



Annual Report & Accounts

For the year ended
31 March 2018

transport.gov.scot



**TRANSPORT
SCOTLAND**
CÒMHDHAIL ALBA

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Performance Report Overview

This presents a review of the Agency's performance, the Chief Executive summary of the year and highlights the key purpose and activities of the Agency, together with the risks, opportunities and challenges faced during the year.



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Chief Executive Statement

I am pleased to introduce Transport Scotland's Annual Report and Accounts for 2017-18. The past year has been an extremely busy and interesting one for the Agency.

The opening of the new Queensferry Crossing, the M8 M73 M74 Motorway Improvement Project and the completion of the first section of the A9 Dualling have been some of our significant achievements in 2017-18. In addition, our Aviation, Maritime, Freight and Canals team supported the launch of new air routes to Heathrow and we held a Cruise Summit, jointly hosted by the Cabinet Secretary for Rural Economy and Connectivity and the Cabinet Secretary for Culture, Tourism and External Affairs.

Within our Rail directorate, we saw the introduction of the first electric passenger services on the newly electrified Edinburgh Glasgow line and the opening of Scotland's newest railway station in Forres. We have continued to link more journeys by making more cycle spaces available at key locations on the rail network and we have installed 100 electric car parking spaces.

Our work has also been recognised with a number of awards including The Forth Replacement Crossing Employer's Delivery Team's win in The Project Delivery Excellence category at the 2017 Civil Service awards ceremony. The A75 won Road Safety scheme of the year at the Highways Excellence Magazine awards and the procurement team also won recognition for the CivTech app as well as for the procurement on the A82 Pulpit Rock project.

In addition, we also won the CIHT Asset Management Award for the Transport Scotland Asset Management Improvement Programme (Atkins and Transport Scotland) and were highly commended for the Forth Road Bridge Truss End Link Repairs at the 2017 British Construction Industry Awards.

Finally, the M8 M73 M74 Motorway Improvements Project has been shortlisted as Scotland's representative for the Institution of Civil Engineers People's Choice Award.

'The past year has been an extremely busy and interesting one for the Agency.'



We are the Lead Partner in the European Regional Development Fund 2014-2020 programme, focusing on funding for projects that support the Programme for Government's ambition to build an active nation and phase out the need for new petrol and diesel cars and vans by 2032. This will be reflected in our comprehensive review of the National Transport Strategy that will set a vision for Transport over the next 20 years.

During the past year, we have taken forward a number of corporate developments including an increased focus on Learning and Development, the development of a smarter working programme and consideration of our future structure given the significant commitments signalled in the Scottish Government's Programme for Government. These have been reflected in our Corporate Plan 2017-20 launched at the end of October 2017. It's been another incredible year, with so much achieved across all of what we do and so much to be very proud of. I thank all colleagues involved and acknowledge our partners across Scotland, who played a significant role in making this another successful year.

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Purpose & Activities

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.

Our **purpose** is to support and advise Scottish Ministers on strategy and policy options for Transport in Scotland, and to increase sustainable economic growth through the development of national transport projects.

Our **aim** is to help create an accessible Scotland, with a safe, integrated and reliable transport network.

We **seek** to promote transport integration, support the transition to active and more sustainable forms of transport and deliver a first class transport system for the people of Scotland.

Key Risks & Challenges

The principal risks and uncertainties facing us relate to our major contracts for, and financial investment in, rail, ferry, bus and air services, the maintenance of the road, rail and the Highlands and Islands air networks and major infrastructure projects.

The inherent risks relate to performance by contractors which can also be affected by outside factors such as adverse weather. We continue to focus 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.

Performance Summary

We measure our Performance against Strategic Objectives outlined in our Corporate Plan, which sets out our policies and commitments going forward. These objectives are in line with the vision set out within the National Performance Framework (NPF).

We provide regular formal progress reports to Senior Management and Scottish Government during the year on our performance against our objectives and our progress towards achieving our outcomes. We also monitor expenditure against our budget which formed part of the Rural Economy and Connectivity portfolio, and formally report on, the risks, challenges and opportunities faced in delivering our objectives and the processes we utilise to manage them.

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Financial performance & use of resources

Changes to our budget are reflected in the Scottish Government Autumn Budget Revision (ABR) and Spring Budget Revision (SBR), and for 2017-18, these include £40 million additional budget allocated through the Spring Budget Revision as part of the deployment of CDEL consequentials for 2017-18. The table on the right shows these movements and comparison with the outturn for 2017-18.



Roy Brannen
Chief Executive
Transport Scotland

	Original Budget 2017-18 £000's	ABR Adjust £000's	SBR Adjust £000's	Revised Budget 2017-18 £000's	Outturn 2017-18 £000's	Variance £000's
Rail Services	747,959	-	-	747,959	761,982	14,023
Concessionary Travel	254,400	-	-	254,400	252,787	(1,613)
Motorways & Trunk Roads	835,563	631	(1,395)	834,799	691,843	(142,956)
Ferries	181,042	-	-	181,042	237,849	56,807
Air	49,802	-	-	49,802	51,993	2,191
Other Transport	113,100	-	41,495	154,595	167,250	12,655
Scottish Futures Fund	25,250	(5,000)	-	20,250	18,124	(2,126)
Local Authority Grants	27,500	-	-	27,500	27,236	(264)
Total DEL	2,234,616	(4,369)	40,100	2,270,347	2,209,064	(61,823)
AME	-	-	-	-	-	-
AME Capital	-	-	20,000	20,000	(4,268)	(24,268)
ODEL PFI Resource	121,163	-	10,013	131,176	109,976	(21,200)
ODEL PFI Capital	-	5,000	-	5,000	4,958	(42)
TOTAL	2,355,779	631	70,113	2,426,523	2,319,730	(106,793)

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Performance Report

Performance Analysis

This shows our performance against our Corporate Deliverables and high level objectives.



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Our three year Corporate Plan sets out how we will deliver our own aims and objectives, listed overleaf, within the Scottish Government's wider purpose of a more successful country and a greener, wealthier, fairer, smarter, stronger and healthier society.

The key contributions of each Directorate within Transport Scotland will be listed in this section, many of which contribute to multiple objectives, and regular formal progress reports on these are provided to senior management during the year, including performance against targets, narrative on methodologies and variations from targets.



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Key Objectives

A more detailed analysis of our performance is reported more fully in our Transport Review 2017 which can be accessed from our website at:

www.transport.gov.scot/media/41871/annual-review-2017.pdf



Strategic transport planning and governance



New infrastructure



Who we are and how we operate



Environmental sustainability



Moving freight



Moving people



Maintaining and developing Scotland's transport networks



Procurement, asset management and contract management



Improving communication, travel choices, resilience and safety

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Trunk Roads & Bus Operations

Community Engagement

We have continued to engage successfully with the businesses and communities that our transport networks serve, to listen to concerns and to provide pro-active solutions. This year we have forged positive links with; the **A82 Fort William Traffic Congestion Working Group**, the **A77 Action Group**, the **A92 Community Groups (Glenrothes and Freuchie)**, the **A82 Transport Forum** and the **A96 Nairn Community Focus Group**.

Bridges

Essential maintenance work continued on our bridges in 2017-18. January 2018 saw the opening of the new £1.4 million **A830 Criche Bridge**, the sixth bridge to be replaced in the last five years as part of our investment programme.



The Category B listed **A7 Old Tweed Bridge** was also partially reconstructed and a new and wider structure on the replacement **Cromdale footbridge** adjacent to the A95 now allows for easier access for all users including cyclists. Works to replace the expansions joints on the **Ballachulish Bridge** were completed in November 2017 and the works to upgrade the three spans of the **A9 Cromarty Bridge** continue.

Future Intelligent Transport Strategy (ITS)

Launched in November 2017, our customer focused **Future ITS Strategy** provides us with a strategic framework to support our current and future activities in Intelligent Transport Systems (ITS) across Scotland's trunk road and motorway network. This approach will inform strategic decisions, prioritise investment in appropriate new technologies and innovations for ITS infrastructure and services, aligned with the National Transport Strategy (NTS) outcomes to deliver a safe and efficient customer focused network.

Traffic Scotland Mobile Website

The new Traffic Scotland mobile website **my.trafficscotland.org** launched in September 2017, makes it easier for road users to plan ahead and obtain clarity on road conditions. Usage has already increased by over 10% since the website launched, and continued growth is anticipated as users benefit from the existing functionality and new features. The site makes the best use of technology and successfully contributes to Transport Scotland's aim of a safe and efficient road network while giving road users the information they want in the way they want it. This again is in line with the NTS, and will allow us to provide a safe and efficient road network, while recognising the growth in digital connectivity and demand for information.

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Trunk Roads & Bus Operations cont'd...

Air Quality and Low Emission Zones (LEZ's)

The commitment to work in partnership with local authorities to introduce LEZ's into Scotland's four biggest cities between 2018 and 2020, was strengthened in the Programme for Government. In the Autumn of 2017 we published the **Building Scotland's Low Emission Zone** consultation which received 972 responses. The LEZ Leadership Group, established by ministers, met for the first time in December 2017 and we are currently supporting local authorities in the creation of LEZ Delivery Groups in Glasgow and Edinburgh.

Average Speed Cameras

In October 2017, an average speed camera system went live on the A90. This is aimed at improving safety by encouraging better driver behaviour on a route which has consistently been a problem area, with one of the highest collision statistics across the trunk road network.

'We are supporting local authorities in the creation of LEZ Delivery Groups.'



Smart Ticketing

Early in 2017 we worked with Renfrewshire Council Employability Hub and Young Scot, to develop a product aimed at helping young people (16-25) to get back into employment, by providing free travel tickets on the Young Scot Smartcard, for use on McGill's buses. We also supported ScotRail with their roll out of a wider range of smart tickets on **saltirecards** and the capability to buy smart tickets on trains, was introduced in September 2017.

Also during the autumn the Transport Minister launched contactless bank payment services for a number of bus operators across Scotland, thus accelerating smart payment methods. At the end of 2017, we supported the development of, and Ministerial launch for, Glasgow's **smartzone**, which introduced unlimited travel on one smartcard accepted by multiple bus operators in the Glasgow area, thus augmenting the successful Aberdeen and Dundee **smartzones** launched last year.



