



Scotland Office and Office of the Advocate General

Annual Report and Accounts 2011-12



Scotland Office
and
Office of the Advocate General

Annual Report and Accounts 2011-12
(For the year ended 31 March 2012)

Accounts presented to the House of Commons
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Foreword by the Secretary of State for Scotland

This year has been hugely significant for the Scotland Office as the debate on Scotland's future in the United Kingdom has evolved. The Scotland Bill passed through its legislative process, eventually being passed on 1 May 2012, shortly after the financial year ended. As my second year as Secretary of State for Scotland has come to an end, I am as determined as ever to fight on behalf of Scotland's interests.

The Scotland Act 2012 is the culmination of over two years' work at the Scotland Office. It will deliver the largest transfer of financial powers from Westminster since the creation of the UK, and strengthen the Scottish Government's accountability to the people of Scotland. Throughout the whole process, the cross-party consensus in support of the Bill in both Westminster and Holyrood was maintained. I would like to thank all of those across parties, Parliaments and Governments who played a part in ensuring the recommendations of the Commission on Scottish Devolution became law.

The Scottish Parliament elections in May 2011 resulted in a majority Scottish National Party Government with the pledge to hold a referendum on independence. The UK Government does not believe this is in the best interests of Scotland, or the rest of the United Kingdom, but we will prepare the way for a referendum which is legal, fair and decisive. In January 2012 I launched a consultation paper calling for views on the issues in the referendum process which need to be addressed, and offered proposals on how to address them. The consultation set out our clear view that the Scottish Parliament does not have the legal authority to hold an independence referendum; it also set out our firm intention to resolve that issue. Almost 3,000 responses were received from organisations, businesses and individuals across Scotland and I am delighted that our proposals in the consultation received strong support. We will work with the Scottish Government to ensure that the referendum that is held is legal, fair and decisive.

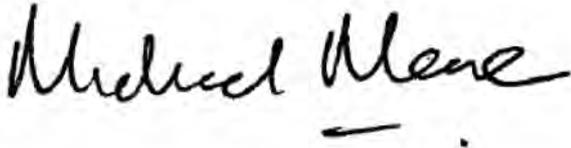
Getting the UK's public finances back under control has remained the Government's top priority over the last year. Actions announced by the Government in the Autumn Statement, and Budget 2012, were taken to benefit the whole of the UK, including Scotland. Some of the measures and reforms used to put the UK on a path of sustainable, long-term economic growth include: a further reduction in the main rate of corporation tax; the prioritisation and investment in infrastructure projects, of which Scotland is due to benefit to the tune of £433 million; and a package of oil and gas measures to increase investment.

Fairness underpins the Government's actions to protect, rebalance and strengthen the economy. Due to the triple lock, we have seen the largest ever cash increase in the basic state pension of £5.30 per week, benefitting one million pensioners in Scotland. The changes to the personal allowance have benefitted 2.2 million people in Scotland, and taken 162,000 out of tax altogether.

Over the next year the Scotland Office will continue to ensure Scottish interests on big policy issues such as energy and agriculture are properly considered by all areas of the

UK Government. We will be working together with other Departments across Whitehall as well as the Scottish Government to commence the provisions in the Scotland Act 2012.

The UK Government is committed to keeping the United Kingdom together and the Scotland Act 2012 shows that devolution within the United Kingdom can be strengthened and improved through cross party consensus and civic engagement. We firmly believe that Scotland is - and will always remain - better off within a strong and prosperous United Kingdom. We will continue to make the positive case for Scotland's ongoing place in the United Kingdom.

A handwritten signature in black ink that reads "Michael Moore". The signature is written in a cursive style with a horizontal line underneath the name.

The Rt Hon Michael Moore MP
Secretary of State for Scotland

Chapter 1: Scotland Office: organisation, activities in 2011-12 and plans for 2012-13

Foreword by the Parliamentary Under Secretary of State

This chapter provides a brief summary of the wide-ranging work undertaken by the Scotland Office.

It details some of the Office's activities during the second year of the Coalition Government, and shows how Ministers and officials are representing Scotland's interests in the United Kingdom.

In tough times across the European and global economies, the UK Government has taken essential action to tackle the deficit and return our public finances to a stable footing. At the same time, we are committed to creating the stability and confidence necessary to drive economic growth across the country.

The Scotland Office remains committed to proactive engagement with business and industry: the creation of the Scottish Business Board marks a major step forward in our work in this area. We are also working with the Department for Work and Pensions, Scottish Government and key stakeholders across Scotland to help get Scots back in the workplace. We have placed a particular focus on supporting young people into employment, hosting events nationwide geared to achieving this objective.

Alongside our commitment to Scotland's economic future, we are also determined in the Scotland Act 2012 to enhance Scotland's constitutional future as part of the UK. This Government has delivered the largest ever transfer of financial powers from Westminster to Holyrood, which strengthens the accountability of the Scottish Parliament. In the face of a forthcoming independence referendum, this Government believes passionately in the United Kingdom and in the benefits it brings to Scots and to people all across the UK. In the Scotland Office we will do all we can to ensure that Scotland stays part of the United Kingdom.



The Rt Hon David Mundell MP

Parliamentary Under Secretary of State at the Scotland Office

Activities

1.1 The Scotland Act 1998 provides the legislative basis for devolution in Scotland. The Scotland Act identifies those matters that are reserved to the UK Parliament. All other matters are considered to be within the devolved competence of the Scottish Parliament. Whilst the UK Parliament remains sovereign - retaining the power to legislate on any matter affecting any part of the UK - the Government respects the devolution settlement and has indicated that it will not normally legislate at Westminster in relation to devolved matters without the consent of the Scottish Parliament.¹

1.2 Reserved matters include:

- The constitution;
- UK single market;
- Energy regulation;
- UK and international transport;
- Immigration and nationality;
- Social security;
- Taxation and economic management;
- Foreign affairs including European Union negotiations;
- Defence;
- National security; and
- Broadcasting.

Delivery of objectives in 2011-12

1.3 The Scotland Office's business plan for 2010-2012 set out five broad objectives for the Office which focused on promoting the best interests of Scotland within the UK. These are set out below, together with a summary of work towards them. The revised objectives for 2012-13 are set out at paragraph 1.75 below.

Objective 1: To maintain and strengthen the devolution settlement, in particular by implementing the recommendations of the Commission on Scottish Devolution.

¹ The Scottish Parliament's consent is sought through consideration of a motion laid before the Parliament known as a Legislative Consent Motion and previously known as a "Sewel Motion" - see chapter 9B of the Standing Orders of the Scottish Parliament.

Scotland Act 2012

- 1.4** The Coalition's Programme for Government in May 2010 included a commitment to implement the recommendations of the Commission on Scottish Devolution. This commitment was delivered through the Scotland Act 2012, which has been supported by all the major UK-wide political parties. The Act strengthens the devolution settlement and marks the most significant transfer of financial powers from Westminster to Scotland since the Act of Union, including new economic provisions, giving the Scottish Parliament new borrowing powers, new income tax powers, new land tax powers and powers to create new devolved taxes.
- 1.5** Since the Bill's introduction in November 2010 a number of changes were made to the Bill through cross-government agreement and cross-party consensus. In particular, on 22 March 2012 the Government announced through a written ministerial statement further changes to the Bill to provide for greater transparency and accountability during the implementation of the Bill. The Government agreed that those changes should be carried through in a way that is consistent with the principles set out in the Statement of Funding Policy. The Government also agreed that the new financial arrangements should come into force in a timely way to reflect the will of both Parliaments and to provide reassurance to employers, taxpayers and other stakeholders as they plan for introduction.
- 1.6** The Scotland Act 2012 goes further than finance, ensuring that the right powers and responsibilities are devolved to Holyrood. It devolves areas of justice, including the drink-drive limit and a Scottish national speed limit, regulations of air weapons as well as giving the Scottish Parliament greater powers to administer its elections.
- 1.7** The Bill received the overwhelming endorsement of the Scottish Parliament in Legislative Consent Motions on 7 March 2011 and 18 April 2012. The Bill was examined robustly by the Scottish Affairs Committee in the House of Commons and by the Scotland Bill Committee of the Scottish Parliament. The Scotland Act 2012 received Royal Assent on 1 May 2012.
- 1.8** As well as delivering the Scotland Act 2012 through its Parliamentary stages, the Scotland Office will support the changes to the devolution settlement it enacts. Tax and borrowing powers will be transferred and implemented in a careful and phased way over the coming years. They deliver Parliamentary accountability essential for the long term operation of the Scottish Parliament.

Consultation on Scotland's constitutional future

- 1.9** On 10 January 2012 the Secretary of State launched the consultation *Scotland's constitutional future*. The consultation sought views on how a referendum on Scottish independence could be made legal, fair and decisive, and considered a range of issues including options for facilitating a legal referendum, oversight arrangements, the timing of a referendum and the question to be asked. The consultation closed on 9 March 2012. The consultation received 2,857 written responses. Members of the public, businesses, academics, trade unions, research institutions and political parties were among those who responded.

- 1.10** On 4 April 2012, the Scotland Office published a summary of the responses received. The key findings of the consultation were that, of those who expressed a view, 75% supported the Government's belief that there should be a single question on independence. 70% of those who expressed a view on timing felt that the referendum should be held sooner rather than later. 71% felt that those resident in Scotland should be entitled to vote in an independence referendum. 86% felt that the Electoral Commission should have a role in overseeing the referendum. 72% wanted the Scottish Parliament to be given the power to legislate for a referendum and of these, 63% stated that they supported the use of a section 30 order.

Objective 2: To ensure Scotland's interests are understood and represented within the UK, and to promote a wider understanding of UK Government policies in Scotland.

Scotland in the United Kingdom

- 1.11** The Scotland Office seeks to promote good working relations between all parts of the UK Government and the Scottish Government, Parliament and other devolved institutions; to ensure that Scottish interests are taken into account in the development of UK policy and legislation; and to make sure that the devolution settlement is respected. Ministers actively pursue a programme of meetings, visits and other activity to ensure that the UK Government is aware of Scottish needs and that there is a wider understanding of UK Government policies in Scotland.

Economy

- 1.12** The economy remained an overriding priority for Scotland Office activity during the year as the Government announced additional capital investments in the Autumn Statement and set out further actions in the Budget 2012. The Coalition Government focused on three areas in the Budget: a stable economy; a fairer, more efficient, and simpler tax system; and reforms to support growth. In addition, the *Plan for Growth* and *The National Infrastructure Plan 2011*, announced a wide-ranging programme of economic reforms and investment in infrastructure to help achieve the Government's over-arching ambitions for the economy.
- 1.13** While Scotland will contribute its fair share towards tackling the deficit, the Scottish Government's budget will benefit to the tune of more than £1bn from the additional spending announcements since the Spending Review, including more than £730 million in capital investment. Growth and investment in Scotland will be supported through enhanced capital allowances in enterprise areas, a package of oil and gas measures and a video games tax relief. Around 2.2 million Scots will benefit from the additional increase in the personal allowance, as an additional 73,000 will be lifted out of income tax altogether from April 2013 – taking the total up to 162,000 since this Government came into office.

- 1.14** Scotland Office Ministers and officials view the promotion of Scottish economic interests and exports as a key priority. The UK Government is committed to creating the right conditions for growth across sectors and across the country. Export-led growth will be an essential component of a sustainable economic recovery.
- 1.15** Scotland Office Ministers have actively engaged with business sectors across Scotland's economy in the context of a wide-ranging economic engagement strategy. This has involved focussed sectoral discussions with key players to look at strengths, weaknesses, opportunities and potential barriers to growth; and to identify key actions that government and others can take to address them. Ministers have visited businesses across all of Scotland's key business sectors.
- 1.16** The Secretary of State for Scotland established the Scottish Business Board in November 2011 to advise Scotland Office Ministers and the UK Government on economic drivers and barriers to growth in Scotland. The broad aim of the Board is to ensure that the views of Scottish businesses – those at the sharp end of economic policy – are fed into UK Government work on the Growth Review and other related policy areas. Members have to date provided useful views on UK Government economic policies that have been fed into work around the Growth Review and Budget 2012. Work on priority issues identified by the Board is continuing, including work to improve the coherence of the public and private sector support available to start-ups or smaller businesses seeking to grow and export.
- 1.17** The Board has also focussed on connectivity. The Secretary of State welcomed the Secretary of State for Transport to Scotland in March 2012 following her announcement of phase one of a national high speed rail network earlier in the year. Both Secretaries of State and the Parliamentary Under-Secretary of State for Scotland held meetings with business groups, local authorities and with the Scottish Government about high-speed rail, cross-border services and improving connectivity with Scotland on the UK railway network.
- 1.18** In November 2011 the Secretary of State led Scotland's largest ever trade mission to Brazil. This Scottish Council for Development and Industry trade mission visited Rio de Janeiro, Brasilia and Sao Paulo. Small and medium sized enterprises (SMEs) in the delegation have estimated that they have conducted nearly £750,000 of business from this trip alone. The Parliamentary Under Secretary of State led a trade delegation to the USA in April 2012 which resulted in £3m worth of new orders for Scottish business.
- 1.19** The Scotland Office and other key UK Government departments have continued to work in support of the Scotch Whisky industry, which has had outstanding export success in recent years. In 2011, Scotch Whisky exports rose 23% to £4.23bn. Exports to the US broke the £600 million mark for the first time. Scotland Office Ministers have promoted the interests of the industry during visits and trade missions abroad, including: the trade mission to Brazil; a trade and investment visit to the United States led by the Parliamentary Under Secretary of State for Scotland; and a visit by the Secretary of State to Brussels.

1.20 The Scotland Office has also helped secure further footholds in emerging markets, including the pursuit of Free Trade Agreements and by securing geographical indication protection for Scotch Whisky in key markets such as China, India and Korea. In January 2012 the UK Government, after detailed work with industry bodies including the Scotch Whisky Association, published an Export Action Plan for the food and farming sector. The action plan focuses on opening up international markets, ensuring the right information and support is available to help firms succeed overseas, simplifying the process for food specific export paperwork and strategically promoting the best of UK food and drink overseas.

