund | 489 | 14,061 | 0 | 0 | 0 | 0 | 14,550 |
| Grants to Local Authorities | 0 | 29,961 | 0 | 0 | 0 | 0 | 29,961 |
| | 905,051 | 592,088 | (4,616) | 93,673 | (1,035) | 80,322 | 1,665,483 |

21b Business Segments – Capital Expenditure

| 2016-17 | Trunk Road Maintenance £'000 | Capital Projects £'000 | Other Assets £'000 | Voted Loans £'000 | Total Capital Expenditure £'000 |
|--|------------------------------------|------------------------------|--------------------------|-------------------------|---------------------------------------|
| Total continuing segments | | | | | |
| Roads | 11,998 | 579,319 | 131 | 0 | 591,448 |
| Rail | 0 | 0 | 0 | 0 | 0 |
| Other public transport | 0 | 0 | (35) | 0 | (35) |
| Ferry, aviation and other services in Scotland | 0 | 0 | 0 | 42,083 | 42,083 |
| | 11,998 | 579,319 | 96 | 42,083 | 633,496 |

| 2015-16 | Trunk Road Maintenance £'000 | Capital Projects £'000 | Other Assets £'000 | Voted Loans £'000 | Total Capital Expenditure £'000 |
|--|------------------------------------|------------------------------|--------------------------|-------------------------|---------------------------------------|
| Total continuing segments | | | | | |
| Roads | 14,101 | 541,752 | 42 | 0 | 555,895 |
| Rail | 0 | 0 | 0 | 0 | 0 |
| Other public transport | 0 | 0 | 30 | 0 | 30 |
| Ferry, aviation and other services in Scotland | 0 | 0 | 0 | 49,944 | 49,944 |
| | 14,101 | 541,752 | 72 | 49,944 | 605,869 |

22. Notional Charges

The following notional charges have been included in the accounts:

| | Note | 2016-17 £'000 | 2015-16 £'000 |
|------------------------|------|------------------|------------------|
| Auditors' remuneration | 3 | 171 | 182 |
| | | 171 | 182 |

23. Losses and Special Payments

| | Number of cases | 2016-17 £'000 | 2015-16 £'000 |
|--------------------------------|--------------------|------------------|------------------|
| Total cash losses | 21 | 484 | 68 |
| Details of cases over £250,000 | 0 | 0 | 0 |
| Including – claims abandoned | 0 | 0 | 68 |
| – active claims | 0 | 0 | 0 |

The costs of damage to the trunk road network due to road accidents are charged to Transport Scotland as part of the road maintenance programme. These costs are recovered from the party responsible through their insurance company wherever possible, except where there has been a fatal injury. The costs are held in a debtor account until the recovery is successful. In 2015-16 a detailed review of the costs held in the debtor account identified those deemed recoverable, and the position is now reviewed on an on-going basis. Irrecoverable costs no longer being pursued amounted to £0.484m in respect of 21 cases and these have now been written off. No individual case exceeded £250,000.

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 Act could not be cancelled, costs have been incurred. These costs include 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.

There were no costs incurred in 2016-17 (2015-16 £17,000), and £nil revenue generated (2015-16 £nil).

ANNEX A



TRANSPORT SCOTLAND
DIRECTION BY THE SCOTTISH MINISTERS

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

1. The statement of accounts for the financial year ended 31 March 2007 and subsequent years shall comply with the accounting principles and disclosure requirements of the edition of the Government *Financial Reporting Manual* (FReM) which is in force for the year for which the statement of accounts are prepared.
2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
3. This direction shall be reproduced as an appendix to the statement of accounts.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006



**TRANSPORT
SCOTLAND**

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