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Major Transport Infrastructure Projects

Queensferry Crossing

The **Queensferry Crossing** opened to traffic on 30 August 2017 and operated for two days before traffic moved back onto the Forth Road Bridge to allow for a series of opening events, organised to meet unprecedented demand from the public, media, stakeholders, schools and local communities. These generated significant interest with almost 250,000 applications from across the world.

A spectacular light show illuminated the Queensferry Crossing on Monday 28 September 2017, and launched a week of celebrations to commemorate the opening of the new iconic structure. The **Queensferry Crossing Experience** on Saturday 2 and Sunday 3 September provided a once in a lifetime opportunity to walk across the new bridge.

On 4 September 2017, her Majesty The Queen and HRH the Duke of Edinburgh, watched by the First Minister, declared the Queensferry Crossing officially open on the South side of the Forth before travelling across the new bridge, exactly 53 years to the day she opened the Forth Road Bridge. On 5 September, 10,000 local residents, social groups, charities, school and nursery pupils from the area were also given the opportunity to walk on the bridge. The Queensferry Crossing hosted in the region of 70,000 people over the course of the events before being re-opened to traffic before the morning peak on Thursday 7th September.

The crossing provides two lanes in each direction, reflecting Scottish Government's commitment that road provision across the Forth will not be increased. The Queensferry Crossing motorway regulations came into effect on 1 February 2018 and the public transport corridor over the Forth Road Bridge then fully opened, thus providing additional infrastructure capacity for sustainable forms of travel.



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The A9 Dualling

The **A9 Kincairdie to Dalraddy** project is the first section of the A9 Dualling Programme to be completed and became fully operational on 30 September 2017. Completion of this project provides safer overtaking opportunities, reduces driver frustration and supports businesses, communities and tourism by improving access to and from the Highlands. Procurement of the second section to be dualled between Luncarty to Pass of Birnam is currently in dialogue with the main construction contract expected to be awarded in the first half of 2018.

In July 2017, a £50 million design contract was awarded to carry out route option development and assessment work for dualling the eastern section of the **A96 between East of Huntly and Aberdeen**. It is expected that the route option assessment process work will take approximately two years to complete. Work has also continued on the development and assessment of the route options for the dualling of the A96 between Hardmuir and Fochabers. The preferred option for this scheme is expected to be identified later in 2018.



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Technology to promote Tourism on the A9

A new **Highland Discovery tourism app** was released in September 2017, as a result of the A9 Dualling programme. The app has been produced as part of the Scottish Government's innovative **CivTech® Challenge** which invites new technology businesses to solve technological challenges. Transport Scotland and CivTech® worked together to identify a means of developing appropriate technology to act as a catalyst for tourism growth on the A9, as part of the £3 billion commitment to dual the route. The app seeks to help all of Scotland's rural communities to maximise the economic potential of tourism and creates an in-car audio experience, which allows tourists to make connections with the passing landscape, history and culture of Scotland, and help them navigate the many visitor attractions in and around the A9 corridor. The app will be released in both Android and IOS formats in 2018.

‘Transport Scotland and CivTech® worked together in partnership to act as a catalyst for tourism growth on the A9.’



Connecting Communities

In June 2017 we announced that the **A82 Tarbet to Inverarnan Improvement Scheme** will be developed as a 7.3 mile wide carriageway, with the aim of improving road safety and journey time reliability as well as connecting businesses and communities in the Highlands and Islands and the central belt. Progress continues with a view to preparing draft orders for the scheme in 2018-19.

As part of the Scottish Government's commitment within the £315 million **Inverness and Highland City-Region Deal**, we announced in October 2017 the preferred option for the **A9/A96 Inshes Smithton Link Road**. The scheme will reduce traffic on the A9 and A96 passing through Raigmore Interchange and improve safety by reducing traffic levels on key parts of the local road.

Work continues to progress on the £745 million **Aberdeen Western Peripheral Route/ Balmedie to Tippetty (AWPR/B-T) Project**. This is scheduled to open to traffic in late Autumn 2017-18, and is anticipated that this much needed new infrastructure will cut journey times across Aberdeen by up to half at peak times and enable local authorities to develop public transport solutions.



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Improving Congestion

In April 2017 we announced that the preferred option for the **Sheriffhall Roundabout Improvement Scheme** would be taken forward with a view to publishing draft Orders for the scheme in 2019. Two Stakeholder Workshops were held in August and October 2017, which focused on the development of active travel and gave key stakeholders the opportunity to consider the relative merits of emerging active travel options. The aim will be to improve access for all modes of transport allowing Edinburgh City Bypass traffic to pass directly over the roundabout, significantly reduce congestion and through provision of active travel facilities, enhance accessibility and safety for pedestrians and cyclists.

‘The M8 is a vital link in the central belt and this newly completed section will help connect people to business, leisure and education opportunities.’

The £500 million **M8 M73 M74 Motorway Improvements Project** opened to traffic in June 2017. Road users are now able to enjoy peak journey time savings of up to 20 minutes on the M8 and up to 15 minutes at Raith Junction, as well as enhanced safety and reduced emissions.

The **A737 Dalry Bypass contract** was awarded in May 2017 with work commencing on site in July 2017. The project will involve the construction of a new bypass to the east of Dalry and associated junctions which will connect with the existing A737 trunk road. These works will also include the construction of a viaduct over the River Garnock and the Glasgow to Ayr railway line. The result will be reduced conflict between local and strategic traffic, improved road safety and journey time reliability. Construction is expected to be complete by the end of 2019.

Since appointing design consultants in September 2016, we have been working hard to identify and undertake an initial assessment of options for the planned improvements at **Laurencekirk**. The emerging options under consideration were presented to the public at an exhibition on 30 October 2017 with the preferred option itself expected to be announced later in 2018, and draft Order published in 2019.

Future Project Development

This year saw the procurement process get underway on a number of discrete construction projects across Scotland. These included; the **A77 Maybole Bypass**, (award of the main construction contract is currently scheduled for Autumn 2018); the **A737 Den Realignment scheme** (contract award is anticipated in Spring 2018); the **A90/A96 Haudagain Improvement Project** (commenced with the publication of a contract notice in June 2017, with site preparation advance works set to commence in 2018) and finally, the **A9 Berriedale Braes Improvement Project**, (the award of the construction contract is currently scheduled for Summer 2018 but ground investigation work commenced in December 2017).



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Aviation, Maritime, Freight & Canals

Aviation

In June 2017, **Norwegian Air Shuttle** launched its long-haul operations from Edinburgh to east coast USA, complementing their well established short haul offering. New routes commenced to Stewart International for New York, Providence Rhode Island and Bradley Connecticut airports. Around 130 direct jobs were created to support the new base. Norwegian also allocated two of their brand new B737 MAX aircraft to the Edinburgh base. These are the latest generation, most advanced 737s. The new LEAP engines use 15% less fuel than the standard aircraft; NOx emissions are 50% less than the industry standards and Co2 emissions per aircraft are 5,000 tonnes less per year than the older models.

The **Air Discount Scheme** has continued on the PSO routes to Campbeltown, Barra and Tiree with providers continuing to promote day trip packages to help extend the season for summer visitors to these areas.

Ferries

The UK's first liquefied natural gas (LNG) passenger ferry, MV Glen Sannox was launched at Ferguson Marine Engineering Limited's (FMEL) Port Glasgow shipyard in November 2017 by First Minister, Nicola Sturgeon. The 102 metre, roll-on/roll-off vehicle passenger ferry, can operate on liquefied natural gas (LNG) and marine gas oil (MGO). LNG is significantly cleaner and will help to reduce emissions and meet ambitious Scottish Government targets.



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Scottish Canals

As well as continuing to invest in and maintain the canals, Scottish Canals completed the purchase of the former Diageo site, in Port Dundas as part of its ambitious plans for regeneration in the area.

A £2 million Scottish Government funded project saw the 200 year old Ness Weir, at the mouth of Loch Dochfour and the River Ness, reinforced with 500 metres of steel piling to strengthen the structure and safeguard it for future generations.

Ports and Shipping

In November 2017, we hosted a well-attended Scottish Cruise Summit with a record attendance from across a range of ports and destinations, including senior representatives from major cruise lines. Given its significance, the event was jointly hosted by the Cabinet Secretary for Rural Economy and Connectivity and the Cabinet Secretary for Culture, Tourism and External Affairs.

Ports continued to develop and maximise their contribution to the local, regional and national economy, with projects underway or completed at Peterhead, Lerwick, Dundee and Aberdeen. The Minister for Transport and the Islands attended the launch of the Scottish Maritime Cluster at London International Shipping Week in 2017 and work commenced with the Maritime Industry on the development of A Scottish Maritime Strategy due for completion in 2018/19.



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Rail

Edinburgh Glasgow Improvement Project (EGIP)

December 2017 saw the introduction of the first electric passenger services on the newly electrified Edinburgh Glasgow (via Falkirk High) Route. The electrification of 150 kilometres of single track on Scotland’s busiest rail corridor paves the way for the introduction of the new class 385 electric trains to the route during 2018 and a cleaner greener and quieter railway with lower carbon emissions. The electrification and the new trains will allow travellers to benefit from improvements in service choice and faster journey times on modern, attractive and energy efficient trains.

Enhancing Journeys

Over £475 million is being invested in ScotRail’s fleet, delivering major enhancements to facilities and increasing seating capacity by 23% by 2019. The new fleet of C385 electric trains have just completed the final phase of testing and will run on the newly electrified Edinburgh-Glasgow route in 2018. In addition the fully refurbished fleet of 26 High-Speed-Trains (HSTs) have begun upgrade works and driver training is well underway.

The fleet will be gradually introduced during 2018 to run between Scotland’s seven main cities, delivering 40% more seats on those routes. Existing trains are also undergoing significant enhancements, including at-seat power sockets, Wi-Fi, lighting, new seats and livery.

Abellio ScotRail continues to progress a range of rolling stock projects and 200 additional carriages will be rolled out into service over the next 18 months taking the total fleet to in excess of 1,000 carriages – an increase of more than 50% since 2007.



Over £475 million is being invested in ScotRail’s fleet.



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Community Rail Partnerships (CRPs)

Over £0.281 million has been committed to CRPs and community initiatives since 2015, with over £0.07 million committed in the last 12 months. Those launched so far include an Art Project at Rutherglen (Rail 74), a Children's Engagement Project (Highland Mainline), and Tourism Promotion Project (Borders CRP). Potential for further CRP's are being explored in Cowdenbeath, Kyle, the Shotts line and Artline (Fife).