Financial Services

1.21 The Scotland Office continued to engage closely with Scotland's financial services industry, a significant contributor to Scottish income and employment. The sector accounts for seven percent of Scotland's GDP, employing almost 95,000 people directly and a further 70,000 indirectly. It generates around £7 billion for the Scottish economy. In addition to being an important part of Scotland's economy in its own right, the sector provides essential credit and financial services to Scottish households and businesses.

1.22 The UK Government believes a responsibly managed and well-regulated financial services sector is essential to the success of a rebalanced Scottish economy. The Government introduced the Financial Services Bill in January 2012 to create a system of tougher, smarter and more effective financial regulation with the aim of preventing a financial crisis of such severity arising again. The Government has also published its response to the final report of the Independent Commission on Banking, broadly accepting the recommendations and agreeing to bring forward legislation in this Parliament. We are confident that greater stability and resilience in the financial services industry in Scotland will not only benefit the sector itself, but also the wider Scottish economy. In order to support Scotland's international competitiveness, the Government has also introduced tax reforms in support of the asset management industry, one of the Scottish financial services sector's key strengths. Total assets under management in Scotland stand at close to £750 billion.

1.23 Scotland Office Ministers have engaged regularly with key participants in the Scottish financial services sector, which programme of engagement has provided a deeper understanding of the key issues facing the sector in Scotland and the wider economy, as well as offering an opportunity to deliver robust messages on access to finance (see below), executive remuneration and the need for better regulation of the industry. Ministers have also engaged with domestic and international regulators, to ensure that Scotland's interests are represented in ongoing discussions around financial stability, regulation and competitiveness.

Access to Finance

1.24 The UK Government recognises that smaller businesses play an essential role in the Scottish economy but do not have access to the same range of funding

options as their larger counterparts. Access to affordable credit is essential if businesses are to invest, grow and make their important contribution to supporting Scotland's economic recovery.

- 1.25** Scotland Office Ministers have met regularly with smaller Scottish businesses to understand their concerns around access to finance, and have worked closely with HM Treasury and Department for Business Innovation and Skills (BIS) Ministers to help ensure that UK Government policy reflects the needs of the Scottish and wider UK economy. The National Loan Guarantee Scheme (NLGS), which helps smaller businesses access cheaper finance, was launched in March 2012, and the Scotland Office will work with the Treasury on assessing the impact of the NLGS in Scotland. The Business Finance Partnership will increase the supply of capital through non-bank lending channels and, in the longer term, help diversify the sources of finance available to businesses. Together, these schemes will make available £21bn of credit easing measures for smaller businesses across the UK, to be accessed via banks or alternative lenders. We have also welcomed moves by the British Bankers' Association to produce quarterly figures demonstrating the level of bank lending to SMEs in Scotland.
- 1.26** The UK Government is continuing work to improve the financial support available to smaller businesses. As well as the credit easing measures mentioned above, key measures that apply in Scotland include establishing the Seed Enterprise Investment Scheme, increasing our commitment to Enterprise Capital Funds, enhancing the Enterprise Investment Scheme, continuing and extending the Enterprise Finance Guarantee scheme, expanding the range of products offered for SMEs by UK Export Finance, and providing tax reliefs for SMEs and entrepreneurs. We also expect that implementation of the recommendations of the Independent Commission on Banking should lead to greater competition in the UK banking sector, and thus better access to affordable bank finance for SMEs.

Welfare and Employment

- 1.27** Officials from Scotland Office continue to work closely with their counterparts in the Department for Work and Pensions (DWP) and JobCentre Plus Scotland (now located within DWP's Work Services Directorate), and other Government departments, to represent Scotland's interests in the Government's reform of the welfare and benefits system and associated back-to-work initiatives.
- 1.28** The Government's overhaul of the benefits and welfare system is the most ambitious programme of reform seen in 60 years, and as these reforms have begun to be implemented throughout Great Britain, Scotland Office Ministers have taken a close interest in the challenges and opportunities facing in- and out-of-work benefits claimants in Scotland as a result of changes. Scotland Office Ministers are in regular contact with Ministers from the DWP, HM Treasury, other UK Government departments, the Scottish Government and representatives from the Convention of Scottish Local Authorities (COSLA) and local authorities to ensure that the pace and scale of reform takes account of the devolution settlement in Scotland, where many social support services are delivered by local authorities and third sector organisations.

- 1.29** In the course of the last year Scotland Office Ministers have visited a number of third sector organisations across Scotland which deliver valuable services to local communities, to see first hand how the organisations and their clients are responding to recent and forthcoming changes to the welfare and benefits system. These visits and other meetings with representatives from Scottish charities have informed Scotland Office Ministers' understanding of the impact that the Government's reforms may have on local service providers, and in turn have informed Scotland Office Ministers' discussions of these issues with other Government Ministers.
- 1.30** On 15 March 2012, the Secretary of State hosted the National Youth Employment Convention in Dundee College focussing on helping Scotland's young people into work. It was an opportunity to highlight to employers and young people the programmes and support services available to tackle youth unemployment and underline the need for the many different delivery agencies to work together to ensure the best outcome for young Scots. The event was the culmination of nine months of sector engagement across Scotland by the Secretary of State. It reflected back on the regional seminars in Irvine, Hawick and Falkirk which brought together local authorities, young people, employers, training providers, employment sector delivery agencies and others. Speakers on the day included Iain Duncan Smith, Secretary of State for Work and Pensions and the Scottish Government Ministers John Swinney and Angela Constance. Charlie Mayfield, Chairman of John Lewis Partnerships and Chair of the UK Commission for Employment and Skills, delivered a keynote speech on the employer role and the benefits of work experience.

Energy

- 1.31** Fuel poverty is a major concern for individuals and families across Scotland and Scotland Office Ministers were actively engaged on this issue. Over the course of the reporting year the Scotland Office undertook a programme of engagement with relevant parties to investigate these issues, including the operation of the new Warm Home Discount scheme which came into force this year, and domestic energy prices. In October 2011, the Secretary of State hosted the first ever fuel poverty summit in Scotland, in Bathgate. This brought together senior representatives of the Big Six Energy suppliers with leading Scottish consumer groups to discuss measures to tackle the issue and to highlight the particular problems facing consumers. In January 2012, the Secretary of State launched Citizens' Advice Scotland's Big Energy Week and participated in a drop-in centre, a local advice bureau, raising awareness of ways for consumers to reduce their energy bills.
- 1.32** Fuel prices generally continue to be a matter of concern, particularly in remote communities. In November 2011, the Government received EU clearance to implement a five pence per litre rural fuel duty rebate pilot scheme covering all islands in the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly. More than 90 retailers registered to join the pilot before its launch on 1 March 2012. In light of ongoing local concerns about market dynamics in fuel supply, the Secretary of State also met with Philip Collins, Chairman of the Office of Fair Trading to explore what could be done to examine

the issue of rising fuel prices on remote areas in Scotland, such as the Scottish islands. The Office of Fair Trading agreed to carry out research on this matter and are due to report to the Secretary of State by summer 2012.

- 1.33** During the reporting year the Energy Bill received Royal Assent and became the Energy Act 2011. The Act underlines the UK Government's commitment to tackling barriers in energy efficiency, enhancing energy security and enabling investment in low carbon energy supplies. The Secretary of State engaged closely with key stakeholders over the course of the Bill's passage through Parliament and this will continue in preparation for implementation of the Green Deal and Energy Company Obligation in late 2012. Electricity Market reform will have a major impact on locally based generators as we reform the price mechanisms to move towards a greener economy. This will impact on generators and other interested parties and, over the course of the year, the Secretary of State held a number of meetings with major energy companies and consumer groups to seek views on these proposals and other key issues affecting the sector.
- 1.34** The oil and gas sector is of great importance to Scotland and to the UK economy as a whole. Scotland Office Ministers and officials continued to meet regularly with key representatives of the sector. In addition, Scotland's renewable energy sector continues to flourish and Scotland Office Ministers have promoted Scotland's expertise whenever possible. Scotland's growing strengths in the renewable energy sector is well recognised by the Government and, in February 2012, the Secretary of State for Business, Innovation and Skills announced the establishment of a new Offshore Renewable Energy Catapult centre located at the University of Strathclyde, Glasgow.

Big Society

- 1.35** The Parliamentary Under Secretary of State is a member of the ministerial group leading the Government's Big Society agenda. In this respect he held a series of fact-finding Big Society roundtable events in Peterhead, Cumbernauld and Girvan, culminating in a National Roundtable Event in Perth on 13 March 2012. This event was attended by a wide range of stakeholders, including social finance companies who may act as intermediaries for Big Society Capital (BSC) which went live on 4 April.

Culture, Media and Sport

- 1.36** During the reporting year, the UK Government committed to investing in broadband through the roll out of high speed broadband in rural communities, through the Super-Connected Cities project and through the Mobile Infrastructure Programme. This year alone, the UK Government's commitment to invest in broadband in Scotland is around £100 million. These programmes are ongoing over the next few years and further investment will be made.
- 1.37** The successful completion of the Digital Switchover project in Scotland was achieved in July 2011. This project was led by the Digital Switchover team,

supported and advised by the Scotland Office. Following a consultation, 20 pioneer areas across the UK were identified as being suitable for Local Television. Edinburgh and Glasgow are two of these areas, with several more areas in Scotland being announced in the second tranche.

- 1.38** In the run up to the 2012 London Olympics and 2014 Glasgow Commonwealth Games, Scotland Office Ministers and officials have helped to ensure that athletes competing at the Glasgow Commonwealth Games will now be treated on the same basis for tax purposes as those athletes competing in the London Olympics. Scotland Office officials have also played a significant role in liaising between LOCOG (London Organising Committee of the Olympic and Paralympic Games) and the Scottish Government for associated Olympic events taking place in Scotland.

Agriculture, Fisheries and Environment

- 1.39** With negotiations ongoing in the European Union on reform of the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP), Scotland Office Ministers have worked with industry stakeholders and Ministerial counterparts in the UK and Scottish Governments to ensure that the needs of Scottish farmers and fishermen are reflected in the UK's negotiating strategy in EU talks. The Parliamentary Under Secretary of State established a series of regular bilaterals with the Scottish Government Cabinet Secretary for Rural Affairs and the Environment to identify and resolve particular ongoing issues.
- 1.40** Scotland Office Ministers met with major stakeholders within the wider food, drink and agricultural industry, holding, in June 2011, a themed month of engagement with the food and drink sector, with a series of meetings and events involving a wide range of organisations including manufacturers, trade associations and other companies to discuss domestic priorities and the Government's export agenda. This involved meetings in Brussels with the European Commission, Members of the European Parliament and the UK Representative to the EU to represent the interests of Scottish industry, including priorities for product labelling affecting the whisky industry and CAP reform.
- 1.41** Scotland Office Ministers have also facilitated visits to Scotland by other UK Government Ministers with policy responsibilities affecting the sector, such as Trade Minister Lord Green and Department for Environment, Food and Rural Affairs (DEFRA) Ministers. In January 2012, the Secretary of State welcomed the Secretary of State for Environment, Food and Rural Affairs to Scotland and accompanied her on a series of visits to agricultural and fishery producers in the Scottish Borders. The Secretary of State and Parliamentary Under Secretary of State held regular bilateral meetings with key Scottish stakeholders, such as the National Farmers' Union Scotland, to stay abreast of their concerns and priorities in regard to such issues as CAP and CFP reform, the EU dairy package, and the proposed Groceries Code Adjudicator.
- 1.42** The Secretary of State was closely involved in the development of the Coastal Communities Fund announced in February 2012. The Fund is financed by the

Government from revenues from the Crown Estate's marine activities, with funding for England, Wales, Scotland and Northern Ireland determined by the amount of revenue generated in each country. This enables Scottish coastal communities to bid for funding equivalent to half the revenue generated from the Crown Estate's marine assets, allowing them to support the economic development of a range of projects, including those that support charities, the environment, education and health. Scottish organisations were able to express interest from March 2012 and make formal bids on the £4 million fund in April 2012. £1.85 million was designated for the Highlands, with £2.05 million for the rest of Scotland.

UK Green Investment Bank

- 1.43** The Government announced in February 2012 that the UK Green Investment Bank (GIB), the world's first investment bank dedicated to greening the economy, will be headquartered in Edinburgh. Capitalised with £3 billion of UK Government money, the UK GIB will play a vital role in addressing market failures affecting green infrastructure projects, leveraging £15 billion of private sector capital in low carbon infrastructure by 2015. It will be an enduring institution that will build deep expertise in financial expertise and green markets, working towards a "double bottom line" of achieving significant green impact and making financial returns.
- 1.44** By basing the UK Green Investment Bank's corporate headquarters and asset management functions in Edinburgh, with its project management team in London, the Government is linking the UK's two major financial centres. Having encouraged the city to put forward a strong bid as part of a formal, objectively assessed UK-wide process, the Secretary of State was delighted with the decision to headquarter the bank in Edinburgh. He views it as clear recognition of the strengths of Scotland's thriving green sector and its respected expertise in financial services. Following state aid approval, the Bank will be established as a standalone institution with a view to being fully operational by autumn 2012.

Visits and events

- 1.45** The Secretary of State was part of a UK Government ministerial delegation which visited the Vatican in February 2012. This followed on from the historic state visit by His Holiness Pope Benedict XVI to the UK in September 2010. The visit and meetings in the Vatican underlined the many areas of common interest between the UK and the Holy See, including important issues such as the global fight against poverty, overseas development and steps to combat climate change.
- 1.46** The Parliamentary Under Secretary of State was in Perth on 14 March to congratulate the Provost and the people of Perth on achieving City Status as part of the Queen's 2012 Diamond Jubilee Celebrations.
- 1.47** Dover House in Whitehall continues to provide a valuable platform for Scotland in the heart of London. The Office has managed a programme of events to enable Scottish interests to meet with Ministers and Scottish MPs.

Objective 3: To promote co-operation between the UK and Scottish Government on issues of significance to Scotland, including the interface between reserved and devolved legislation.

1.48 The maintenance of the devolution settlement has been an important function of the Scotland Office for more than a decade. The Office views it as fundamental to promote co-operation between the UK and Scottish Governments on issues of importance to Scotland. This includes managing the interface between reserved and devolved legislation.

Promoting and maintaining the devolution settlement

1.49 In keeping with the UK Government's commitment to effective operation of the devolution settlement, Scotland Office officials worked with counterparts at the Scottish Government to ensure that Legislative Consent Motions (LCMs) were agreed to and in place in a timely fashion. In the period of the first Session of Parliament covered by this report there were six Government Bills which triggered the Sewel Convention and required the consent of the Scottish Parliament, each by way of a LCM. The LCMs were secured for the following bills: the Finance Bill, Financial Services Bill, London Olympic Games and Paralympic Games (Amendment) Bill, Terrorism Prevention and Investigation Measures Bill, Welfare Reform Bill and the Legal Aid, Sentencing and Punishment of Offenders Bill. Shortly after the end of the year covered by this report, the Scottish Parliament unanimously supported a second LCM for the Scotland Bill, reflecting changes to the Bill that have been made since the first LCM was passed in March 2011.

1.50 The Scotland Office also wants the devolution settlement to be more widely understood and integral to the UK Government's policy development and implementation. The Office promotes the devolution settlement in the Government's formal devolution machinery and is committed to embedding the culture of devolution throughout the civil service.

1.51 The Office proactively promotes Scottish interests in the formulation of Government legislation with its extensive involvement in the development of Government Bills. The Office is in day-to-day contact with Bill teams across Whitehall, offering advice and guidance to Departments, particularly on those Bills which trigger the Sewel Convention. Scotland Office Ministers participate in the Parliamentary Business and Legislation Committee clearance process, and raise areas of interest or concern to Scotland with the Committee in relation to Bills and amendments to Bills.

1.52 Scotland Office officials continue to work with officials in Whitehall Departments to ensure that devolution issues are resolved at an early stage and any new legislation is compatible with Scots law. The Scotland Office also works to increase knowledge of the devolution settlement within Government and to ensure that the Scottish Government is consulted on, and engaged in, policy making as appropriate.

Statutory Instruments

- 1.53** The co-ordination and delivery of subordinate legislation under the Scotland Act 1998, also continues to be a key part of our business. During the course of this reporting year, the Scotland Office delivered seven Scotland Act Orders. A list of the Scotland Act Orders taken forward by the Scotland Office since the last Annual Report are shown below.

Scotland Act Orders and other Statutory Instruments

SI Number	Title
2011/1739	The Criminal Procedure (Legal Assistance, Detention and Appeals) (Scotland) Act 2010 (Consequential Provisions) Order 2011
2011/1740	The Adoption and Children (Scotland) Act 2007 (Consequential Modifications) Order 2011
2011/2298	Criminal Justice and Licensing (Scotland) Act 2010 (Consequential Provisions and Modifications) Order 2011
2011/2439	Scotland Act 1998 (Agency Arrangements) (Specification) Order 2011
2011/2490	Prostitution (Public Places) (Scotland) Act 2007 (Disqualification from Driving) Order 2011
2011/2581	Public Services Reform (Scotland) Act 2010 (Consequential Modifications of Enactments) Order 2011
2012/700	The Housing (Scotland) Act 2010 (Consequential Provisions and Modifications) Order 2012

- 1.54** The power at section 104 of the Scotland Act 1998 allows for necessary or expedient amendments to be made to reserved legislation in consequence of Acts of the Scottish Parliament. Six of the seven Scotland Act Orders taken forward in this reporting year were made using this power.
- 1.55** The power at section 93 of the Scotland Act 1998 enables a UK Minister and the Scottish Ministers to make arrangements to exercise functions on behalf of each other, on the basis that Ministerial responsibility for the exercise of a function is not affected by such an arrangement. The seventh Scotland Act Order taken forward this year was made using this power.
- 1.56** Further information, including the Explanatory Memorandum for each of the Statutory Instruments laid in the last reporting year, is available on the Government legislation website: www.legislation.gov.uk.
- 1.57** The Scotland Office is currently working with the Scottish Government to review and deliver the Scotland Act Order Programme for 2012-13 to ensure this

prioritises the requirements of both the UK and Scottish Governments. One Order being taken forward under this programme is the Second Commonwealth Games section 104 Order, in consequence of the Glasgow Commonwealth Games Act 2008. This will make provisions in reserved law to prevent ticket touting throughout the UK for the Commonwealth Games in Glasgow in 2014. It is part of the legislative package that the UK Government is committed to delivering to ensure the success of the Commonwealth Games in Glasgow in 2014 for the whole of the United Kingdom.

Other Parliamentary matters

1.58 The Scotland Office continued to perform a liaison function in relation to Parliamentary Select Committees, in particular with the Scottish Affairs Committee. The Office submitted evidence to the Scottish Affairs Committee during the period covered by this annual report to the Committee's inquiry 'The Referendum on Separation for Scotland' as well as on other issues involving Scotland. The Office also assisted other Government Departments in submitting memoranda for Scottish Affairs Committee inquiries such as those on the Crown Estate, Health and Safety in Scotland and 'A Robust Grid for 21st Century Scotland'.

National security, defence and civil contingencies

1.59 The Scotland Office continues to fulfil its important responsibilities in relation to national security and civil contingencies. The Office worked closely with the Scottish Government and other partners on the delivery and revision of CONTEST, the Government's counter terrorism strategy, and on the cross-UK response to several contingencies. Over the course of the year, some serious incidents took place at North Sea oil and gas installations, with the oil leak from the Shell Gannet Alpha platform in August 2011 and the gas leak from the Total Elgin platform in March 2012.

1.60 The Scotland Office recognises the importance of the defence footprint and industries in Scotland and engages regularly with the Ministry of Defence (MoD), to ensure that Scotland's interests are well represented, particularly in discussions about the implementation of the Strategic Defence and Security Review (SDSR). The Scotland Office has been closely involved throughout the course of the Basing Review; working in collaboration with HM Treasury and the MoD, to maintain close working relationships with local authorities across Scotland, Scottish Government and other community representatives to help Government understand the social and economic impacts of any decisions within affected communities. In July 2011, the Secretary of State for Defence announced the outcome of the Basing Review, bolstering Scotland's integral role in the defence and security of the UK. The Scotland Office continues to retain a key role, engaging with local communities, as the detailed implementation of the Basing Review is taken forward.

Immigration and asylum

- 1.61** Other UK bodies have a considerable presence in Scotland and carry out a range of important duties. The UK Border Agency (UKBA) enforces immigration regulations and considers applications for UK citizenship and asylum. Throughout the year, the UK Government has been working to implement a range of measures to ensure our immigration system is not subject to abuse. These include proposed changes to the rules on both permanent settlement and temporary migration. The Scotland Office has endeavoured to ensure that Home Office policy is appropriate to circumstances in Scotland. The Office liaises closely with UKBA in Glasgow and has regular engagement with the Scottish Government and COSLA's Strategic Migration Partnership to discuss migration policy in Scotland.
- 1.62** Following discussions with the Scottish Higher Education sector, the Secretary of State played an important role in the creation of a new route under the immigration Points Based System for international graduates, from outside the European Union, to stay in the UK following their degrees to develop their business ideas. This new route, announced by the Immigration Minister in February will be a benefit to universities and business development throughout the UK.
- 1.63** Scotland Office ministers have also taken a strong interest in the review of policing at the Galloway ports to ensure that the Common Travel Area arrangements in place with Ireland continue to work effectively.
- 1.64** From September 2011 the Scotland Office has led efforts to secure a long-term replacement for the emergency towing vessels (ETV) service in waters surrounding the Northern Isles and Western Isles. The Secretary of State has chaired three meetings of the Scottish ETV Working Group, including representatives from local authorities, the Maritime and Coastguard Agency, the Scottish Government and other interested parties. The group continues to work with private business to put a sustainable long-term arrangement in place. The Parliamentary Under Secretary of State will also chair a sub-group specifically considering future services around the Minches.

Objective 4: To ensure the effective administration of the Boundary Commission and of Parliament and Scottish Parliamentary elections in Scotland.

Elections and boundaries

- 1.65** The Secretary of State has statutory functions in relation to elections and boundaries in Scotland. He has responsibility for the policy and law governing Scottish parliamentary elections and also takes responsibility for making legislation concerning certain electoral and boundary matters in Scotland. To this end, the Scotland Office works closely and meets regularly with a range of Departments, bodies and organisations. These include the Cabinet Office, the Electoral Commission, the Electoral Management Board, other bodies representing electoral administrators in Scotland, and the Scottish Government.

This is particularly important in the run up to the UK, Scottish Parliament and European elections in Scotland.

- 1.66** The Secretary of State has statutory functions in relation to Parliamentary elections in Scotland. Under the Representation of the People Act 1983, s 29, Returning Officers are entitled to recover their charges for services rendered and expenses incurred, provided that they were necessary for the running of the election. The Scotland Office is responsible for administering the funding to Returning Officers for the running of elections to the Scottish Parliament and also the UK Parliament and European Parliament in Scotland and scrutinising the final accounts. The funding is non voted expenditure and is therefore separate from the voted costs for the administration of the Scotland Office and the Office of the Advocate General.
- 1.67** The Scotland Office continued to support the Electoral Management Board, which co-ordinates the administration of all elections in Scotland. The Scotland Office has observer status on the Electoral Management Board. The Board, the Scottish Government and the Scotland Office are currently in discussion over the future role and funding of the Board.

Boundary Commission for Scotland

- 1.68** The Scotland Office sponsors the Boundary Commission for Scotland (BCS) and maintains close and regular contact with the Secretary of the Commission.
- 1.69** The Secretary of State reappointed Kenneth McDonald to serve another term as a Commissioner from 7 June 2011. Paula Sharp continues as the second Boundary Commissioner.
- 1.70** The Scotland Office is monitoring progress on the BCS's sixth review of UK Parliament constituencies in Scotland which formally commenced in March 2011. Further information about the review and the Commission can be found on the Commission's website: http://www.bcomm-scotland.gov.uk/6th_westminster/

Scottish Parliament Elections, May 2011

- 1.71** The Parliamentary Under Secretary of State was responsible for making the secondary legislation required for the effective conduct of the Scottish Parliament elections in May 2011. The elections were administered by Returning Officers under guidance from the Electoral Commission and the Electoral Management Board. Scotland Office worked closely with both to ensure the delivery of the election was a success.
- 1.72** Commenting on the Electoral Commission's Report on the Scottish Parliament election on 5 May 2011, John McCormick, the Commissioner for Scotland, said: 'The successful delivery of this election was a real test for electoral administration in Scotland given the problems experienced at the 2007 elections. Overall we have found that there have been significant improvements

in the co-ordination and delivery of the election and this has had a real benefit for voters with the level of spoilt ballots in the 2011 election falling back to the levels we saw in 1999. On 6 May everyone in Scotland was talking about the result of the election instead of the administration. That's the way it should be – rightly about voters and their choices.'

Objective 5: To run the Scotland Office effectively, efficiently and economically.

- 1.73** Government funding for the Scottish Government's budget is prescribed by the UK Parliament under the Scotland Act 1998. The Secretary of State makes the grant each year to the Scottish Consolidated Fund to meet expenditure by the Scottish Parliament and the Scottish Government. The grant made in 2011-12 was £26,179,500,000.
- 1.74** The actions taken to run the Scotland Office effectively, efficiently and economically are described in chapter 3 of this report.

Objectives for 2012-13

- 1.75** The Scotland Office aims to deliver the UK Government's objectives for Scotland and to promote the best interests of Scotland within the United Kingdom. The Scotland Office's updated Business Plan for 2012 to 2013 was published in March 2012. It set out five strategic objectives:
- 1 To strengthen the position of Scotland within the UK with collaborative working between the UK and Scottish Governments on issues of significance to Scotland;
 - 2 To communicate the benefits of Scotland's position within the UK, and to promote a wider understanding of UK Government policies in Scotland;
 - 3 To build strong partnerships across government, business and industry in Scotland and the UK, to help develop Scotland's global economic competitiveness and combat unemployment;
 - 4 To support the effective administration of the Boundary Commission and of Parliamentary elections in Scotland; and
 - 5 To achieve continuous improvement in running the Scotland Office efficiently, effectively and economically.

The Office will keep its objectives under review over the course of the year.

Chapter 2: Office of the Advocate General for Scotland: organisation, activities in 2011-12 and plans for 2012-13

Foreword by the Advocate General for Scotland

Throughout this year, I have continued to find it a great privilege to serve as Advocate General for Scotland.

As Advocate General, I perform a number of functions, of which the principal is to act as the UK Government's senior legal advisor on Scots law. In carrying out this function, I am supported by a dedicated team of Scots lawyers, based in Edinburgh and London. On a day to day basis, my officials provide advice and legal representation in the Scottish courts to most UK Government departments.

One of the most significant areas of activity for the Office of the Advocate General over the past year relates to our work in connection with the Scotland Act 2012. I was the Minister with responsibility for the Bill in the House of the Lords, and my officials dealt with all legal work relating to the non-financial aspects of the Act.

The constitutional developments that will be implemented as part of this Act in the coming months will extend the powers of the Scottish Parliament, providing the biggest transfer of fiscal power from the UK Government in 300 years. It also includes other significant developments, notably changes in relation to how criminal cases in the Scottish Courts can be referred to the Supreme Court when questions arise about compliance with the European Convention on Human Rights and EU law. I established an expert group to advise on these matters, led by Sir David Edward. Subsequently, the Scottish Government also established a group, led by Lord McCluskey. I am pleased that the resulting provisions that appear in the Scotland Act were approved by both the UK and Scottish Parliaments, providing a good example of the way in which Ministers and members of both Parliaments can work together in order to reform the law in a consensual and progressive manner.