Abellio ScotRail Integration

During 2017 ScotRail have continued to invest in passenger facilities at railway stations throughout Scotland and are supporting integrated rail travel. Enhancements have been made at station car parks with an increase of nearly 200 spaces, recharging options are available at 50 stations with the installation of 100 electric car parking spaces and Pay & Display machines have been upgraded across the network. Improvements to information on the go have also been made with the delivery of over 20 cross modal customer information screens. Investment continues to be made in cycling with over 900 additional cycle spaces installed at stations in 2017.

Aberdeen to Inverness Line

Scotland's newest station officially opened in Forres in October 2017. The new station is part of Phase One of the Aberdeen to Inverness Rail Improvement Project, which is transforming rail travel between the two cities by increasing services and cutting journey times. The facility was completed as part of the planned 10-day closure of the line, during which the railway was moved onto a straighter, double-tracked alignment to the north of the old station. The two platform station offers improved passenger facilities and a fully accessible footbridge and lifts.

Rannoch Timber by Rail Project

Transport Scotland established a taskforce in October 2017, chaired by the Cabinet Secretary for the Rural Economy and Connectivity, to focus all partners on delivering a proposal to move timber by rail from Rannoch to the BSW Sawmill at Corpach. The project will replace 3,200 lorry journeys and some 300,000 road miles per year. Funding of up to 100% of the cost of the rail works has been approved through the Scottish Strategic Rail Freight Investment Fund.



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Transport Policy

Strategic Reviews

In January 2018, we published our refreshed NTS (www.transport.gov.scot/publication/national-transport-strategy-nts/), which will culminate in the production of a successor strategy in 2019, setting out a vision and framework for transport over the next 20 years. The strategy will consider transport connectivity within Scotland, with the UK, and internationally, and it will set out the evidence base for future transport needs identifying specific needs between rural, coastal, islands, city, and urban areas.

Our approach is focused on collaborative working with our partners, developing a robust evidence base and engaging with stakeholders and citizens across Scotland to give them a greater say in the development of transport policy. We have set up a national Partnership Group comprised of key stakeholders charged with oversight of the review process, and national stakeholder working groups which are now examining the key transport themes of economic growth, addressing inequality, ensuring safety and resilience and moving towards a greener and healthier transport system.

In 2018, we will be running a national programme of engagement on the review with organisations and the public, using online channels, social media, dedicated events and community engagement.

Contributions to the review are also welcome at NTSreview@transport.gov.scot. The review will work towards a formal public consultation on the draft strategy in early 2019 with a view to publishing the successor strategy in summer 2019.

Challenge Fund

A second round of the **Low Carbon Travel and Transport (LCTT) Challenge Fund** was launched in October 2017. The aim is to deliver active travel and low carbon hubs. Up to 40% ERDF funding is available in the Lowlands and Uplands and up to 70% in the Highlands and Islands. Round one in June 2017 saw successful bids from five projects across Scotland to support innovative hubs which will aid the shift towards active or low carbon modes of transport.

We are also the Lead Partner in delivering the **Strategic Intervention (SI)** for Low Carbon Travel and Transport with up to £13.9 million allocated until the end of 2018 under the European Regional Development Fund (ERDF) 2014-2020 programme. Our focus is on delivering Active Travel Hubs to provide focal points for cycling and walking routes, to provide refuelling facilities for a range of alternative fuels and transport modes and a National Integrated Smart Ticketing Scheme.

This Round of the Fund is supporting 4 projects to deliver hubs in the Lowlands and Uplands area of Scotland.

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Smart Ticketing

Smart Ticketing have launched three Challenge Fund's between October 2016 and November 2017. The first two rounds saw five organisations across Scotland being awarded funding to support the upgrade of smart electronic technology machinery. The third Challenge Fund round closed in December 2017.

Concessionary Travel

A Consultation on Concessionary Travel closed on 17 November 2017. It attracted widespread public and political interest and just under 3,000 responses were received. The Concessionary Travel Policy Team supported the Transport Minister in his personal engagement with older people's organisations and groups representing young modern apprentices.

Green Buses

To date, there have been seven rounds of the **Scottish Green Bus Fund**. Funding of £16.1 million has seen the introduction of 361 low carbon vehicles to the fleet, with a further £1.3 million assisting with the purchase of 46 new low carbon buses. Buses purchased through the Fund are returning significant fuel savings and reduced emissions. Each new bus is expected to deliver an average reduction in Co2 of around 21 tonnes per year and 300 tonnes over their life-cycle.

Road Safety

The Scottish Government supported the **Seat Belts on School Transport (Scotland) Bill**, introduced by Gillian Martin MSP, which gained Royal Assent in December 2017. It will make seat belts a legal requirement on all dedicated school transport, for home-to-school journeys and school excursions, provided by local authorities and grant-aided and independent school providers.

Road Safety Scotland (RSS) continued to promote and support its learning resources as well as run a number of campaigns focussed mainly on Framework priority areas including speed, age and vulnerable road users.

Blue Badge Scheme

In December 2017, the extension to Blue Badge eligibility criteria, to allow a badge to be issued in some cases where someone poses a risk to themselves or others in traffic, was made permanent.

'Our approach is focused on collaborative working, engaging with stakeholders and citizens across Scotland.'



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Social & Community Issues

As the Transport Agency for Scotland, our aim is always to work in partnership with communities and to deliver social benefits across Scotland as a consequence of our work.

We have been able to demonstrate this in a number of ways during 2017-18.

A96 Dualling

- Supporting nearly 500 engineering jobs in Scotland including over 200 graduate and apprentice jobs
- During the school session 2017/18 we have supplied training for 86 Primary and 22 Secondary School teachers to deliver a programme of STEM related projects
- We have provided engineers to support and engage with 36 primary school and 5 secondary school classes

Aberdeen Western Peripheral Route/ Balmedie to Tippetry Project

- Provides on average 139 graduate and apprenticeship positions a year during construction phase
- Providing 53 construction jobs specifically for long term unemployed people
- During the operation and maintenance phase there will be 7 graduate and apprenticeship jobs and 5 for long-term unemployed people



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A9 Dualling Academy 9 Initiative

- We have engaged with 3,160 students and 420 teachers to teach more about what is involved in a major engineering project, raising awareness of STEM and Civil engineering careers

Forth Replacement Crossing Project

- 818 people have completed vocational training
- Has provided employment for 174 long term unemployed people
- During the construction phase over 75,000 people engaged with the Contact and Education Centre through the project exhibition, outreach programmes and community group visits



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Future Developments

We are 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.

'Good transport links continue to play an essential role in creating a sustainable economy.'



Our work on the new National Transport Strategy and refreshing our investment strategy for major transport projects will be key to shaping our ambitions for the future.

Ministers have given commitment to improving connectivity between our cities through the dualling of the A9 and A96, as well as supporting a major programme of investment in or railways in the current control period, up to 2019, and beyond.

Over the next few years, investment in active travel such as walking and cycling, will rise significantly and there will be funding to support low carbon developments through the Low Carbon Travel and Transport Development Challenge Fund. We will continue to develop plans to respond the challenge of Brexit and mitigate any potential risks to transport in Scotland.



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Financials

The financial statements for the year ended 31 March 2018 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 (FRoM). The financial statements are consolidated within the Scottish Government Consolidated Resource Accounts.

These financial statements were authorised for issue on 22 August 2018.

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

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 provision**
 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 suppliers for Concessionary Travel, Rail and Roads maintenance, certain assumptions and judgments are required to be made when determining 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, M6 DBFO-Autolink and 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 scottishfuturestrust.org.uk

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Sources of funding

Rail Infrastructure

Our responsibility for rail includes setting strategic outcomes for Network Rail in relation to the Operation, Maintenance, Renewal and Enhancement of the rail infrastructure in Scotland, as well as the services to be delivered through 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 and Road Regulation (ORR). Following their reclassification as a central government body in 2014, Network Rail borrowing is now financed by the UK Government. Under a 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 respect of the delivery and funding of specified outputs on the Scottish rail network.

The major projects specified by Scottish Ministers for Network Rail to undertake in the remainder of CP5 are funded through a ring-fenced borrowing limit within this agreement to protect the delivery of Network Rail's programme in Scotland. Under these arrangements we are not required to account for a share of any residual debt incurred on our behalf, although payments in respect of the servicing of the debt are reflected in the Network Rail deed of grant payments made.

The equivalent funding for activities in Control Period 6 from 1 April 2019 to 31 March 2024 will be payable directly to Network Rail by Transport Scotland with an adjustment to the budgetary requirement agreed by HM Treasury. The responsibility for servicing of any residual debt from previous control periods will then rest entirely with HM Treasury.

Financial performance and use of resources

Resources to fund our operating costs and capital investment programme were allocated in the Scottish Government Budget 2017-18. The choice between public and private funding is governed by suitability for alternative forms of finance (including value for money).

The policy decision set out in the 2017-18 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.

A total of £2,270 million of budget cover was allocated from the Scottish Government Departmental Expenditure Limit (DEL) budget (16-17: £2,150 million). Annually Managed Expenditure (AME) of £20 million (16-17: NIL) relates to movement in provisions for both land compensation claims and orders for investment in land required to progress projects. The £136 million ODEL budget (16-17: £244 million) funds expenditure in respect of on-balance sheet PFI/PPP projects. Of this, £131 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 form part of the overall budget of the Scottish Government.

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Outturn Analysis

The DEL underspend of £61.3 million, comprises a cash underspend of £16.3 million and a non-cash underspend of £45.0 million. The cash underspend reflects the net position of savings and slippage offset by pressures and advanced expenditure and the reclassification of Fixed Track Access Charges (£160 million) from Operating Costs to Investment to ensure consistency across the Rail Control Period representing the most significant element of the variances in these categories.

The underspend in non-cash is a result of lower than anticipated depreciation of the road network. The AME outturn reflects the fact that provisions that were initially estimated were not required at year, with the negative expenditure representing a net overall reduction in these provisions. The ODEL resource underspend reflects deferred unitary charge payments on the Aberdeen Western Peripheral Route/Balmedie to Tipperty (AWPR/B-T) Project.

The total underspend of £106.8 million (16-17: £65.5 million underspend) represents approximately 4% (16-17: 2.0%) of the overall budget.

The Statement of Comprehensive Net Expenditure (SoCNE) identifies net operating costs of £1,840 million. Capital expenditure is not recognised as in-year expenditure within the SoCNE, but the following table provides a reconciliation of overall outturn to SoCNE.

Outturn Analysis

Transport Scotland 2017-18	Budget £000's	Actual £000's	Variance £000's
Resource - Operating Costs	940,742	795,162	(145,580)
Resource – Investment	672,407	882,171	209,764
Resource Depreciation (non-cash)	97,511	52,526	(44,985)
Capital	559,687	479,205	(£80,482)
DEL total	2,270,347	2,209,064	(61,283)
AME	20,000	(-4,268)	(24,268)
PFI Resource (ODEL)	131,176	109,976	(21,200)
PFI Capital (ODEL)	5,000	4,958	(42)
Total	2,426,523	2,319,730	(106,793)

	£000's
Net Operating Costs per SoCNE	1,839,837
Add: Additions to Intangible Assets (note 7)	-
Add: Additions to PPE (note 6)	411,351
Add: Additions to Investments (note 9)	73,487
Less: Disposals of Intangible Assets (note 7)	-
Less: Disposals of PPE (note 6)	(785)
Less: Repayments of Investments (note 9)	(4,160)
Less: Disposals on Assets held for Sale (note 8)	-
Less: De-trunkings (note 6)	-
Add: De-trunkings depreciation (note 6)	-
Outturn per Management Commentary	2,319,730

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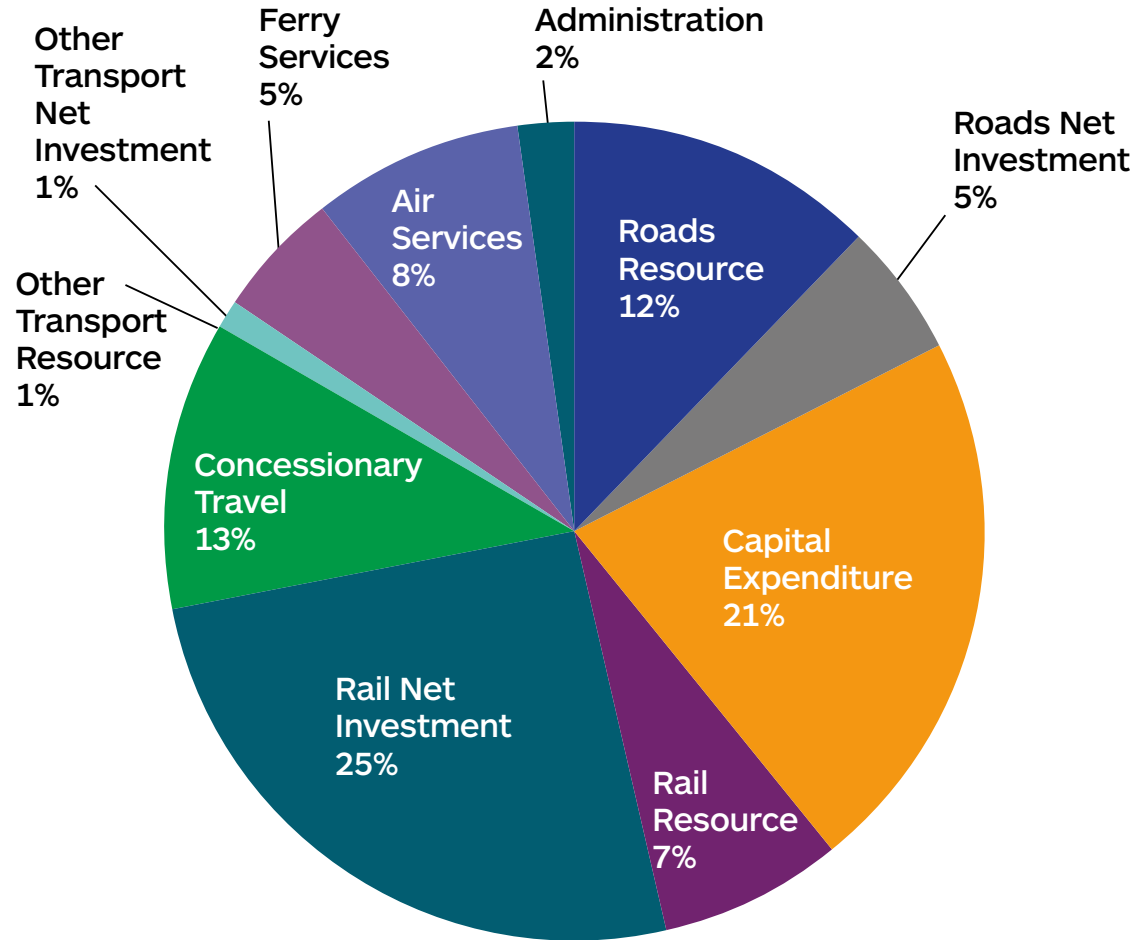
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Outturn Analysis cont'd...

The majority of Transport Scotland's budget is spent, either directly or indirectly, with external suppliers. Only 2% is utilised on the on-going Agency running costs. The chart on the right shows the percentage spent on each of the main areas of service provision identified in the budget.

The total asset base is £19.2 billion, the majority of which relates to the trunk road network. Additions to the value of the asset in year include, the new Queensferry Crossing and the new M8/M73/M74 Improvements.



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Outturn Analysis cont'd...

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 (16-17: 96%). The amount owed to trade creditors at the year-end as a proportion of the aggregate amount invoiced during the year, represented 0.3 days in proportion to the total number of days in 2017-18 (16-17: 1.4 days).

Fraud Detection and Prevention

Transport Scotland has a dedicated Fraud Prevention Officer, who links directly with the Scottish Government Fraud Prevention Team. There is a published fraud prevention plan which is updated with relevant legislative changes as they occur and provides clear guidance on the Agency's approach to, and methodology for, anti corruption and bribery. Additional information can be found at www.gov.scot/Topics/Government/Finance/spfm/fraud/fraudannex1

Future Spending Plans

The Scottish Budget Draft Budget 2018-19, provides details of our spending plans that will help deliver sustainable economic growth. These allocations are included in the table on this page for the coming financial year.

	2018-19* £000's
Resource – Operating Costs	829,805
Resource – Investment	829,805
Non-Cash	143,135
Capital	367,467
Total	2,217,306
ODEL	154,792
Total	2,372,098

* Source – Scottish Draft Budget 2018-19

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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).

Our Carbon Management Plan – 3rd Edition, sets a corporate carbon emission baseline, along with associated targets and projects, until 2019/20. The emission scope covers both operational emissions from our buildings and travel, as well as trunk road lighting emissions (also known as Network Energy emissions).

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 2018, providing fuller details of our operational carbon footprint.

During the course of the financial year 2017/18, Transport Scotland's operational emissions have decreased by 26% when compared to the previous year.

Corporate Operational Carbon Emission 2017-18

Element	Metric	Baseline in 2015-16	Actual in 2016-17	Actual in 2017-18	% Change in year
Total Emissions	tCO2e	1,377.61	1,398.6	1,025.25	(26%)
Energy – Electricity	tCO2e	764.98	794.8	643.1	(19%)
Energy – Gas	tCO2e	265.26	279.7	296.2	5.8%
Travel – Business	tCO2e	187.72	240.1	201.0	(16%)
Travel – Commute	tCO2e	154.5	78.1	76.5	(2%)
Water	tCO2e	3.13	3.67	4.1	11%
Waste	tCO2e	2.02	2.23	5.35	139%

Energy: Emissions from electricity use in our offices (Buchanan House/Victoria Quay/Traffic Control Centre) have decreased by 19%. Gas consumption has increased by 5.8%, the latter due mainly to extended cold winter weather and on-going works at Buchanan House.

Water: Consumption Emissions have increased by 11%.

Waste: Emissions from waste disposal have increased by 139%, a direct result of operations involved in moving towards smarter working.

Commute Travel: Emissions associated with commute travel have decreased by 2%.

Business Travel: Emissions attributed to business travel have decreased by 16% when compared to the 2015/16 baseline. Emission reductions were achieved for Underground Travel (Down 99%), Car Hire (Down 26%), Taxi Travel (Down 57%) Ferry Travel (Down 75%), Bus Travel (Down 96%) and Rail Travel (Down 34%). Emissions increases are attributed to Air Travel (Up 40%).



Roy Brannen
Chief Executive, Transport Scotland
22 August 2018

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Accountability Report

This illustrates our accountability requirements to Parliament, incorporating Governance, Remuneration and Parliamentary Accountability Reports, which our auditors have reviewed for consistency with the information contained in the financial statements for 2017-18, and their opinion covers these disclosures.

Corporate Governance Report

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



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Directors Report

The Chief Executive is the Accountable Officer for the Agency. He is supported by a Senior Management Team comprising six Executive Directors as shown below. The Accountable Officer is also supported by an Audit and Risk Committee, chaired by a non-executive member (John Matheson took over from Susan Dunn as Chair of the Committee on 21 July 2017) and including two further external members: Bill Bound and Pamela Mclauchlan who served throughout 2017-18.

Bill Bound and Pamela Mclauchlan served as non-executive members during 2017-18.

Current Directors

- Roy Brannen; Chief Executive
- Hugh Gillies; Trunk Road & Bus Operations
- Donald Carmichael; Transport Policy
- Bill Reeve; Rail
- 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 2017-18 statements of assurance completed by Directors in post as at 31 March 2018 also confirmed that no conflict of interest arose in the exercise of their duties.

Appointed Auditors

The financial statements for 2017-18 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 £173,100 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 (16-17: none).

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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
- 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.

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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. We also support 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 & 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.

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The Audit and Risk Committee receives copies of minutes of the monthly senior management team meetings, as well as monthly finance reports, and also meets directors individually twice a year. In addition, the Committee meets with Internal Audit and also Audit Scotland separately once 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
- 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
- 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 Governments National Outcomes.

Performance against our objectives within the Corporate Business Plan is monitored throughout the year and measured against targets at year end. Progress, including actual performance, 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.

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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 by the Finance Directorate.

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.