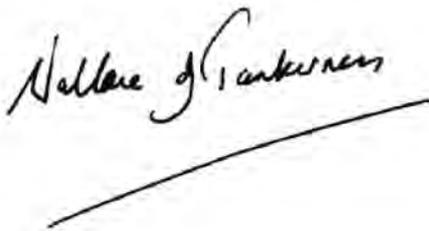
This past year has of course seen a lively debate on Scotland's constitutional future. In January 2012, the UK Government set out its conclusions on the legal issues surrounding the planned referendum. In a variety of subsequent debates, both in the House of Lords and at a range of events in Scotland, I have confirmed that the Scotland Act 1998 makes it clear that the Scottish Parliament has no power to pass legislation that purports to pave the way for a referendum on independence. However, the way to resolve this issue is for a section 30 order to be approved by both Parliaments. I look forward to constructive discussions with the Scottish Government on the terms of a section 30 order, ensuring that this important referendum can proceed on a sound legal footing.

My office continues to advise UK Government Departments on the delivery of UK Government policy in Scotland and on the legislative impact of bills going through

the Westminster Parliament. We have also scrutinised all of the Scottish Parliament's primary legislation, and have engaged regularly with the Scottish Government and a wide variety of UK Departments to ensure that legislation is within the competence of the Scottish Parliament, and therefore capable of resisting legal challenge. My officials continue to advise on and deploy the flexible mechanisms within the Scotland Office that help to ensure that devolution works. In particular, we have taken forward a range of Scotland Act orders. In a number of cases, these orders have been necessary to ensure that Scottish Parliamentary legislation has full effect by integrating with the legal framework elsewhere in the UK.

This has been the first full year in which my office has dealt with Her Majesty's Revenue and Customs litigation in Scotland. The most notable success in this area was the Supreme Court challenge in the case of Scottish Widows plc v HMRC which saved the UK tax payer £250 million. My office has also continued to support UK Government Departments in a variety of litigation, ranging from Social Security appeals to Human Rights challenges. And immigration litigation, which we manage on behalf of the UK Borders Agency, continues to be a hugely important and major area of work.

I am sure the following year will be no less exciting and I look forward to the many developments ahead.

A handwritten signature in black ink, reading "Wallace of Tankerness", written in a cursive style. Below the signature is a long, thin horizontal line.

Lord Wallace of Tankerness QC
Advocate General for Scotland

Organisation

2.1 The Office of the Advocate General has four Divisions, three which are based in Edinburgh and one which is based in London. All Divisions are focused on the delivery of OAG's purpose. This is to provide high quality legal services to secure the UK Government's objectives in Scotland. The four Divisions are:

- Litigation Division;
- Advisory and Legislation Division;
- HMRC Division; and
- Legal Secretariat and Private Office (London).

Office of the Advocate General

2.2 The Litigation Division provides Scots law advice and support in respect of any action raised by or against a UK Government department in Scotland. It advises on litigation strategy and handling, including risk management. It also oversees the use of resources in each case to ensure that OAG and the client Department's objectives are achieved in a cost-effective way. In the main, the Division deals with Home Office litigation in Scotland. It also supports the Advocate General in respect of any action raised or defended in the Scottish Courts. Details in respect of the type of cases in which the Litigation Division has supported the Advocate General can be found at our Involvement in Cases page on our website.

2.3 The Advisory and Legislation Division provides legal advice and services to UK Government departments. It provides early and pro-active input on issues relating to Scots law and the Scottish devolution settlement in the development of policy and legislation, and instructs UK legislation applying to Scotland. The Division also assesses the impact of Scottish Government legislation going through the Scottish Parliament.

2.4 The HMRC Division joined OAG on 1 April 2011. This Division deals with HM Revenue & Customs' legal work in Scotland. This covers tax appeals through the Tribunal system and on appeal to the higher courts, as well as a variety of other litigation for the Department. The team also provides advisory services to HMRC in relation to Scottish matters, and undertakes some legislative work, notably in connection with the Finance Bill.

2.5 The Legal Secretariat to the Advocate General provides support to the Advocate General in his capacity as a UK Law Officer, including the exercise of statutory functions under the Scotland Act. It also supports him with his Ministerial responsibilities, including supporting him as a member of Cabinet Committees and as a Minister in the House of Lords. The Advocate General's day-to-day activities are co-ordinated and supported by his Private Office, enabling him to discharge his functions effectively.

Delivery of OAG's Priorities in 2011-12

OAG set the following priorities for 2011-2012

1. **Policy and Legislation:** Ensure Scots law and the devolution settlement are taken into account in the development of UK Government policy and legislation.
2. **Litigation:** Secure effective representation of UK Government interests in Scottish litigation.
3. **Support for Ministers:** Assist UK Government Ministers in achieving their objectives in Scotland, in particular the Advocate General for Scotland and the Secretary of State for Scotland.
4. **Engagement:** Develop strategic networks with other UK Departments.
5. **Continuous Improvement:** Ensure the Office is increasingly efficient and effective.

2.6 In pursuing the above priorities, the OAG Management Team has worked to ensure that all members of staff:

- Engage with clients and stakeholders in a proactive and constructive manner, recognising the wider implications and potential risks of any action or advice;
- Think laterally to advise on solutions that may not be apparent and devise strategies for dealing with new challenges;
- Demonstrate an understanding of the political, UK and Scottish context within which we operate;
- Be flexible in our approach as to how we best meet our clients' needs; and
- Act with integrity in all dealings with clients, stakeholders and each other, ensuring that we treat all with respect and dignity and uphold the Civil Service Code.

Policy and Legislation

2.7 A fundamental aspect of OAG's work is the provision of general legal advice on Scots law to UK Government Departments and Agencies. OAG also regularly advised on matters relating to devolution in the development and operation of UK Government policy, as well as advising on the implications for the UK Government of proposals by Scottish Ministers, and of Bills introduced into the Scottish Parliament. OAG has been proactive in keeping such issues to the forefront of client Departments' thinking, as well as being responsive to a wide range of issues which have arisen.

- 2.8** OAG instructs the Scottish Parliamentary Counsel (UK) in the drafting of provisions for Scotland in Bills before the UK Parliament and drafts subordinate legislation on behalf of UK Departments.
- 2.9** OAG was involved in instructing or advising on UK Bills which have been introduced and which are set out in the table below. It had primary responsibility for instructing the Scotland Bill, and provided assistance to the relevant Whitehall Department for all other Bills listed. As far as subordinate legislation is concerned, OAG was responsible for advising on Scotland Act Orders listed in Paragraph 1.53. OAG also contributed to the preparation of a wide range of secondary legislation prepared by UK Government Departments.

UK Parliament Bills

UK Parliament Bills introduced that OAG instructed or advised on
Civil Aviation Bill
Energy Bill
European Union Bill
Finance Bill
Financial Services Bill
Fixed-term Parliaments Bill
Health and Social Care Bill
Legal Aid, Sentencing and Punishment of Offenders Bill
Local Government Finance Bill
Localism Bill
London Olympic Games and Paralympic Games (Amendment) Bill
Pensions Bill
Police Reform and Social Responsibility Bill
Protection of Freedoms Bill
Public Bodies Bill
Scotland Bill
Terrorism Prevention and Investigation Measures Bill
Welfare Reform Bill

Litigation

- 2.10** During 2011-12, OAG was involved in numerous areas of litigation and considered 1208 devolution issues.
- 2.11** The Advocate General intervened in one case: BH (AP) (Appellant) v The Lord Advocate and Another. This case was concerned with whether extradition would infringe the Appellant's rights under article 8 of the European Convention on Human Rights. In the context of that appeal, an issue arose as to whether a party can appeal to the Supreme Court on a devolution issue in extradition cases and it was in this regard that the Advocate General intervened. A breakdown of the cases in which the Advocate General has intervened since devolution can be found at: www.advocategeneral.gov.uk

- 2.12** Immigration litigation continued to be a major area of work. A total of 226 new cases were dealt with on behalf of UKBA, comprising of 191 petitions for judicial review and 35 statutory applications for leave to appeal and statutory appeals. There had been a suspension of proceedings in a number of immigration cases pending the Supreme Court decision in *Eba*. This is a case that considered whether it was competent to judicially review a decision of the Upper Tribunal which refused a Petitioner leave to appeal from the First Tier Tribunal. Following the Supreme Court decision on 22 June 2011, there have been 31 *Eba* type cases.
- 2.13** The Office appeared for the Secretary of State for Work and Pensions in 33 appeals to the Child Support and Social Security Commissioners/Upper Tribunal and one statutory appeal to the Inner House of the Court of Session.
- 2.14** Over the last year, OAG has also acted on behalf of the Ministry of Justice, Department of Health, Home Office, Department for Business Innovation and Skills, the Department for Environment, Food and Rural Affairs, the Insolvency Service and the Department for Transport.
- 2.15** HMRC Division handled a high volume of litigation in the past year, a total of 117 new litigation matters were raised. The work included successfully resisting an insurance tax appeal by Scottish Widows plc, a Life Assurance company, to the Supreme Court.

Support for Ministers

- 2.16** It is a long standing convention followed by successive administrations that the Government does not disclose whether the Law Officers have given advice in any particular case, or the content of such advice. Accordingly, no details of this significant aspect of OAG's work are disclosed in this report.
- 2.17** The Legal Secretariat assisted the Advocate General in relation to Parliamentary and Cabinet Committee business. The Advocate General currently sits on a number of Ministerial Cabinet Committees including the Parliamentary Business and Legislation Committee.
- 2.18** In relation to the Advocate General's functions under section 33 of the Scotland Act, OAG consults UK Government Departments regarding whether, in their view, Bills passed by the Scottish Parliament are within legislative competence. Under section 33, the Advocate General may refer to the Supreme Court the question of whether a Bill, or any provision of a Bill, is thought to be outside the legislative competence of the Scottish Parliament.
- 2.19** The Advocate General is the official spokesperson in the House of Lords for the Scotland Office, Wales Office and the Attorney General's Office. He answers questions and steers certain legislation through the House on behalf of the UK Government. The Advocate General has recently been responsible for the Scotland Bill and the Fixed-Term Parliaments Bill as well as helping other Departments with legislation and taking Statutory Instruments for the Scotland Office and Wales Office in the Lords.

2.20 Over the past year the office provided support to the Advocate General and Scotland Office Ministers on a range of issues, most notably in relation to the Scotland Bill and the launch of the UK Governments' consultation on facilitating a legal, fair and decisive referendum on whether Scotland should leave the United Kingdom.

Engagement

2.21 Our efforts to build stronger networks with Whitehall Departments continues to pay dividends, especially with Bill teams from across Whitehall. OAG has well established and strong links with the Attorney General's Office, Cabinet Office and Scotland Office, together with a wide range of other departments. We continue to engage with the Scottish Government to secure the delivery of common objectives and to resolve areas of disagreement in a proactive way.

Continuous Improvement

2.22 In the past year the Office has reviewed its purpose and priorities and conducted a structural review. The Office is currently implementing the agreed actions that flowed from the structural review. It has made particular progress on building increased flexibility in order to enhance capability. It has also placed a greater emphasis on learning and development. OAG has also carried out efficiency reviews, most notably in relation to the handling of Scotland Act orders, improving processes and procedures to allow for quicker and more efficient handling of such work.

Plans for 2012-2013

2.23 In the coming year, the main focus for OAG will be:

- 1. Advice on policy and legislation affecting Scotland.** On a day to day basis, we will support colleagues in all UK Government departments on the implications of their policies for Scotland. We will review the legality of the Scottish Parliament's legislation, and will seek to engage with the Scottish Government and UK Government Departments to ensure that the implications of Scottish legislation are understood, and that competence issues are addressed.
- 2. Protecting the UK Government's interests in the courts.** We will continue to deal with high volumes of litigation in the Scottish courts for Departments such as Home Office and HMRC.
- 3. Scotland's place within the UK.** We will take forward the legal work in connection with the implementation of the Scotland Act 2012. We will also be involved in the anticipated delivery of a section 30 order under the Scotland Act 1998 in order to secure a legal referendum on independence. We will contribute to a programme of work to inform and support the debate on Scotland's future within the UK, and in doing so will engage with the legal community in Scotland and legal and constitutional experts elsewhere.

4. Helping to ensure that devolution works. We want to ensure that the Government operates effectively, for Scotland, in reserved areas. We will do all we can to facilitate co-operation between Scotland's two administrations, particularly on issues that straddle the boundary between reserved and devolved matters. We will therefore continue to take forward a programme of orders under the Scotland Act 1998. We will also work on the development of new legislation in reserved areas that deal with particular Scottish issues, such as the implementation of the Unincorporated Associations and Partnerships (Scotland) Bill, which the UK Government is currently consulting on. We will also work with UK Departments to ensure that they take Scotland and devolution into account as they develop and implement their policies, especially those with a legal or legislative dimension.

Chapter 3: Governance Statement and delivering efficient and effective Government

Statement by the Principal Accounting Officer for the Scotland Office and the Office of Advocate General for Scotland

I am pleased to present the Scotland Office and Office of the Advocate General's Annual Report and Accounts 2011-12.

The Scotland Office and the Office of the Advocate General are separate Offices responsible respectively to the Secretary of State for Scotland and the Advocate General for Scotland but we share a single budget and I act as Principal Accounting Officer for both Offices and also for the Boundary Commission for Scotland. Together we have about 100 staff in London and Edinburgh. I am proud that, despite our size, we have succeeded in delivering the Scotland Bill in line with the Coalition's commitment in its 'Programme for Government'. At the same time, the two Offices continue to deliver the UK Government's objectives for Scotland and to be a powerful voice for Scotland and Scottish interests at the heart of Government.

As Principal Accounting Officer for both Offices I am responsible for the governance statement in this annual report.

None of our achievements over the past year would have been possible without the efforts of our staff. Their commitment and professionalism have been exemplary. These qualities make me confident that our offices will rise to the challenges we will face over the coming 12 months and beyond.