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 2018 and up to the date of approval of the Annual Report and Accounts. It is in accordance with the guidance from Scottish Ministers.

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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 audit function 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.

In their role as external auditors, Audit Scotland assess the extent to which it can place reliance on the individual reviews undertaken by Internal Audit to inform their opinion on the financial statements, depending on their direct relevance to their work on the statements. Alongside this, each year Audit Scotland undertakes a review of our Internal audit arrangements. In 2017/18 Audit Scotland identified some areas for improvement in complying with internal audit standards, principally in relation to audit planning, documentation and reporting and management review.

Internal audit is taking action to ensure that all of these improvements are addressed. Audit Scotland confirmed that this review did not identify any internal audit reports where the underlying evidence would suggest an incorrect audit opinion or conclusion.

The Performance Audit Group (company Turner & Townsend), working in association with PricewaterhouseCoopers) audits, monitors and reports on an independent basis 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.

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Internal Audit Reports 2017-18

The overall work undertaken in 2017-18 and the substantial rating for the ScotRail review, alongside the results of a number of Gateway reviews and Audit Scotland Reports, the implementation of audit recommendations and general management approach and engagement, has resulted in Internal Audit providing 'Substantial' Assurance in respect of Transport Scotland's risk management, control and governance arrangements.

Audit Area & Scope	Outcome
1. A9 Dualling Programme	Assurance Provided: Reasonable
2. Contract Management of ScotRail Franchise	Assurance Provided: Substantial
3. ICT Security of TS Hosted Systems	Assurance Provided: Reasonable
4. Management of Clyde & Hebrides Ferry Services (CHFS) 2 Contract	Assurance Provided: Reasonable

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Efficient Government

The Scottish Government sets a target of 3% Efficiency Savings to be achieved each year, with the challenge being to use resources in a more efficient and effective way so that more can be delivered for the same or less cost. Transport Scotland has consistently achieved or exceeded this target, and for 2017-18 the Agency has once again demonstrated its commitment to deal with cost pressures and live within its budget allocation. Regular performance reporting illustrates the extent to which we use efficiencies to protect the quality of our work and deliver our objectives.

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 by undertaking reviews of our achievement on specific areas each year, using the Audit Scotland self-assessment toolkit.

A Best Value review on Information Management was undertaken in 2017-18, which demonstrated a robust and forward looking approach to the area and made a number of key recommendations for further improvement. These related to continuing staff engagement, guidance and training in preparation for the new General Data Protection Regulations (GDPR), which will be enforced from May 2018. Information Asset Champions drive the new agenda forward and the good work being done on the development of the new ICT Digital Strategy continues. All of this will be progressed in 2018-19.

A follow up review was also conducted on Procurement. 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 2018-19, it is the intention to conduct a further Best Value review on Challenge and Improvement.

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
- I, as Chief Executive, hold regular meetings with Ministers where both strategic and operational risks are discussed

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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
- The delivery of major rail improvement projects by Network Rail including the Edinburgh Glasgow Improvement Programme on budget and with minimum disruption to passengers
- Timeous delivery of rail rolling stock improvement programmes
- Funding for Network Rail Control Period 6

- The impact of compensation claims related to the M8/M73/M74 Motorway Improvements Project
- Management of the condition of the trunk road network
- The delivery of the Aberdeen Western Peripheral Route funding to support low carbon developments

The Risk Management Framework has been reviewed again in year, and all Directorate risk registers have been further enhanced to ensure accuracy and consistency in layout and terminology and rigour of review. In addition, the previous 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 & 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 Scottish Government sponsored and adopted Security Frameworks and Data Handling policies.

In addition, we follow the Scottish Government 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 Scottish Government IT Code of Conduct.

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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 it includes detailed guidance which is designed to increase awareness of both 'bribery and corruption' and 'whistleblowing in the public sector', and these are also subject to regular staff notices and awareness sessions. 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 (NIL in 2017-18 (2016-17: NIL)) are reported within the Fraud Log and reported to 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.

Cyber Resilience is high on the agenda throughout the Agency, and the Cyber Resilience Team review and develop best practice, improve staff awareness and monitor all of the Agency's systems. The Cyber Steering Group has the responsibility of overseeing the Cyber Resilience Plan and the Agency is a catalyst organisation for Cyber Resilience, putting it right at the forefront of Scotland wide Cyber efforts.

Business Continuity

Our Business Continuity Plan has been reviewed and updated during 2017-18. 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
- To identify a medium and long term recovery strategy

The plan has been successfully deployed during the past year to cover incidents where access to office accommodation in Glasgow was restricted on two occasions and it was demonstrated to operate effectively, a number of lessons were also learned and the Plan has been updated accordingly.

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Remuneration & Staff

This shows our remuneration policy for directors and reports on how it has been implemented, along with the amounts paid to directors, together with staff composition and policies and details on staff numbers and related expenditure.



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Staff Report

Equal opportunities and diversity

Our equal opportunities and diversity policy aims to ensure that each and every member of staff feels comfortable, valued, and free to contribute fully and to the best of their ability. 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 bullying, harassment or 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 & Directors	Employees	Total
Female	1	189	190
Male	6	298	304

Figures based on Agency numbers at the end of March 2018

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
- Explain employees' entitlements and roles and responsibilities

In 2017-18 an average of 7.5 working days (16-17: 6.5) were lost due to sickness absence per staff year for Transport Scotland.

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Health and Safety

We are committed to promoting the highest standards of health and safety for our staff, visitors, contractors and others who could be affected by our acts or omissions. We seek to promote a positive health and safety climate and culture and seek continuous improvement through relevant and compulsory training and e-learning, with the support of the Health & Safety Adviser. Our policy is in alignment with Scottish Government Occupational Health & Safety strategies.

Trade Union Membership

Transport Scotland values strong employee relations and has a Partnership Board in place. Our partnership agreement sets out the terms of reference for the board on matters affecting the conditions of service of staff.

The Board itself is made up of Transport Scotland management with a representative from Transport Scotland Human Resources as well as representatives from The Scottish Government Trade Unions. The Board meets on a quarterly basis throughout the year or additionally on special request by board members.

Staff Category	Headcount at 31 March 2018	Headcount at 31 March 2017
Permanent Staff	398	394
Agency Staff	18	19
Consultants Employed	67	48
Total	483	461

Employment of disabled persons

We are a “Confident about Disabled People Employer”, which recognises our commitment and our positive attitude towards our disabled applicants and 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 2018 who had declared a disability employed by Transport Scotland was 44 (2016-17: 36).

Staff Costs

Details of Agency staff numbers and costs for the year are contained within Note 2 to the Accounts. We incurred £18.9 million in relation to staff costs in the year 2017-18 (2016-17: £18.2 million). Of this, £17.7 million was in relation to permanent staff, who are civil servants with an employment contract with Transport Scotland (2016-17: £17 million). The balance of £1.2 million related to agency staff (2016-17: £1.2 million).

In addition, the agency paid £5.3 million in professional consultancy costs in 2017-18 (2016-17: £3.7 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 2017-18, the Agency headcount totalled 483, analysed in the table above. The full time equivalent (FTE) figure of Permanent staff was 392.7.

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Remuneration Report

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 in Note 2 to the Accounts.

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
- The Government’s inflation target

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

Further information about the work of the SSRB can be found at: www.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 : Susan Dunn - appointed December 2014, took over as chair January 2017 and resigned May 2017; John Matheson was appointed as Chair on 21 July 2017. Pamela Mclauchlan – appointed May 2015 and Bill Bound appointed November 2016.

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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
- 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 2017-18, along with comparative figures are shown in the table overleaf.

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 2017-18 are as follows:

John Matheson	£232 daily rate
Pamela Mclauchlan	£232 daily rate
Bill Bound	£232 daily rate
Susan Dunn	£232 daily rate

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

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Single total figure of remuneration

Directors	Salary (Banding £000)		Bonus Payments (£000)		Benefits in Kind To nearest £100		Pension Benefits To nearest £1,000		Total (Banding £000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Mike Baxter	75-80	70-75	-	-	-	-	17,000	29,000	90-95	100-105
Roy Brannen	95-100	95-100	-	-	-	-	24,000	113,000	120-125	205-210
Donald Carmichael ¹	70-75	70-75	-	-	-	-	12,000	26,000 ²	80-85	95-100 ¹
Hugh Gilles	70-75	70-75	-	-	-	-	24,000	45,000	95-100	115-120
John Nicholls	70-75	70-75	-	-	-	-	12,000	25,000	80-85	95-100
Bill Reeve ²	105-110	50-55	-	-	-	-	49,000	48,000	155-160	100-105
Michelle Rennie	70-75	70-75	-	-	-	-	24,000	32,000	95-100	100-105

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 Donald Carmichael – 2016/17 recalculated due to change in pension.

² Bill Reeve took up his post as Director of Rail on 5 October 2016. The £50k-£55k represents his salary from that date. Full year equivalent banding £100k-£105k.

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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 £105k – £110k (16-17: £95k – £100k). This was 2.7 times (16-17: 2.7 times) the median remuneration of the workforce, which was £40,185 (16-17: £39,787).

In 2017-18, one (16-17: one) employee received remuneration in excess of the highest paid director. Remuneration across Transport Scotland ranged from £18k – £164k (16-17: £17k – £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 2017-18. There were no members of staff who agreed departures under the scheme in 2016-17. No members of staff retired on ill health grounds in 2017-18.

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 2018. The accrued pension includes service previous to becoming a Director and/or service in other departments.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a 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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

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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 £137,682 for the year to 31 March 2018. 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 At 31 March 2018 £000's	Real Increase in Lump Sum At age NRA £000's	Accrued Pension at age NRA At 31 March 2018 £000's	Real Increase in Pension At age NRA £000's	CETV At 31 March 2018 £000's	CETV At 31 March 2017 £000's	Real Increase in CETV 2017-18 £000's
Mike Baxter	5-10	0-2.5	30-35	0-2.5	526	488	5
Roy Brannen	85-90	0-2.5	35-40	0-2.5	634	587	8
Donald Carmichael	90-95	0-2.5	30-35	0-2.5	760	732	12
Hugh Gillies	0	0	20-25	0-2.5	338	305	10
John Nicholls	85-90	0-2.5	25-30	0-2.5	606	558	10
Bill Reeve	55-60	0-2.5	45-50	0	1204	1134	42
Michelle Rennie	0	0	10-15	0-2.5	182	159	9

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 – Mike Baxter, Roy Brannen, Hugh Gillies, Michelle Rennie.