Alisdair McIntosh

Director, Scotland Office

Principal Accounting Officer, Scotland Office and
Office of the Advocate General for Scotland

- 3.1** This Statement sets out the basis on which the Scotland Office and the Office of the Advocate General for Scotland were established; the way in which they were governed and managed in 2011-12 and will be governed and managed in 2012-13; and how they are accountable for what they do. It takes the place of the former introductory chapter to the Offices' annual report, and is intended to provide a more comprehensive and more tailored statement of the basis on which I as Principal Accounting Officer can give assurance as to the proper functioning of the two Offices and the stewardship of the public funds entrusted to them.

Status and role of the Scotland Office and the Office of the Advocate General for Scotland

- 3.2** The Scotland Office and the Office of the Advocate General for Scotland came into existence at the same time as the Scottish Parliament in 1999. The key functions of the Scotland Office and the Office of the Advocate General are to deliver the UK Government's objectives in Scotland and to promote the best interests of Scotland within the United Kingdom. We promote the devolution settlement for Scotland and act as its guardian, promoting partnership between the UK Government and the Scottish Government. The Scotland Office is also responsible for the administration of the Parliamentary elections in Scotland and the transmission of the block grant to the Scottish Consolidated Fund. The Office of the Advocate General provides legal services to UK Government departments in respect of Scots law. In discharging these overall responsibilities the Scotland Office and the Office of the Advocate General for Scotland are responsible for putting in place proper governance and risk management arrangements in compliance with the Government's corporate governance code.
- 3.3** From 2003 until 31 March 2011, the Scotland Office and the Office of the Advocate General, formed part of the Ministry of Justice for administrative purposes. From 1 April 2011 following a machinery of government change, the Scotland Office and the Office of the Advocate General again became a separate stand-alone department. As the Director of the Scotland Office I was appointed Principal Accounting Officer for both offices, having previously been an Additional Accounting Officer for them.
- 3.4** The governance framework comprises the systems and processes, and culture and values, by which the Scotland Office and the Office of the Advocate General are directed and controlled and the means by which they account to Parliament. It covers the process by which Ministers and senior management monitor the achievement of objectives and consider whether the activities of the Offices have led to the delivery of appropriate and cost-effective outcomes. A significant part of the framework is the system for risk identification and management.
- 3.5** During 2011-12 the three holders of Ministerial office in the Scotland Office and the Office of the Advocate General were:
- Rt Hon Michael Moore MP, Secretary of State for Scotland;
 - Rt Hon David Mundell MP, Parliamentary Under Secretary of State at the Scotland Office; and
 - Rt Hon Lord Wallace of Tankerness QC, Advocate General for Scotland .

- 3.6** The Scotland Office is responsible for one Arms Length Body, the Boundary Commission for Scotland. The Office of the Advocate General is not responsible for any Arms Length Bodies. The Boundary Commission for Scotland has its own governance structure and produces its own Annual Report. Its funding falls within the ambit of the Scotland Office's and Office of the Advocate General's vote and as the Principal Accounting Officer I am responsible to Parliament for its stewardship of public resources. The governance statement makes appropriate reference to the Scotland Office's sponsorship of the Commission.
- 3.7** The Secretary of State for Scotland, the Rt Hon Michael Moore MP, has overall Ministerial responsibility for the operation of the Scotland Office, and represents Scottish interests in reserved matters at Cabinet. He also has certain executive functions, notably in relation to the financial transactions between the UK Government and the devolved Scottish Government and in relation to Parliamentary elections in Scotland. The Secretary of State has a responsibility for maintaining close working relations with the Scottish Ministers; for representing the UK Government in relation to a wide variety of UK Government interests in Scotland; and for ensuring that Scottish interests are properly understood and represented across Whitehall.
- 3.8** The Secretary of State is supported by the Parliamentary Under-Secretary of State for Scotland, the Rt Hon David Mundell MP, and administratively by a small team of civil servants led by the Director of the Scotland Office.
- 3.9** Scotland Office Ministers sit on a number of Cabinet Committees, where they work to ensure that the UK Government appropriately reflects Scottish interests in reaching its decisions. Scotland Office Ministers also make Orders under the Scotland Act, to adjust the detail of the devolution settlement to reflect legislation enacted by both the UK and Scottish Parliaments.
- 3.10** The Advocate General for Scotland, the Rt Hon Lord Wallace of Tankerness QC, is a Minister of the Crown and is one of the three UK Law Officers. Along with the Attorney General and the Solicitor General for England and Wales, the Advocate General provides legal advice to all UK Government Departments on a wide range of issues including human rights, European law and constitutional law. The Advocate General is the UK Government's principal legal adviser on Scots law and its senior representative within the Scottish legal community.
- 3.11** The Advocate General also has statutory functions under several enactments. His principal functions, which can be exercised by other Law Officers, are under the Scotland Act 1998. He is responsible to Parliament for the work of his Office including its provision of litigation and advisory services in Scotland to UK Departments and Agencies.
- 3.12** As a Minister, the Advocate General sits on a number of Ministerial Cabinet Committees, is the Scotland Office spokesperson in the House of Lords and is spokesperson in the House of Lords for the Wales Office and the Attorney General's Office. He is supported administratively by a small team of qualified Scots lawyers and civil servants led by the Director of the Office of the Advocate General.

- 3.13** The management of the Scotland Office and the Office of the Advocate General for Scotland is overseen by a Joint Management Board (JMB) chaired by the Director of the Scotland Office and comprising five senior managers from both Offices. It is also attended by an independent member. From April 2012, in accordance with the requirements of the corporate governance code for central Government departments, its membership will include the chair of the Audit Committee as an independent non-executive board member (NEBM). The Board is accountable to Ministers.
- 3.14** The greater part of the work of the Joint Management Board is delegated to the two Senior Management Teams of the two Offices. The two Senior Management Teams constitute committees of the Joint Management Board and are responsible for the close monitoring of the performance, resources and expenditure of the respective Offices, and for decision making about management matters specific to the Offices. Additionally I meet regularly with the Director of the Office of the Advocate General to ensure that I can fulfil my responsibilities as Principal Accounting Officer in respect of the Office of the Advocate General.
- 3.15** The Secretary of State and the Advocate General have separate weekly bilateral meetings with the two Directors to discuss policy, strategy and departmental issues. The Secretary of State also chairs weekly meetings with his Ministerial colleagues and members of the senior civil service teams to discuss forthcoming business and related issues.
- 3.16** As the Director of the Scotland Office I am the Principal Accounting Officer of the Scotland Office and the Office of the Advocate General. In accordance with the responsibilities assigned to me in my appointment letter and as set out in *Managing Public Money* I am charged with the governance of the Scotland Office and the Office of the Advocate General. I can be called before the House of Commons Public Accounts Committee to account to Parliament for the stewardship of the resources within the Offices' control and for their management.

Principal Accounting Officer role

- 3.17** The role of the Accounting Officer is to ensure that the Offices operate effectively, comply with all relevant legislation and guidance and practice a high standard of probity. The Statement of the Accounting Officer's responsibilities is in chapter 7.

Governance

- have proportionate governance structures to enable them to make timely decisions with rigour and to transmit and enforce those decisions;
- have robust and proportionate internal controls to safeguard and record the use of resources;
- operate with regularity and propriety having regard to the need for proper conduct of public business;
- treat their stakeholders and business counterparts fairly and honestly; and
- give timely, transparent and realistic accounts of their business.

Decision-making

- support Ministers with clear, well reasoned, timely and impartial advice;
- make all decisions in line with the strategy, aims and objectives of the organisation as set by Ministers and specified in legislation;
- meet HM Treasury's requirements about the use of public resources;
- manage their staff fairly, with inclusive policies designed to promote and respect diversity; and
- communicate decisions openly and transparently.

Financial management

- ensure that financial transactions are regular and proper;
- use resources efficiently, economically and effectively, avoiding waste and extravagance;
- carry out procurement objectively and fairly, seeking good value for the public sector as a whole;
- use management information systems to secure assurance about value for money and the quality of delivery and so make timely adjustments;
- avoid over-defining detail and imposing undue compliance costs, either on its own staff or on its customers and stakeholders;
- have practical documented arrangements for working in partnership with other organisations, including other Government bodies; and
- use internal and external audit to improve its internal controls and performance.

3.18 The Joint Management Board has three sub-committees:

- Audit Committee;
- The Scotland Office Senior Management Team; and
- The Office of the Advocate General Senior Management Team.

3.19 Details of Joint Management Board and Audit Committee attendance records can be found below:

Joint Management Board	No of JMB meetings attended in 2011-12
Alisdair McIntosh, Director	2
Kate Richards, Deputy Director (Private Office and Communications Division) until March 2012	2
Chris Flatt, Deputy Director (Corporate and Constitution Division)	2
Margaret Porteous Deputy Director (Policy Division) from July 2011	1
Paul Johnston, Director of OAG and Solicitor to the Advocate General	2
Jan Marshall, Legal Secretary to the Advocate General	2
Robert Marshall, Deputy Solicitor to the Advocate General (until November 2011)	2

3.20 During 2011-12 there were two meetings of the Joint Management Board. Edward Adams is a senior Ministry of Justice official on secondment to NHS London, and a member of the Scotland Office - Office of the Advocate General Audit Committee. During 2011-12 he attended meetings of the Board to provide independent advice.

3.21 The meetings of the Scotland Office's Senior Management Team are chaired by the Office's Director and are held fortnightly. The meetings of the Office of the Advocate General Senior Management Team are chaired by the Office's Director and are held monthly. Both Offices' Senior Management Teams are comprised of their respective Senior Civil Servants.

3.22 The effectiveness of the Board and its Committees as a governance structure was reviewed as part of the Offices' adoption of a new board operating framework (described below).

3.23 The remit of the Audit Committee is to advise me as the Principal Accounting Officer and provide assurance to me on the way that the Offices' are being managed. The Audit Committee operates in accordance with the Treasury's Audit Committee Handbook and meets quarterly. A separate report by the chairman of the Audit Committee on the Committee's work in 2011-12 is published with this annual report.

Audit Committee	No of Audit Committee meetings attended in year
John Aldridge (Chair)	3
Charlotte Barbour	4
Ian Doig	3
Edward Adams	2

- 3.24** There were four meetings of the Committee during 2011-12. Ian Doig's term of office expired before the fourth meeting was held.
- 3.25** The Audit Committee is attended by the National Audit Office and the Internal Audit Directorate of the Ministry of Justice. The Directors and senior staff of both Offices responsible for corporate affairs also attend meetings of the Committee.

Business Objectives

- 3.26** The Scotland Office Business Plan for 2010-2012 set out five broad objectives for the Office which focus on promoting the best interests of Scotland within the UK. The business objectives of the Scotland Office are set out in Chapter 1. The business objectives of the Office of the Advocate General are set out in Chapter 2.

Decision-taking and business management

- 3.27** The Scotland Office is organised into three divisions to deliver its functions: Corporate and Constitution Division; Private Office and Communications Division; and Policy Division. Each of these is headed by a Deputy Director who reports directly to the Director of the Scotland Office. Each Deputy Director acts as a budget holder for his or her division and is responsible for ensuring that expenditure is incurred with regard to propriety and regularity, and that value for money is secured, projects are on track and any savings identified are being achieved. Divisional budgets are reviewed monthly by the Senior Management Team as part of its review of the Scotland Office's budget. The Scotland Office Senior Management team also receives monthly financial information about the Boundary Commission for Scotland.
- 3.28** The Office of the Advocate General is organised into four divisions: Advisory and Legislation, Litigation, HMRC, and the Legal Secretariat to the Advocate General. The OAG budget is overseen by the Organisation's Business Manager. The Senior Management Team receives monthly reports that detail expenditure to date and financial forecasts. These reports are reviewed at the Senior Management Team's monthly meeting, ensuring that expenditure is incurred with regard to propriety and regularity, that value for money is secured, projects are on track and any savings identified are being achieved.
- 3.29** There is a common system of financial delegations in place across both Offices to ensure that expenditure is controlled and authorised properly.
- 3.30** The Scotland Office and the Office of the Advocate General receive a number of corporate services from the Ministry of Justice and the Scottish Government in areas such as payroll and HR, IT provision and accommodation management. The Offices are in regular contact with the officials responsible for service provision to ensure that their needs are understood and quality of service is maintained. The Offices reimburse the Scottish Government for the cost of the services it supplies.

For the procurement of goods and services the Offices use framework contracts negotiated by the Ministry of Justice and the Scottish Government.

- 3.31** No members of staff in the Scotland Office, the Office of the Advocate General or the Boundary Commission for Scotland were paid by means of a payment to a company. All staff were paid through the payrolls of the Government bodies that are their employers.

Performance

- 3.32** Internal Audit services are provided to the Scotland Office and the Office of the Advocate General by the Ministry of Justice. During 2011-12 Internal Audit reports were produced on the following subjects and made available to the Audit Committee:

- Business continuity;
- Freedom of information request handling;
- Controls over physical and third party assets; and
- Financial controls.

- 3.33** Internal Audit provided a positive assurance to the Audit Committee and to me as the Principal Accounting Officer from these audits.

- 3.34** The Joint Management Board and the Senior Management Teams of both Offices considered a number of key issues during the year. These include:

- The Offices' financial settlement for Spending Review 2010;
- The Offices' accommodation needs in Edinburgh and London;
- Business planning;
- Achievement of objectives;
- Performance against targets;
- The Office of the Advocate General's change management programme; and
- The results of the civil service staff engagement survey 2011.