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

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Parliamentary Accountability Report

This summarises all our key accountabilities, 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

We do 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.

Losses and Special Payments

There were none that exceeded £250,000. Full details are identified within Note 23 of the Financial Statements.

Gifts

There were none.



Roy Brannen
Chief Executive
Transport Scotland
22 August 2018

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Independent auditor's report to 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 2018 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 2017/18 Government Financial Reporting Manual (the 2017/18 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 2018 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 2017/18 FReM
- 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 (UK) (ISAs (UK)). 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 Standard, 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.

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Report on the audit of the financial statements cont'd...

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- The use of the going concern basis of accounting in the preparation of the financial statements is not appropriate
- The body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

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.

In preparing the financial statements, the Accountable Officer is responsible for using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit 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) 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

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, the audited part of the Remuneration and Staff Report, 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, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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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
- 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

In my opinion, the audited 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
- 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
- The financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records
- 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
 Audit Director
 Audit Scotland
 102 West Port
 Edinburgh EH3 9DN

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Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

	Note	£000's Staff Costs	£000's Other Costs	£000's Income	2017-18 £000's Total	2016-17 £000's Total
Administration costs						
Staff costs	2	13,421			13,421	13,302
Other administration costs	3		5,565		5,565	4,685
Total administration costs					18,986	17,987
Programme costs						
Staff costs	2	5,480			5,480	4,875
Other programme costs	4		1,825,137		1,825,137	1,677,955
Income	5			(9,766)	(9,766)	(5,645)
Total programme costs					1,820,851	1,677,185
Total		18,901	1,830,702	(9,766)	1,839,837	1,695,172
Net operating costs for the year ended 31 March 2018					1,839,837	1,695,172

All income and expenditure is derived from continuing activities.

	Note	2017-18 £000's	2016-17 £000's
Items that will not be reclassified to net operating costs:			
Net (gain) / loss on:			
- revaluation of property, plant and equipment	6	(90,807)	(715,636)
- revaluation of intangibles		0	0
		(90,807)	(715,636)
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 2018		1,749,030	979,536

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Statement of Financial Position as at 31 March 2018

	Note	£000's	31 March 2018 £000's	£000's	31 March 2017 £000's
Non-current assets					
Property, plant & equipment	6	20,372,280		19,931,009	
Intangible assets	7	59		86	
Financial assets	9	260,872		191,664	
Other receivables	10	36,663		15,665	
Total non-current assets			20,669,874		20,138,424
Current assets					
Assets held for sale	8	0		0	
Financial assets	9	4,197		4,077	
Trade and other receivables	10	33,714		51,674	
Cash & cash equivalents		0		0	
Total current assets			37,911		55,751
Total assets			20,707,785		20,194,175
Current liabilities					
Trade and other payables	11	(180,321)		(177,908)	
Provisions	12	(33,256)		(34,122)	
Total current liabilities			(213,577)		(212,030)
Total assets less current liabilities			20,494,208		19,982,145

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Statement of Financial Position as at 31 March 2018 cont'd...



Roy Brannen
Chief Executive
Transport Scotland
22 August 2018

The notes on pages 66 to 109
form part of these accounts.

	Note	£000's	31 March 2018 £000's	£000's	31 March 2017 £000's
Non-current liabilities					
Other payables and financial liabilities	11	(1,238,318)		(1,106,505)	
Provisions	12	(44,352)		(49,893)	
Total non-current liabilities			(1,282,670)		(1,156,398)
Assets less liabilities					
			19,211,538		18,825,747
Taxpayers' equity					
General fund	SoCTE		11,329,833		10,608,165
Revaluation reserve	SoCTE		7,881,705		8,217,582
Total taxpayers' equity			19,211,538		18,825,747

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Cash Flow Statement for the year ended 31 March 2018

	Note	2017-18 £000's	2016-17 £000's
(A) Cash flows from operating activities			
Net operating cost	SoCNE	(1,839,837)	(1,695,172)
Adjustments for non-cash transactions	3/4	52,699	80,155
Decrease / (increase) in trade and other receivables	13	(3,038)	13,389
Adjustment for the revaluation element of assets held for sale	8	0	0
Increase / (decrease) in trade and other payables	13	(1,243)	2,066
Increase / (decrease) in provisions	13	(6,407)	993
Adjustment for interest element of PFI contracts	4	48,512	29,236
Net cash outflow from operating activities		(1,749,314)	(1,569,333)
(B) Cash flows from investing activities			
Purchase of property, plant and equipment	6	(411,351)	(591,564)
Purchase of intangible assets	7	0	(63)
Roads developer contribution		0	0
Transfer of assets held for sale to property, plant and equipment	6/8	0	(106)
Disposal of property, plant and equipment	6	86	74
Impairment of property, plant and equipment		0	0
Increase / (decrease) in capital accruals	13	(2,724)	5,439
Voted loans	9	(69,328)	(42,083)
Net cash outflow from investing activities		(483,317)	(628,303)

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Cash Flow Statement for the year ended 31 March 2018 cont'd...

	Note	2017-18 £000's	2016-17 £000's
(C) Cash flows from financing activities			
Funding from the Scottish Government	SoCTE	2,203,850	(5,539,501)
Inter Entity transfers		(60,900)	7,437,275
Capital element of payments - finance leases and On Balance Sheet PFI contracts	13	138,193	329,098
Interest element of PFI contracts	4	(48,512)	(29,236)
Net Financing		2,232,631	2,197,636
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

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Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

	Note	General Fund £000's	Revaluation Reserve £000's	Total Reserves £000's
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

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Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018 cont'd...

	Note	General Fund £000's	Revaluation Reserve £000's	Total Reserves £000's
Changes in taxpayers' equity for 2017-18				
Net gain / (loss) on revaluation of property, plant and equipment	6	0	90,807	90,807
Non-current assets adjustments		137	0	137
Roads trunkings / de-trunkings	6	(699)	0	(699)
Roads historic value adjustment	6	(7,740)	0	(7,740)
Transfers to Scottish Government	6	0	0	0
Realised element of the revaluation reserve		426,684	(426,684)	0
Inter Entity transfers		(60,900)	0	(60,900)
Non-cash charges - auditors remuneration	3	173	0	173
Net operating costs for the year	SoCNE	(1,839,837)	0	(1,839,837)
Total recognised income and expense for 2017-18		(1,482,182)	(335,877)	(1,818,059)
Funding from Scottish Government		2,203,850	0	2,203,850
Balance at 31 March 2018		11,329,833	7,881,705	19,211,538

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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. This replaces IAS 17. FRAB has considered the applicability within the FReM, and has now issued an exposure draft for consultation. This standard would effectively eliminate accounting for operating leases and recognise ‘right of use’ assets specified to operators in contracts for the provision of services. It will apply from 2019-20 and is likely to have considerable impact on Transport Scotland Accounts in terms of assets that require to be accounted for in terms of the right of use. The potential scope may extend to transport infrastructure required by contracts for the provision of ferry, rail and air services and also specialised assets required under contracts for the maintenance of the trunk road network and railway in Scotland

- Other Standards issued, not yet effective, include IFRS15 and IFRS9,(both effective for accounting periods after 1 January 2018 and will therefore be applicable for 2018-19), IFRS17 (effective for accounting periods after 1 January 2021) and IFRS23 (effective for accounting periods after 1 January 2019). These are currently being reviewed and the impact on the Agency is being considered, although it is anticipated that they will have minimal relevance to Transport Scotland. The impact of amendments to IAS 7 (effective for accounting periods after 1 April 2018) is also being considered but it is again anticipated that impact on Transport Scotland will be minimal.

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 ‘detrunkings’ 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.

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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). Revaluation exercises are carried out 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.

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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 quarterly by the Department for Business, Innovation and Skills
Communications	Traffic Scotland provide new gross and calculated depreciated values each year
Land	Land indices produced by VOA

Upwards movements in value are taken to the revaluation reserve. Downward movements in value are set off against any credit balance held in the revaluation reserve until the credit is exhausted and thereafter expensed in the Statement of Comprehensive Net Expenditure.

Historic valuation adjustments in respect of minor corrections to prior year measurements and valuations of the road network are separately identified in the Statement of Changes in Taxpayers' Equity and Property Plant and Equipment note and not treated as prior year adjustments.

Assets Under Construction

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

Land and Buildings

Land and buildings released from road schemes 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:

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	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
- 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 for budgeting purposes. However only the expenditure that is capital in nature that relates to assets reflected in these accounts is capitalised with that which relates to assets reflected by external bodies charged as expenditure. Such expenditure includes Network Rail grant, Fixed Track Access and Regulated Asset Base charges.

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.

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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) and the Civil Servants and Others Pension Scheme or, Alpha Scheme, 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. The Alpha Scheme provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher).

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.

The treatment of Leases will be impacted in future years by the applicability, from 2019-20, of IFRS16.

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
- 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

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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.

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2 Staff Numbers and Costs

Staff costs comprise

	2017-18 Permanently Employed Staff £000's	Others £000's	Total £000's	2016-17 Permanently Employed Staff £000's	Others £000's	Total £000's
Administration:						
Wages and salaries costs	9,869	420	10,289	9,749	362	10,111
Social security costs	1,056	0	1,056	1,065	0	1,065
Other pension costs	2,018	0	2,018	2,057	0	2,057
Early retirement costs	58	0	58	69	0	69
	13,001	420	13,421	12,940	362	13,302
Programme:						
Wages and salaries costs	3,617	740	4,357	3,051	854	3,905
Social security costs	391	0	391	332	0	332
Other pension costs	732	0	732	638	0	638
	4,740	740	5,480	4,021	854	4,875
Total staff costs to be charged to Comprehensive Net Expenditure	17,741	1,160	18,901	16,961	1,216	18,177

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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 on the right 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 overleaf, include the costs in year and also continuing payments in relation to previous years' packages.

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

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

From April 2017, the changes in apprenticeship funding have resulted in the payment of an apprenticeship levy. This is being paid centrally for the entire Scottish Government Group and is therefore accounted for through core Scottish Government activities.

Staff costs comprise cont'd...