Compliance with the Corporate Governance Code

- 3.35** The Scotland Office and the Office of the Advocate General have taken full account of HM Treasury's guidance "Corporate Governance in Central

Government Departments” (July 2011) in adapting and strengthening its processes to reflect its new status as a stand-alone department in a manner proportionate to the Offices’ size and functions. Following the requirements of the new corporate governance code the Offices drew up a new board operating framework. The Audit Committee advised the Offices on the framework, it was approved by the Joint Management Committee, and submitted to Ministers. During 2012-13, as agreed with Ministers, the Offices will implement two significant changes:

- The Joint Management Board will meet annually as a Ministerial Joint Management Board, thus providing an opportunity for the Secretary of State, the Parliamentary Under Secretary and the Advocate General to provide strategic direction to the Offices’ senior managers within the formal context of a Board meeting and to assure themselves that there is adequate and appropriate management of the Offices’ resources; and
- The Chairman of the Audit Committee will join the Joint Management Board as the Non-executive Board Member to provide independent external advice to Ministers and senior officials. During the year the Offices will initiate a process to refresh the membership of the Audit Committee to ensure that the Offices receive advice appropriate to their needs and consistent with the Corporate Governance code.

3.36 A detailed account of the Offices’ compliance with the Corporate Governance code is set out in Chapter 8. The new governance structures will be subjected to ongoing review as new innovations are implemented and tested.

Risk assessment

3.37 As the Principal Accounting Officer I have overall responsibility for the effective management of risk within the Scotland Office and the Office of the Advocate General. Risk management is embedded across both Offices. To ensure that risks are identified properly and managed appropriately:

- Both Offices maintain risk registers which identify the risks that the Offices face, the controls currently in place to manage those risks and any future controls planned to mitigate those risks;
- The registers are aligned with one another to ensure that the identification and management of risk is consistent in both Offices and that both Offices take into account the other’s interests in managing their own risks;
- The Senior Management Teams of the Offices review their own risk registers each month;
- The Joint Management Board and the Audit Committee review both registers together at all their meetings. In addition to general overviews of both registers the Joint Management Board and the Audit Committee examine in depth one particular risk at each meeting to assure themselves both as to the

management of the risk in question and the adequacy of risk management within the two Offices;

- The Scotland Office's risk register also includes risks relating to the work of the Boundary Commission for Scotland. The Commission also maintains its own risk register and the Scotland Office officials responsible for sponsoring the Commission routinely review risk with the Commission's Secretary;
- The annual programme of internal audits is informed by both Offices' risk registers so as to give the Audit Committee and me as the Principal Accounting Officer independent assurance of the adequacy of risk management; and
- In addition to formal risk management processes risk identification and management form an integral part of the Offices' work in providing policy and legal advice to Ministers and is routinely undertaken in submissions and other briefings.

3.38 The effectiveness of the two Offices' risk management system is illustrated by the effective achievement of its policy objectives in such areas as the successful passage of the legislation implementing the recommendations of the Commission on Scottish Devolution and the successful administration of the Scottish Parliament's elections in May 2011. The completion of the Scotland Bill's Parliamentary stages did not happen until April 2012 but most of the work took place in 2011-12. Both the Scotland Bill and the administration of the Scottish Parliament's elections were at different stages during the year risks with significant potential impact on the Offices.

3.39 The effectiveness of the Offices' risk management is also illustrated by successful corporate management. During 2011-12 there were no known

- significant lapses of physical or information security;
- lapses of personnel security;
- instances of unrecorded spending or income;
- breaches of delegations on spending
- breaches of propriety and regularity with regard to spending or the receipt of income;
- unauthorised use or disposal of assets; or
- breaches of policy on hospitality and gifts.

3.40 For the period of 2011/12, I am able to report that there were no significant weaknesses in the Office's system of internal controls which affected the achievement of the Office's key policies, aims and objectives.

3.41 There was no occasion to seek HM Treasury's approval for any expenditure outside normal delegations. On no occasion was it necessary to ask a Minister

to provide a formal direction to proceed with a course of action that I as the Accounting Officer had advised against and accordingly there was no need to report any such directions to the Comptroller and Auditor General.

Alisdair McIntosh

Principal Accounting Officer, Scotland Office and
Office for the Advocate General for Scotland

July 2012

Delivering efficient and effective Government

Performance Targets

3.42 For 2011-12, the Offices' three main indicators aimed at ensuring the provision of high quality and efficient services in dealings with the public were:

Target	Indicator	Performance in 2011-12
We will respond to Ministerial correspondence within 15 working days of receipt or we will send an interim reply explaining the reasons for the delay and indicating when a full reply will be sent.	Percentage of correspondence replied to within 15 days.	The Scotland Office answered 2004 pieces of correspondence (up by 428 in 2010-11) and replied to 89.5% of Ministerial correspondence within the target time. The Office of the Advocate General replied to 100% of Ministerial correspondence within the target time.
We will reply to all Freedom of Information (FOI) requests within 20 working days of receipt or, if an extension is permitted under the FOI Act, and it is necessary to use it, we will reply within 20 working days explaining the reasons for the delay and indicating when a full reply will be sent.	Percentage of correspondence replied to within 20 days.	The Scotland Office received 155 FOI requests and replied to 97% within 20 working days either substantively or explaining the reason for an extension. The Office of the Advocate General received 36 FOI requests and replied to 89% within 20 working days.
We will ensure that accounts are paid promptly. We will pay 80% of accounts within 5 days of receipt of a valid invoice.	Percentage of payments made within target time.	The Scotland Office paid 97.6% of invoices within 5 days while the Office of the Advocate General paid 98.5% of invoices within 5 days.

3.43 The Department is fully committed to the prompt payment of invoices for goods and services received and delivering against the prompt payment target set for all central government departments which during the financial year was as follows:

- From 1 May 2010 to pay 80% of all supplier invoices not in dispute within 5 working days of receipt of a properly rendered invoice.

3.44 During the year 98.2% of the department's invoices were paid within 5 days.

3.45 The proportion that is the aggregate amount owed to trade creditors at the year end compared with the aggregate amount invoiced by suppliers during the year was 0.12%, expressed as a number of days in the same proportion to the total number of days in the financial year is 0.4 days.

3.46 There were no interest charges arising and payable by the Department during the year under The Late Payment of Commercial Debts (Interest) Act 1998 and the Late Payment of Commercial Debts Regulations 2002.

3.47 The following table shows: the total number of ordinary written Parliamentary Questions received by both Offices and the percentage answered within five sitting days (in the Commons) and 10 sitting days (in the Lords); the total number of named day PQs received and the percentage answered on the named day and the total number of oral questions answered.

	Ordinary written (total number and % answered in 5 sitting days)		Nominated/named day (total number and % answered in 10 sitting days)		Oral (total number)
House of Commons	257	98%	96	91%	90*
House of Lords	25	96%	0	n/a	0
Total	282	97.5%	96	91%	90

* The Scotland Office received oral questions on six occasions during the reporting year – on 4 May 2011, 22 June 2011, 14 September 2011, 9 November 2011, 11 January 2012 and 22 February 2012.

3.48 The Offices have adopted the same performance indicators for 2012-13.

Freedom of Information Act 2000

3.49 Under the Act, public authorities are required to respond to written requests for information within 20 working days. Information released and considered to be in the wider public interest is placed on the Offices' websites and recorded on the Offices' disclosure logs. Information in former Scottish Office files relating to reserved functions is held by the Scottish Government on behalf of the UK Government and subject to the Act in certain circumstances. Information supplied by the UK Government to the Scottish Government in confidence and recorded on Scottish Government files is also subject to the Freedom of

Information Act 2000 (not the Freedom of Information (Scotland) Act 2002). The Office has an agreement with the Scottish Government on the handling of requests for such information.

Information Assurance

3.50 Reliable and accurate information is crucial to proper decision making in the Scotland Office and Office for the Advocate General for Scotland. This makes information a critical business asset that needs to be protected to properly safeguard the interests of Government and individual members of the public. Information assurance provides a set of procedures which facilitate the management of risks to the availability, integrity and confidentiality of information. We are involved in meeting the principles of information assurance and all staff participated in the wider MoJ information assurance awareness programme.

Health and safety

3.51 The Offices aim to provide a safe and healthy working environment for all staff and visitors, and have procedures in place to ensure that all equipment, plant and premises are safe and free from adverse effects to health. The Offices have staff trained in health and safety management who undertake regular workplace inspections and conduct risk assessments, including display screen equipment assessments.

Staffing

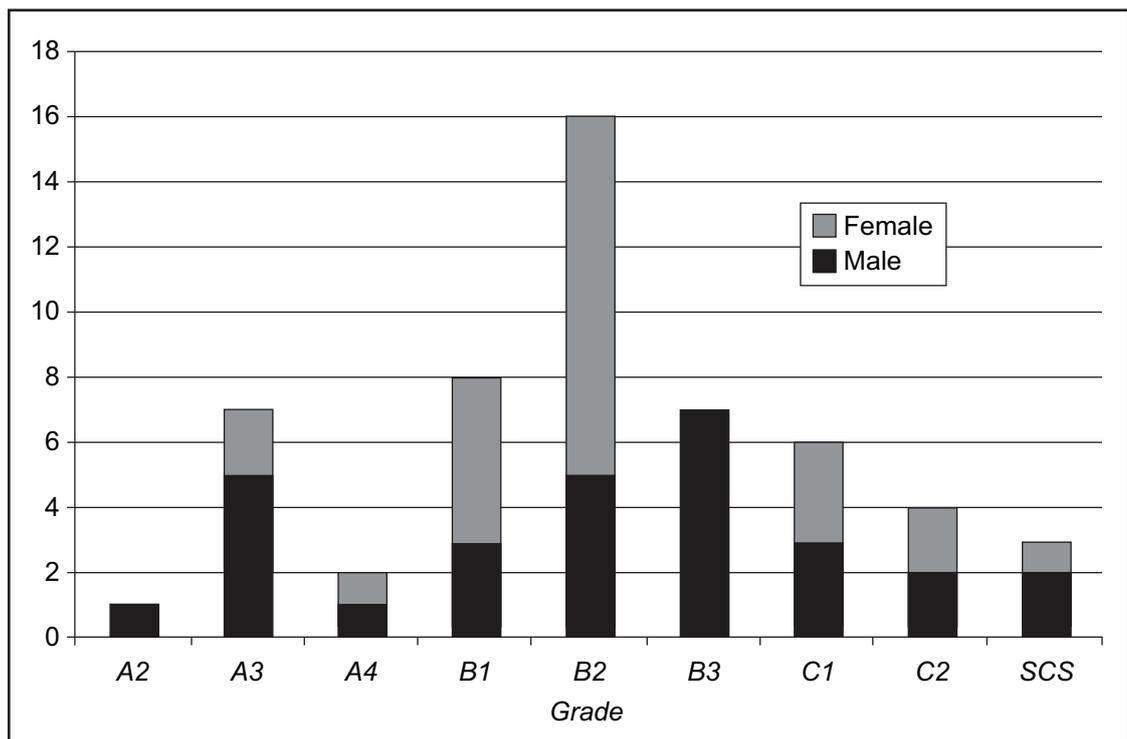
3.52 The Scotland Office and the Office of the Advocate General do not directly employ any staff: instead, staff are seconded or loaned by other Civil Service bodies, mainly the Scottish Government and the Ministry of Justice. The Offices seek staff on secondment to provide the skills and experience needed to fulfil the Offices' functions. Both the Scottish Government and the MoJ recruit staff in accordance with the Civil Service Commissioners' recruitment principles. Legal staff in the Office of the Advocate General are part of the Government Legal Service for Scotland (GLSS) and are seconded to the UK Government from employment with the Scottish Ministers. The recruitment of all legal staff is undertaken by the GLSS, a professional community of lawyers in government from various legal offices. The Office of the Advocate General is also supported by a small number of administrative staff. The following table shows the breakdown of staff in the two Offices at 31 March 2012.

Scotland Office	
Scotland Office, London	19
<i>of which Ministerial Private Offices</i>	7
Scotland Office, Edinburgh	35
Total	54
Office of the Advocate General	
Ministerial Private Office	3
Legal Secretariat to the Advocate General	3
Office of the Solicitor to the Advocate General	40
Total	46

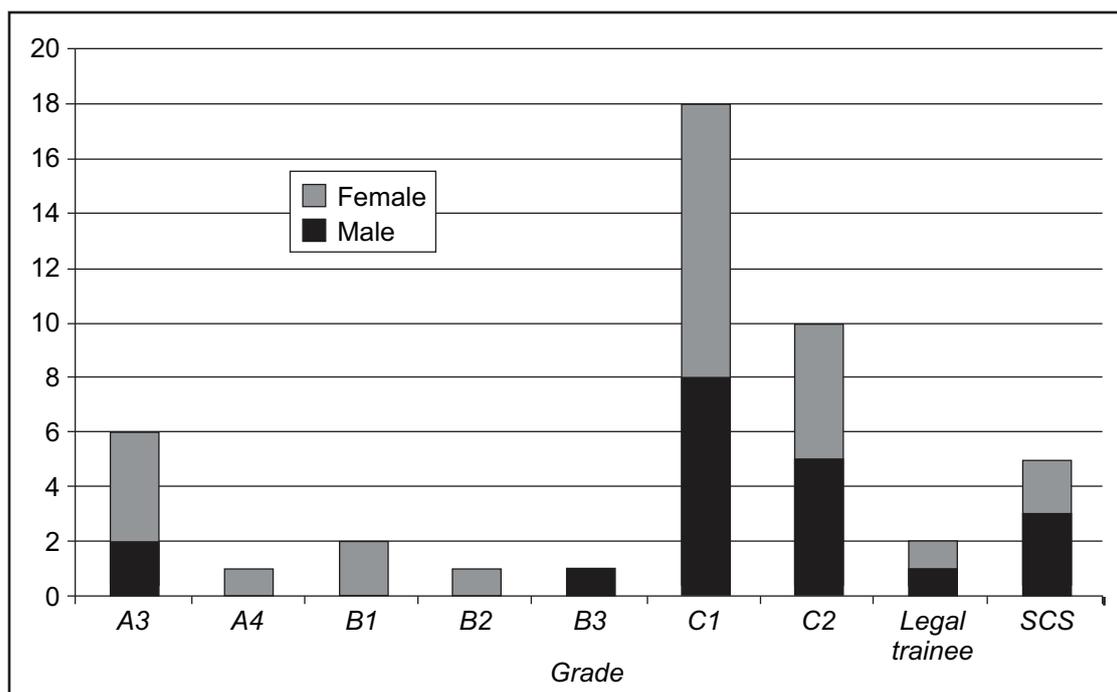
Diversity

3.53 Women make up 46.3% of staff in the Scotland Office and 56.5% of staff in the Office of the Advocate General. The following tables show the numbers of women and men in each grade in the two Offices.

Gender in the Scotland Office at 31 March 2012



Gender in the Office of the Advocate General at 31 March 2012



3.54 Information on the ethnic origin of civil servants is collected using a voluntary, confidential questionnaire. To protect the identity of individual staff, data relating to fewer than five people is not disclosed in equal opportunities monitoring.

3.55 The Scotland Office and Office of the Advocate General have a small number of staff with disabilities. The Offices are aware of their responsibilities under the Equality Act 2010 and, with this in mind, have provided an external stair lift at its premises in Melville Crescent and internal lifts in both Dover House and Melville Crescent.

Senior Civil Service salaries

3.56 The salaries of Senior Civil Servants in the Scotland Office and the Office of the Advocate General at 31 March 2012 are shown in the table below.

Senior Civil Service Salaries

Annual Salary	Number of Scotland Office SCS staff	Number of Office of the Advocate General SCS staff
Under £59,999	-	-
£60,000 - £64,999	2	-
£65,000 - £69,999	-	2
£70,000 - £74,999	-	1
£75,000 - £79,999	-	1
£80,000 - £84,999	1	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	1

Government Expenditure in Scotland

Funding

- 3.57** Responsibility for fiscal policy, macroeconomic policy and public expenditure allocation across the United Kingdom remains with HM Treasury, and the Scottish Government's Budget continues to be determined within the framework of public expenditure control in the United Kingdom. The financial relationship is set out in the Statement of Funding Policy.²
- 3.58** The Scottish Government's Budget is determined by means of a population based formula, the Barnett formula. The UK Parliament votes the necessary provision to the Secretary of State, who, in turn, makes grants to the Scottish Government as set out in the Scotland Act 1998. Provision for the costs of the Scotland Office, Office of the Advocate General, Scottish Parliament elections and European elections are found from within these resources.
- 3.59** The Scottish Government makes its own spending decisions on devolved programmes within the overall totals, subject to approval by the Scottish Parliament.

Efficient use of resources

- 3.60** We are committed to achieving efficiency and effectiveness in all areas of our activities. Throughout 2011-12 the Offices' have sought ways of making more efficient use of resources and reducing costs. These include sub-letting space in our premises to other UK Government bodies and also to the Scottish Government.
- 3.61** The 2012-13 year is the second year of the 2010 spending round. By 2014-15, year four of this spending round, the Scotland Office's provision will be 25% less than in 2010-11. The cut in allocation is particularly pronounced in years three and four and the Offices keep their spending plans under continuous review.
- 3.62** The bulk of the costs of the Scotland Office and the Office of the Advocate General relate to staffing and associated expenditure linked to advisory and support functions for Ministers and other UK Government Departments. Programme expenditure relates to the grant to the Scottish Consolidated Fund and the costs of the Boundary Commission for Scotland.

Spending by the Scotland Office and Office of the Advocate General

- 3.63** Details of planned Scotland Office and Office of the Advocate General expenditure are contained in Chapter 6, Table 1a. The combined provision for the net administration costs is £7.4m in 2012-13.

² The most recent edition was published in October 2010 and is available at: http://www.hm-treasury.gov.uk/spend_sr2010_fundingpolicy.htm

Scottish Government Budget

- 3.64** The Scottish Government has published details of how it has allocated its budget for 2011-12; these are contained in *Scotland's Spending Plans and Draft Budget 2011-12*.³
- 3.65** Chapter 6, Table 2 shows changes in the Scotland Departmental Expenditure Limit (DEL) between Public Expenditure Statistical Analyses⁴ (PESA) 2010 and 2011. The Scotland DEL no longer includes the expenditure of the Scotland Office and Office of the Advocate General.

Government Expenditure and Revenue in Scotland

- 3.66** The Scottish Government published the report, *Government Expenditure and Revenue in Scotland 2010-2011*, on 7 March 2012,⁵ which provides an analysis of the public finances in Scotland. This was the 17th edition of the report, reports before July 1999 were published by the Scottish Office. This latest report presented data for the 2010-11 fiscal year, the latest year for which information on Government expenditure and revenue was available for Scotland.

Resource Accounting and Budgeting (RAB)

- 3.67** RAB provides an accurate measure of Departmental expenditure by matching costs to time, measuring the full resource cost of Government activity, including non-cash expenditure such as depreciation and provisions.
- 3.68** The aim of the tables in this report is to provide a detailed analysis of Departmental expenditure plans in resource terms, showing resource consumption and capital investment; voted and non-voted expenditure; expenditure in three year DELs and Annually Managed Expenditure (AME).

Whole of Government Accounts (WGA)

- 3.69** The Scotland Office continues to participate in the WGA project, which is being conducted by HM Treasury.

³ <http://www.scotland.gov.uk/Publications/2010/11/17091127/0>

⁴ PESA is a compendium that brings together recent outturn data, estimated outturns for the latest year and budgetary plans over the whole range of UK public expenditure. It is published annually as a Command paper alongside the Supply Estimates and Departmental Reports. It includes an analysis of public spending by country and region, spending by function and economic category of expenditure, and full details of spending by Department and grouped by budgetary control aggregates. Information on PESA is available at http://www.hm-treasury.gov.uk/pespub_index.htm

⁵ This publication can be found at: <http://www.scotland.gov.uk/Publications/2012/03/9525>

Chapter 4: Management Commentary

4.1 In 2011-12 within the Parliamentary Supply Estimates (Spring Supplementary Estimate) for the Scotland Office and the Office of the Advocate General the spend totalled £26.2 billion, being primarily a grant to the Scottish Consolidated Fund.

Financial Performance

4.2 Parliament votes funds to departments on two occasions during the year by means of a *Main Estimate* at the start of the year and a *Single Supplementary Estimate* in January.

4.3 **Movements in Estimate provision during 2011–12:** At the start of the year the Scotland Office and the Office of the Advocate General were voted £26.562 billion in its Main Estimate. By the final Single Supplementary Estimate, this had increased to £26.992 billion due to the following main reason:

- £430,323,000 increase in the grant to the Scottish Consolidated Fund.

Explanation for variances between Estimate and Net Resource Outturn

4.4 Overall there was an underspend of 2.94% (£792.404m) on the estimate provision of £26.992 billion. Note 2 to the Accounts provides a breakdown of this position for each subhead in the Estimate. The reasons for major variances in excess of both £60k and 5% are set out below.

4.5 The Scotland Office and the Office of the Advocate General underspend is mainly attributable to the potential calls on reserves being either resolved or less than had earlier been anticipated, together with planned efficiencies within the Offices.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Scotland Office and Office of the Advocate General	6,833	7,619	786	10.3%

4.6 The underspend by the Boundary Commission for Scotland was due to the lower than expected costs for the ongoing Sixth Review of UK Parliament Constituencies. Specifically, the Commission was able to reduce its advertising costs significantly through the use of smaller public notices and made further savings from having one day, rather than two day, public hearings.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Boundary Commission for Scotland	298	537	239	44.5%

- 4.7 The underspend on the Grant to Scottish Consolidated fund is due to reduced funding requirements within the Scottish Government at year end.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Grant to payable to the Scottish Consolidated Fund	26,179,500	26,984,655	805,155	2.98%

- 4.8 Reconciliation of resource expenditure between Estimate, Accounts and Budgets

	Estimate (£000)	Outturn (£000)
Net Resource Outturn (Estimates)	26,992,901	26,200,408
Net Operating Cost (Accounts)	26,992,901	26,200,408
Voted expenditure outside the budget	(26,984,655)	(26,179,500)
Resource Budget Outturn (Budget)	8,246	7,131

Chapter 5: Remuneration Report

Auditable Sections

- 5.1** In accordance with the requirements of Schedule 7A to the Companies Act 1985 (as amended) only certain sections of the Remuneration Report have been subject to full external audit. These comprise the sections on salary and pension entitlements.

Remuneration Policy

- 5.2** The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.
- 5.3** The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament (MPs) and their allowances; on Peer's allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.
- 5.4** In reaching its recommendations, the Review Body has regard to the following considerations:
- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
 - Regional/local variations in labour markets and their effects on the recruitment and retention of staff;
 - Government policies for improving the public services including the requirement on Departments to meet the output targets for the delivery of Departmental services;
 - The funds available to departments as set out in the Government's Departmental Expenditure Limits; and
 - The Government's inflation target.
- 5.5** The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.
- 5.6** Further information about the work of the Review Body can be found at www.ome.uk.com

Board members and senior civil servants remuneration

- 5.7** The salaries of Scotland Office and Office of the Advocate General Senior Managers were determined by the government body from which they were

seconded in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

- 5.8** 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.

Service Contracts

- 5.9** Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.
- 5.10** 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.
- 5.11** Further information about the work of the Civil Service Commissioners can be found at civilservicecommission.independent.gov.uk.

Ministers' salary and pension entitlements

- 5.12** The salary, taxable benefits in kind and pension entitlements for ministers are shown in the following tables. Salary figures include all allowances payable by the Scotland Office and the Office of the Advocate General, whereas full-year equivalents are calculated net of allowances, bonuses and ex gratia payments. For ministers in the House of Lords, this can mean that Ministers' in-year remuneration exceeds their calculated full-year equivalent, as their total remuneration is paid by their departments. The arrangement for Ministers in the House of Lords is different from that for Ministers in the House of Commons in that they do not receive a salary as members of the House of Lords and their entire salary costs are borne by their departments.
- 5.13** The following information on Scotland Office and Office of the Advocate General Ministerial and senior staff salary and pension remuneration was subject to audit scrutiny.

Remuneration (salary and payments in kind)

Minister	2011-12		2010-11	
	Salary	Benefits in Kind (to the nearest £100)	Salary	Benefits in Kind (to the nearest £100)
The Rt Hon Michael Moore MP Secretary of State for Scotland (from 29 May 2010)	£68,827	-	£57,726 (68,827 full year equivalent)	-
The Rt Hon Danny Alexander MP Secretary of State for Scotland (from 12 May 2010 to 29 May 2010)	n/a	n/a	£3,700 (68,827 full year equivalent)	-
The Rt Hon Jim Murphy MP Secretary of State for Scotland (to 6 May 2010)	n/a	n/a	£28,436 ⁽ⁱ⁾ (78,356 full year equivalent)	-
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland (from 12 May 2010)	£23,697	-	£20,894 (23,697 full year equivalent)	-
Ann McKechin MP Parliamentary Under Secretary of State for Scotland (to 6 May 2010)	n/a	n/a	£11,196 ⁽ⁱⁱ⁾ (30,851 full year equivalent)	-
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland (from 12 May 2010)	£128,121 (91,755 full year equivalent)	-	£112,987 ⁽ⁱⁱⁱ⁾ (91,755 full year equivalent)	-
Lord Davidson of Glen Clova QC Advocate General for Scotland (to 6 May 2010)	n/a	n/a	£39,373 ^(iv) (96,584 full year equivalent)	-

(i) includes £19,589 severance payment

(ii) includes £7,713 severance payment

(iii) includes £36,366 House of Lords Office Holders Allowance

(iv) includes £24,146 severance payment

Notes to the table:

5.14 The Ministers of the previous administration stopped being MPs when Parliament was dissolved on 12 April 2010, in preparation for the General Election. However, they remained in post and continued to be paid until polling day, 6 May 2010. The incoming Ministers of the current Government are paid from 12 May 2010, the date the coalition was formed. Prior year numbers for former Ministers are included for completeness.

Pension Benefits

Pension Benefits	Accrued pension at age 65 as at 31/03/12	Real increase in pension at age 65	CETV at 31/03/12	CETV at 31/03/11	Real increase in CETV
The Rt Hon Michael Moore MP Secretary of State for Scotland	0-5	0-2.5	33	14	10
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland	0-2.5	0-2.5	17	8	5
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland	0-5	0-2.5	71	33	24

Ministerial pensions

- 5.15** Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended).
- 5.16** Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of member contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.
- 5.17** Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office from age 65. Pensions are re-valued annually in line with Pensions Increase legislation. From 1 April 2009 members pay contributions of 5.9% of their Ministerial salary if they have opted for the 1/60th accrual rate, 7.9% of salary if they have opted for the 1/50th accrual rate or 11.9% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution of 28.7% of the Ministerial salary paid by the Exchequer representing the balance of cost as advised by the Government Actuary. Increases to member and Exchequer contributions will apply from 1 April 2012.
- 5.18** The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

The Cash Equivalent Transfer Value (CETV)

5.19 This 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 pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated 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.

The real increase in the value of the CETV

5.20 This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

Senior Managers' salary and pension entitlements

5.21 Salary figures include all allowances payable by the Scotland Office, whereas full year equivalents are calculated net of allowances, bonuses and ex gratia payments. Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2011-12 relate to performance in 2010-11 and the comparative bonuses reported for 2010-11 relate to performance in 2009-10.