	2017-18 Permanently Employed Staff £000's	Others £000's	Total £000's	2016-17 Permanently Employed Staff £000's	Others £000's	Total £000's
Capitalised Programme:						
Wages and salaries costs	3,275	48	3,323	2,933	6	2,939
Social security costs	339	0	339	300	0	300
Other pension costs	646	0	646	599	0	599
	4,260	48	4,308	3,832	6	3,838
Total staff costs charged to capital expenditure	4,260	48	4,308	3,832	6	3,838
Total Staff Costs	22,001	1,208	23,209	20,793	1,222	22,015

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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 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium.

In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. 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.

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The partnership pension account is a stakeholder pension arrangement. 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 providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% 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, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website 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 www.civilservicepensionschemw.org.uk/members/the-new-pension-scheme-alpha/

For 2017-18, employers' contributions of £3,397k (2016-17, £3,294k) 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 2017-18 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Average numbers of persons employed

	2017-18 Permanent Staff	Others	Total	2016-17 Permanent Staff	Others	Total
Trunk roads major projects	76	4	80	69	10	79
Trunk road maintenance	119	5	124	114	9	123
Rail	55	1	56	55	3	58
Finance and other	62	3	65	61	4	65
Aviation, maritime, freight & canals	31	0	31	29	0	29
Transport policy	51	4	55	44	3	47
Total average staff numbers	393	17	410	373	29	402

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

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3 Other Administration Costs

	Note	2017-18 £000's	2016-17 £000's
Rentals under operating leases		1,221	1,212
Accommodation		1,274	789
Office costs and supplies		1,419	1,310
Hospitality		40	40
Travel		429	407
Training		111	86
Consultancy		239	53
Non-cash items			
Depreciation	6/7	659	617
Auditors' remuneration and expenses - external	22	173	171
Total administration costs		5,565	4,685

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4 Programme Costs

Other programme expenditure	Note	2017-18 £000's	2016-17 £000's
Roads			
Capital maintenance		96,968	103,138
Current maintenance		134,996	101,556
Other		0	0
PFI interest charges		48,512	29,236
PFI service charges		61,464	43,928
Rail			
ScotRail franchise*		169,800	265,870
Rail infrastructure in Scotland**		585,446	463,588
Other		657	1,664
Concessionary travel			
Smartcard applications		1,899	1,055
Concessionary travel schemes		198,650	193,398
Other public transport			
Major public transport projects - rail		5,487	6,189
Transport information		1,137	1,010
Ferry services in Scotland		187,418	188,801
Air services in Scotland		44,005	38,542
Bus services in Scotland		51,344	54,444
Other transport directorate programmes		140,128	65,598
Scottish Futures Fund projects		18,123	18,890
Central Government grants to Local Authorities		27,236	21,681
Non-cash items			
Depreciation	6/7	51,867	79,367
Total other programme costs		1,825,137	1,677,955

* Payments to Abellio (£147m) and Serco (£23m) totalled £170m.

** The Rail Infrastructure in Scotland Capital Figure of £585m was paid directly to Network Rail.

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5 Operating Income

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
- ESF funding

	2017-18 £000's	2016-17 £000's
Programme income		
Interest receivable – loans	(5,961)	(4,709)
Rental income - land & properties	(20)	(24)
Other income	(60)	(153)
European Structural Fund (ESF) income	(2,363)	(419)
Ports income	(8)	(14)
Land sales	(1,316)	0
Profit on disposal of land	(38)	(326)
Borders roof tax income	0	0
Total operating income	(9,766)	(5,645)

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6 Property Plant and Equipment

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

2017-18	Road Network £000's	Land £000's	Buildings £000's	Transport £000's	IT £000's	Leasehold Improvements £000's	Assets under Construction £000's	Total £000's
Cost or Valuation								
At 1 April 2017	21,541,945	6,781	11,072	62	4,609	1,507	2,254,891	23,820,867
Detrunckings	0	0	0	0	0	0	0	0
Additions	6,933	783	0	73	0	0	403,562	411,351
Disposals	(1,056)	(86)	0	0	0	0	0	(1,142)
Revaluation	250,172	242	400	0	0	0	0	250,814
Current valuation adjustments	0	0	0	0	0	0	0	0
Historic valuation adjustments	(9,282)	0	0	0	0	0	0	(9,282)
Transfers and reclassifications	1,695,931	0	0	0	0	0	(1,695,931)	0
Transfers (to)/from assets held for sale	0	0	0	0	0	0	0	0
Balance at 31 March 2018	23,484,643	7,720	11,472	135	4,609	1,507	962,522	24,472,608

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6 Property Plant and Equipment cont'd...

2017-18	Road Network £000's	Land £000's	Buildings £000's	Transport £000's	IT £000's	Leasehold Improvements £000's	Assets under Construction £000's	Total £000's
Depreciation								
At 1 April 2017	3,880,454	0	3,348	53	4,602	1,401	0	3,889,858
Detrunings	0	0	0	0	0	0	0	0
Charge for the year	51,840	0	487	8	2	26	0	52,363
Disposals	(357)	0	0	0	0	0	0	(357)
Revaluation	159,870	0	137	0	0	0	0	160,007
Current valuation adjustments	0	0	0	0	0	0	0	0
Historic valuation adjustments	(1,543)	0	0	0	0	0	0	(1,543)
Transfers and reclassifications	0	0	0	0	0	0	0	0
Balance at 31 March 2018	4,090,264	0	3,972	61	4,604	1,427	0	4,100,328
Net Book Value at 31 March 2018	19,394,379	7,720	7,500	74	5	80	962,522	20,372,280
Net Book Value at 31 March 2017	17,661,491	6,781	7,724	9	7	106	2,254,891	19,931,009
Asset Financing								
Owned	16,797,551	7,720	7,341	74	5	0	116,338	16,929,029
Finance Leased	0	0	0	0	0	0	0	0
On Balance Sheet PFI	2,596,828	0	0	0	0	0	846,184	3,443,012
Donated	0	0	159	0	0	80	0	239
Net Book Value at 31 March 2018	19,394,379	7,720	7,500	74	5	80	962,522	20,372,280

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6 Property Plant and Equipment cont'd...

2016-17	Road Network £000's	Land £000's	Buildings £000's	Transport £000's	IT £000's	Leasehold Improvements £000's	Assets under Construction £000's	Total £000's
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
Detrunings	(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
Balances at 31 March 2017	21,541,945	6,781	11,072	62	4,609	1,507	2,254,891	23,820,867

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6 Property Plant and Equipment cont'd...

2016-17	Road Network £000's	Land £000's	Buildings £000's	Transport £000's	IT £000's	Leasehold Improvements £000's	Assets under Construction £000's	Total £000's
Depreciation								
At 1 April 2016	3,654,611	0	2,772	41	4,539	1,376	0	3,663,339
Detrunings	(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
Balances 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

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7 Intangible Assets

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.

	2017-18 £000's	2016-17 £000's
At replacement cost or valuation		
At 1 April	554	491
Additions	0	63
Disposals	0	0
Balance at 31 March	554	554
Accumulated amortisation		
At 1 April	468	461
Charge for the year	27	7
Revaluations	0	0
Disposals	0	0
Balance at 31 March	495	468
Net Book Value at 31 March	59	86

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8 Assets Held For Sale

There were no land assets presented for sale by Transport Scotland in 2017-18. 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.

	2017-18 £000's	2016-17 £000's
Balance at 1 April	0	204
Transfers to non-current assets	0	(106)
Transfers from non-current assets	0	0
Disposals	0	(98)
Change arising on revaluation	0	0
Balance at 31 March	0	0

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9 Financial Assets

Financial Assets have been measured and presented in accordance with IAS32, IAS39 and IFRS7 as modified by the FRoM (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 on p87.

2017-18	Interests in Nationalised Industries & Limited Companies £000's	Voted Loans £000's	Other Funds £000's	Total £000's
Balance at 1 April 2017	20,550	128,650	42,464	191,664
Add element reported within current assets	0	4,077	0	4,077
Advances and repayments				
Cash advances	0	59,428	14,060	73,488
Repayments	0	(4,077)	(83)	(4,160)
Balance at 31 March 2018	20,550	188,078	56,441	265,069
Loans repayable within 12 months transferred to current assets	0	(3,900)	(297)	(4,197)
Balance at 31 March 2018	20,550	184,178	56,144	260,872

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9 Financial Assets cont'd...

2016-17	Interests in Nationalised Industries & Limited Companies £000's	Voted Loans £000's	Other Funds £000's	Total £000's
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

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	Prestwick HoldCo Ltd £m	Highlands & Islands Airports Ltd £m	Caledonian Maritime Assets Ltd £m	David MacBrayne Ltd £m
Net assets / (liabilities) as at 31 March	(33.7)	(24.8)	89.9	25.6
Turnover	18.2	24.9	43.3	209.4
Profit / (loss) for the financial year	(7.9)	(2.2)	8.7	4.1

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 2 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.

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.

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Voted Loans

Transport Scotland provides loans to CMAL to be used for the construction of new shipping and to HIAL to support airport infrastructure.

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

www.gov.uk/government/publications/consolidated-budgeting-guidance-2018-to-2019

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 classification after which they will consider the position.

CMAL and Prestwick Airport are classed as Public Corporations.

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10 Trade Receivables and Other Assets

10a Analysis by classification	As at 31/03/18 £000's	As at 31/03/17 £000's
Amounts falling due within one year: Trade and other receivables		
Trade and other receivables	193	414
Damage claims	1,764	1,320
Prepayments and accrued income	31,757	49,940
	33,714	51,674
Amounts falling due after more than one year:		
Prepayments and other receivables	36,663	15,665
	36,663	15,665

10b Intra-Government balances	As at 31/03/18 £000's	As at 2016-17 £000's
Amounts falling due within one year: Intra-Government balances		
Other Central Government bodies	116	0
Local Authorities	12	0
Public corporations and trading funds	6,229	4,161
	6,357	4,161
Balances with bodies external to Government	27,357	47,513
Total receivables	33,714	51,674
Amounts falling due after more than one year: Intra-Government balances		
Other Central Government bodies	0	0
Local Authorities	7,613	15,665
Public corporations and trading funds	0	0
	7,613	15,665
Balances with bodies external to Government	29,050	0
Total receivables	36,663	15,665

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10 Trade Receivables and Other Assets cont'd...

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

	As at 31 March 2017 £'000	As at 31 March 2016 £'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

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11 Trade Payables and Other Liabilities

11a Analysis by classification	As at 31/03/18 £000's	As at 31/03/17 £000's
Amounts falling due within one year: Trade and other receivables		
Trade payables	1,048	5,319
Accruals	154,378	150,272
Other payables	7,269	10,064
Financial liabilities - PFI	17,458	11,980
Deferred income	168	273
	180,321	177,908
Amounts falling due after more than one year:		
Other payables	943	1,845
Financial liabilities - PFI	1,237,375	1,104,660
	1,238,318	1,106,505
11b Intra-Government balances	As at 31/03/18 £000's	As at 2016-17 £000's
Amounts falling due within one year: Intra-Government balances		
Other Central Government bodies	721	26,354
Local Authorities	23,021	12,489
Public corporations and trading funds	588	279
	24,330	39,122
Balances with bodies external to Government	155,991	138,786
Total payables	180,321	177,908
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	1,238,318	1,106,505
Total payables	1,238,318	1,106,505

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12 Provisions for Liabilities and Charges

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.

12a Provisions for liabilities and charges 2017-18	Land and Property Acquisition £000's	Major Projects £000's	Other £000's	Total £000's
Balance as at 1 April 2017	73,519	4,953	5,543	84,015
Provided in year	0	0	94	94
Provisions not required written back	0	0	(3)	(3)
Provisions utilised in year	(4,135)	(1,549)	(107)	(5,791)
Discount amortised	(680)	(29)	2	(707)
Balance as at 31 March 2018	68,704	3,375	5,528	77,608
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

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12 Provisions for Liabilities and Charges cont'd...

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.

12b Analysis of expected timing of discounted flows	Land and Property Acquisition £000's	Major Projects £000's	Other £000's	Total £000's
In the remainder of the period to 2019	24,434	3,375	5,448	33,257
Between 2020 and 2023	44,271	0	81	44,352
Between 2024 and 2028	0	0	0	0
Thereafter	0	0	0	0
Balance as at 31 March 2018	68,705	3,375	5,528	77,608
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

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13 Movement on Working Capital Balances

	Note	As at 31/03/18 £000's	As at 31/03/17 £000's	2017-18 Net Movement £000's	2016-17 Net Movement £000's
Receivables					
Due within one year	8/10	33,714	51,674	17,960	(1,611)
Due after more than one year	10	36,663	15,665	(20,998)	15,000
Net (increase) / decrease		70,377	67,339	(3,038)	13,389
Payables					
Due within one year	11	180,321	177,908	2,413	7,525
Due after more than one year	11	1,238,318	1,106,505	131,813	329,078
		1,418,639	1,284,413	134,226	336,603
Less: Lease and PFI creditors included in above	11	1,254,833	1,116,640	138,193	329,098
Less: Capital accruals included in the above		4,996	7,720	(2,724)	5,439
Net increase / (decrease)		158,810	160,053	(1,243)	2,066
Provisions	12	77,608	84,015	(6,407)	993
Net increase / (decrease)		77,608	84,015	(6,407)	993
Net movement increase / (decrease)		306,795	311,407	(4,612)	(10,330)

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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 31/03/18 £000's	As at 31/03/17 £000's
Property, plant and equipment	3,301,103	3,059,367
Total contracted capital commitments for which no provision has been made	3,301,103	3,059,367

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15 Commitments under Operating Leases

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

Obligations under operating leases comprise:	As at 31/03/18 £000's	As at 31/03/17 £000's
Land & buildings		
Due within 1 year	1,290	1,290
Due after 1 year but not more than 5 years	2,579	3,869
Commitments thereafter	0	0
	3,869	5,159

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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.

d) M8, M73, M74 Motorway Improvements – the project upgraded the A8 Baillieston to Newhouse, completing the M8 between Glasgow and Edinburgh, and includes 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 a 30 year period. The unitary charge payments became committed as sections of the road became available in 2017 and will cease on March 15 2047.

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.

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.

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16 Commitments under PFI Contracts cont'd...

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

Imputed finance lease obligations under PFI contracts comprise:	As at 31/03/18 £000's	As at 31/03/17 £000's	As at 31/03/16 £000's
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	1,385,769	1,276,003	976,141
	1,587,803	1,478,037	1,178,175
Less: Interest element (finance cost)	(332,970)	(361,397)	(390,633)
Total capital cost	1,254,833	1,116,640	787,542

Imputed service charge obligations under PFI contracts comprise:	As at 31/03/18 £000's	As at 31/03/17 £000's	As at 31/03/16 £000's
Service charge due within 1 year	54,430	55,284	52,831
Service charge due within 2 to 5 years	145,483	178,612	194,441
Service charge due thereafter	292,854	314,155	348,791
Total service charge	492,767	548,051	596,063

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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 on this page.

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:

	2017-18 £000's	2016-17 £000's
Network Rail	585,446	463,588
Abellio ScotRail	147,217	249,677
Serco Caledonian Sleeper Limited	22,532	19,085
Total	755,195	732,350

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's	Abellio ScotRail £000's	Serco Caledonian Sleeper Limited £000's	Total £000's
Expiry within 0-12 months	335,610	381,196	27,207	744,013
Expiry within 1 to 2 years	670,000	389,048	20,792	1,079,840
Expiry within 2 to 5 years	2,010,000	1,205,437	57,979	3,273,416
Total	3,015,610	1,975,681	105,978	5,097,269

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18 Financial Instruments

18a Financial Instruments by Category 2017-18 Assets per Statement of Financial Position	Note	Assets at Fair Value through Profit & Loss £000's	Loans & Receivables £000's	Total £000's
Trade and other receivables excluding prepayments, reimbursement of provisions and VAT recoverable		0	282,412	282,412
Balance as at 31 March 2018		0	282,412	282,412
Liabilities per Statement of Financial Position				
PFI liabilities	16	0	1,254,833	1,254,833
Trade and other payables excluding statutory liabilities (VAT, income tax and social security)		0	163,806	163,806
Balance as at 31 March 2018		0	1,418,639	1,418,639

18a Financial Instruments by Category 2016-17 Assets per Statement of Financial Position	Note	Assets at Fair Value through Profit & Loss £000's	Loans & Receivables £000's	Total £000's
Trade and other receivables excluding prepayments, reimbursement of provisions and VAT recoverable		0	217,302	217,302
Balance as at 31 March 2017		0	217,302	217,302
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

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18 Financial Instruments cont'd...

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 on the right 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.

2017-18	Carrying value £000's	0-12 months £000's	1-2 years £000's	3-5 years £000's	5-10 years £000's	>10 years £000's
Non-derivative liabilities	1,254,833	12,850	13,785	47,700	96,353	1,084,145
Derivative liabilities	0	0	0	0	0	0
Total financial liabilities	1,254,833	12,850	13,785	47,700	96,353	1,084,145

2016-17	Carrying value £000's	0-12 months £000's	1-2 years £000's	3-5 years £000's	5-10 years £000's	>10 years £000's
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

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.

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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

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 over the next 4 years

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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.

This was calculated on a deliberately prudent basis to mitigate the risk of any requirement for a future additional payment. There is therefore a contingent liability in respect of any further payment required. It is however, 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

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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 the Scottish Government, with whom it also had various material transactions during the year.

Loans were advanced to and repaid by CMAL to fund vessel construction, and to HIAL to support airports infrastructure. 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 and Argyll 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 Bridges Operation Company, Serco North Link Ferries, Cycling Scotland, Strathclyde Partnership for Transport, Scottish Water, Network Rail 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.

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21 Segmental Reporting

21a Business Segments - Statement of Comprehensive Net Expenditure

2017-18 Total continuing segments	Resource £000's	Net Investment £000's	Income £000's	Non Cash £000's	AME £000's	ODEL £000's	Total £000's
Roads	114,361	118,746	(2,981)	51,840	0	109,976	391,942
Rail	170,457	591,525	0	0	0	0	761,982
Concessionary travel & bus services	252,676	756	(672)	27	0	0	252,787
Other public transport	23,142	0	0	659	0	0	23,801
Ferry services in Scotland	180,985	6,492	(4,979)	0	0	0	182,498
Air services in Scotland	34,969	9,036	(989)	0	0	0	43,016
Other transport directorate programmes	28,332	110,261	(144)	0	0	0	138,449
Scottish Futures Fund	5	18,119	0	0	0	0	18,124
Grants to Local Authorities	0	27,236	0	0	0	0	27,236
	804,927	882,171	(9,765)	52,526	0	109,976	1,839,835

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21 Segmental Reporting cont'd...

21a Business Segments - Statement of Comprehensive Net Expenditure cont'd...

2016-17 Total continuing segments	Resource £000's	Net Investment £000's	Income £000's	Non Cash £000's	AME £000's	ODEL £000's	Total £000's
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

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21 Segmental Reporting cont'd...

21b Business Segments – Capital Expenditure

2017-18 Total continuing segments	Trunk Road Maintenance £000's	Capital Projects £000's	Other Assets £000's	Voted Loans £000's	Total Capital Expenditure £000's
Roads	6,933	402,777	856	0	410,566
Rail	0	0	0	0	0
Other public transport	0	0	0	0	0
Ferry, aviation and other services in Scotland	0	0	0	69,328	69,328
	6,933	402,777	856	69,328	479,894

2016-17 Total continuing segments	Trunk Road Maintenance £000's	Capital Projects £000's	Other Assets £000's	Voted Loans £000's	Total Capital Expenditure £000's
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

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22 Notional Charges

The following notional charges have been included in the accounts:

	Note	2017-18 £000's	2016-17 £000's
Auditors' remuneration	3	173	171
		173	171

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23 Losses and Special Payments

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. There is continuous review of the costs held in the debtor account and those deemed recoverable are identified. Irrecoverable costs no longer being pursued amounted to £0.067 million in respect of 12 cases and these have now been written off. No individual case exceeded £250,000.

Imputed finance lease obligations under PFI contracts comprise:	Number of cases	2017-18 £000's	2016-17 £000's
Total cash losses	12	67	484
Details of cases over £250,000	0	0	0
Including – claims abandoned	12	67	484
– active claims	0	0	0

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Transport Scotland Direction by The Scottish Ministers

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

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



Signed by the authority
of the Scottish Ministers
Dated 17 January 2006

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