5.22 The salary, taxable benefits in kind and pension entitlements for the Offices Joint Management Board is shown in the following tables:

Remuneration	2011-12			2010-11		
	Salary £'000	Bonus Payments £'000	Benefits in Kind (to the nearest £100) £	Salary £'000	Bonus Payments £'000	Benefits in Kind (to the nearest £100) £
Alisdair Mcintosh Director	80-85	-	-	80-85	5-10	-
Paul Johnston Director (from 4 April 2011)	90-95	-	-	n/a	n/a	n/a
Charles Mullin Director (to 31 March 2011)	n/a	n/a	n/a	100-105 ⁽ⁱ⁾	0-5	-
Chris Flatt Deputy Director (from 5 July 2010)	60-65	-	-	45-50 (60-65 full year equivalent)	-	-
Kate Richards Deputy Director (to 9 March 2012)	75-80 ⁽ⁱⁱ⁾	-	6	75-80 ⁽ⁱⁱ⁾	0-5	6
Margaret Porteous Deputy Director (from 4 July 2011)	45-50 (60-65 full year equivalent)	-	-	n/a	n/a	n/a
John Henderson Deputy Director (to 18 March 2011)	n/a	n/a	n/a	80-85 ⁽ⁱⁱⁱ⁾	-	-
Jan Marshall Deputy Director (from 1 December 2010)	70-75	-	-	20-25 (70-75 full year equivalent)	-	-
John Ward Deputy Director (to 30 November 2010)	n/a	n/a	n/a	50-55 (80-85 full year equivalent)	-	-
Robert Marshall Deputy Director (to 6 November 2011)	45-50 (70-75 full year equivalent)	-	-	70-75	0-5	-

(i) includes a payment of £5,942 for untaken annual leave entitlement

(ii) includes £7,045 Private Secretary Allowance

(iii) includes a payment of £11,088 for untaken annual leave entitlement

5.23 The salary of the most-highly paid individual in Scotland Office and the Office of the Advocate General in the financial year 2011-2012 was £93,000. This was 2.13 times the median salary of the workforce, which was £43,736.

	2011-12	
	Number	£000
Total Remuneration Permanent Staff		4,117
Total Permanent Staff	98	
Median Pay of Permanent Staff		43.7
Highest Paid Director of Pay band		93.0
As a multiple of Permanent Staff Median Pay		2.1

Non-Executive Directors

5.24 The Scotland Office and the Office of the Advocate General non-executive director does not receive remuneration or pension payments.

Compensation for loss of office

5.25 No senior managers received compensatory payments in 2011-12 (£Nil in 2010-11).

Pension Benefits

	Accrued pension at age 65 as at 31/03/12 and related lump sum	Real increase in pension at age 65 and related lump sum	CETV at 31/03/12	CETV at 31/03/11	Real increase in CETV
Alisdair McIntosh Director	15-20 plus lump sum of 45-50	0-2.5 plus lump sum of 0-2.5	272	246	4
Paul Johnston Director (from 4 April 2011)	10-15 plus lump sum of 40-45	0-5 plus lump sum of 10-15	160	100	51
Chris Flatt Deputy Director	5-10 plus lump sum of 20-25	0-2.5 plus lump sum of 2.5-5	83	66	10
Kate Richards Deputy Director (to 9 March 2012)	10-15	0-2.5	180	156	8
Margaret Porteous Deputy Director (from 4 July 2011)	25-30 plus lump sum of 75-80	0	506	480	0
Jan Marshall Deputy Director	15-20 plus lump sum of 50-55	0-2.5 plus lump sum of 2.5-5	316	275	17
Robert Marshall Deputy Director (to 6 November 2011)	25-30	0-2.5	354	324	9

Salary

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

5.27 This report is based on payments made by the Scotland Office and the Office of the Advocate General and thus recorded in these accounts.

Benefits in kind

5.28 The monetary value of benefits in kind covers any benefits provided by the employer and treated by Her Majesty's Revenue and Customs as a taxable emolument.

5.29 Benefits in kind are an estimate, as the final value is to be agreed between the Secretary of State and Her Majesty's Revenue and Customs.

Civil Service Pensions

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

5.31 Employee contributions are set at the rate of 1.5% of pensionable earnings for *classic* and 3.5% for *premium, classic plus* and *nuvos*. 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' 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*.

5.32 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, immediately after the scheme year end, the accrued pension is uprated in line with CPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the *Finance Act 2004*.

5.33 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution).

Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

- 5.34** The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of *classic*, *premium* and *classic plus* and 65 for members of *nuvos*. Further details about the Civil service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

The Cash Equivalent Transfer Value (CETV)

- 5.35** 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 members' accrued benefits and any contingent spouses' 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 individual 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 calculated 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.

The real increase in the value of the CETV

- 5.36** This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee including the value of any benefits transferred from another pension scheme or arrangement, and uses common market valuation factors for the start and end of the period.

Alisdair McIntosh

Principal Accounting Officer, Scotland Office and
Office for the Advocate General for Scotland

July 2012

Chapter 6: Public Expenditure Financial Tables

Table 1 - The Scottish Block 2006-07 to 2014-15 ^{(1) (2)}

	2006-07 outturn £'000	2007-08 outturn £'000	2008-09 outturn £'000	2009-10 outturn £'000	2010-11 outturn £'000	2011-12 provisional outturn £'000	2012-13 provision £'000	2013-14 provision £'000	2014-15 provision £'000
Table 1a - Scotland Office and Office of the Advocate General (OAG) Resource ⁽³⁾									
Scotland Office & OAG Administration Costs	5,770	7,284	7,235	7,530	7,688	6,833	7,400	7,100	6,430
Scotland Office & OAG - other ⁽³⁾	119	170	593	557	188	298	457	300	300
Scotland Office & OAG Resource ⁽³⁾	5,889	7,454	7,828	8,087	7,876	7,131	7,857	7,400	6,730
Scotland Office & OAG Capital									
Scotland Office & OAG	0	0	89	0	0	0	77	66	55
Scotland Office Resource & OAG + Capital DEL ⁽³⁾	5,889	7,454	7,917	8,087	7,876	7,131	7,934	7,466	6,785
<i>less depreciation & impairments</i>	(180)	(181)	(28)	(20)	(16)	(14)	(30)	(30)	(30)
Scotland Office & OAG DEL ^{(4) (5)}	5,709	7,273	7,889	8,067	7,860	7,117	7,904	7,436	6,755
Non-voted Election Expenditure (resource)	1,081	18,012	980	10,237	10,703	13,777	0	0	0
Scotland Office & OAG DEL & Non-voted Expenditure	6,790	25,285	8,869	18,304	18,563	20,894	7,904	7,436	6,755

(1) Totals may not sum due to roundings.

(2) Includes Budgetary Changes as a result of Clear Line of Sight

(3) Including depreciation & impairments

(4) Resource + capital - depreciation & impairments

(5) By convention Departmental Expenditure Limit budgets are expressed as resource and capital less depreciation & impairments. Therefore the resource and capital numbers in this table will not sum to the Departmental Expenditure Limit: the difference being depreciation & impairments.

Table 1b - Scotland Total Block (1) (2)

	2006-07 outturn £'000	2007-08 outturn £'000	2008-09 outturn £'000	2009-10 outturn £'000	2010-11 outturn £'000	2011-12 provisional outturn £'000	2012-13 provision £'000	2013-14 provision £'000	2014-15 provision £'000
Scottish Government									
Scottish Government Resource	21,980,986	23,384,044	24,131,306	25,123,384	25,775,504	25,475,713	25,892,820	26,066,476	26,225,922
Scottish Government Capital	3,029,749	3,562,967	3,332,587	3,926,513	3,283,549	2,736,839	2,552,505	2,362,228	2,460,827
Scottish Government DEL (3) (7)	25,010,735	26,947,011	27,463,893	29,049,897	29,059,053	28,212,552	28,445,325	28,428,704	28,686,749
<i>less depreciation & impairments</i>	-443,288	-428,721	-515,074	-564,270	-496,662	-544,257	-608,157	-576,765	-575,289
Scottish Government DEL (4) (7)	24,567,447	26,518,290	26,948,819	28,485,627	28,562,391	27,668,295	27,837,168	27,851,939	28,111,460
Scotland Office & OAG DEL & Non-voted Expenditure	6,790	25,285	8,869	18,304	18,563	20,894	7,904	7,436	6,755
Total Scottish Block (4) (5) (6)	24,574,237	26,543,575	26,957,688	28,503,931	28,580,954	27,689,189	27,845,072	27,859,375	28,118,215

(1) Totals may not sum due to roundings.

(2) Includes Budgetary Changes as a result of Clear Line of Sight

(3) Including depreciation & impairments

(4) Resource + capital - depreciation & impairments

(5) By convention Departmental Expenditure Limit budgets are expressed as resource and capital less depreciation & impairments. Therefore the resource and capital numbers in this table will not sum to the Departmental Expenditure Limit: the difference being depreciation & impairments.

(6) Scotland Office DEL + Scottish Government DEL net of depreciation and impairments

(7) DEL figures for outturn years have been adjusted to reflect subsequent budgeting changes

TABLE 2: Changes to Scottish Government Departmental Expenditure Limit for 2010-11 to 2014-15 since June 2011 ⁽¹⁾

	2010-11 £m Outturn	2011-12 £m Provisional Outturn	2012-13 £m Provision	2013-14 £m Provision	2014-15 £m Provision
Position at June 2011 net of depreciation	28,585.0	27,453.0	27,707.1	27,707.5	27,943.9
<i>plus depreciation & impairments</i>	492.2	534.8	598.7	567.3	564.8
Subtotal	29,077.2	27,987.8	28,305.8	28,274.7	28,508.7
Budgeting & classification changes					
Highland & Islands Airports: transfer from Public Corporation to Central Government	8.2	9.5	9.5	9.5	10.5
Housing Subsidy: transfer from AME to DEL	8.7	8.0	8.0	8.0	8.0
Departmental outturn (underspend compared to final plans)					
Provisional Outturn for 2010-11	(28)	-	-	-	-
Final Outturn for 2010-11	(7)	-	-	-	-
Estimated Outturn for 2011-12	0.0	(145)	-	-	-
Spending Policy					
Reserve Claim: Student Loans	-	16.1	-	-	-
DEL carryforward from 2010-11	-	130.0	-	-	-
Forth Replacement Crossing: prepayments	-	50.0	-	(22)	(28)
Scottish Sleepers	-	50.0	-	-	-
Barnett Consequentials					
Autumn Statement 2011: Council Tax Freeze	-	67.5	-	-	-
Autumn Statement 2011: Growing Places	-	21.0	-	-	-
Autumn Statement 2011: Free Advice Services	-	1.7	-	-	-
Autumn Statement 2011: Transport	-	-	6.2	42.0	65.1
Autumn Statement 2011: Rail Infrastructure	-	-	1.2	1.2	4.8
Autumn Statement 2011: Growth and Green	-	-	6.0	33.6	60.4
Autumn Statement 2011: Education	-	-	29.0	47.5	43.5
Autumn Statement 2011: Housing	-	-	26.0	17.6	(1.4)
Autumn Statement 2011: Youth Contract	-	-	8.1	6.9	6.9
Autumn Statement 2011: Other	-	-	36.2	2.3	8.1
Budget 2012: Get Britain Building	-	-	9.3	5.7	(1.7)
Budget 2012: Free Advice Services	-	-	-	1.7	1.7
Olympics	-	16.0	-	-	-
Subtotal	-18.2	224.8	139.6	154.0	178.0
Capital DEL plus Resource DEL	29,059.1	28,212.6	28,445.3	28,428.7	28,686.7
<i>Less Depreciation & Impairments</i>	496.7	544.3	608.2	576.8	575.3
Position at May 2012 net of depreciation	28,562.4	27,668.3	27,837.2	27,851.9	28,111.5

(1) Totals may not sum due to roundings

TABLE 3: Cash grant paid to the Scottish Consolidated Fund 2010-11: Provision and Final Outturn

	Original Provision	Final Provision	Final Outturn
	£m	£m	£m
Expenditure Classified as Departmental Expenditure Limit ⁽¹⁾⁽²⁾	28,937	29,130	29,025
Expenditure Classified as Annually Managed Expenditure	3,392	3,646	3,215
Non Domestic Rates	2,068	2,068	2,068
Total Managed Expenditure	34,398	34,844	34,307
Adjustments to cash requirement			
Non-budgetary cash items	214	357	303
Depreciation and Impairments	(616)	(660)	(602)
Other Cash to accruals adjustments	(3,277)	(3,158)	(3,238)
Non Domestic Rates Income	(2,068)	(2,068)	(2,068)
National Insurance Fund Payments towards Scottish NHS	(1,724)	(1,724)	(1,886)
Other items including LA supported borrowing and non-voted expenditure	(317)	(317)	(336)
Closing balance in Scottish Consolidated Fund			294
Cash grant paid to Scottish Consolidated Fund	26,609	27,274	26,773

Totals may not sum due to roundings

⁽¹⁾ Resource and capital DEL including depreciation

⁽²⁾ Figures not adjusted for subsequent budgeting changes

Reconciliation between DEL in table 3 and 1

Estimated outturn from table 3	29,025
<i>add:</i>	
Housing Subsidy: transfer from AME to DEL	9
Highland & Islands Airports: transfer from Public Corporation to Central Government	8
Transfer of Animal Health budget	17
Outturn from table 1b	29,059

TABLE 4: Cash grant paid to the Scottish Consolidated Fund 2011-12: Provision and Estimated Outturn

	Original Provision	Final Provision	Estimated Outturn
	£m	£m	£m
Expenditure Classified as Departmental Expenditure Limit ^{(1) (2)}	27,988	28,350	28,205
Expenditure Classified as Annually Managed Expenditure	3,259	3,322	3,280
Non Domestic Rates	2,171	2,182	2,182
Total Managed Expenditure	33,417	33,854	33,666
Adjustments to cash requirement			
Non-budgetary cash items	294	294	292
Depreciation and Impairments	(635)	(644)	(644)
Other Cash to accruals adjustments	(2,616)	(2,601)	(3,388)
Non Domestic Rates Income	(2,171)	(2,182)	(2,182)
National Insurance Fund Payments towards Scottish NHS	(1,724)	(1,724)	(1,776)
Other items including LA supported borrowing and non-voted expenditure	(12)	(12)	(12)
Closing balance in Scottish Consolidated Fund			224
Cash grant paid to Scottish Consolidated Fund	26,554	26,985	26,180

Totals may not sum due to roundings

⁽¹⁾ Resource and capital DEL including depreciation

⁽²⁾ Figures not adjusted for subsequent budgeting changes

Reconciliation between DEL in table 4 and 1

Estimated outturn from table 4	28,205
<i>add:</i>	
Housing Subsidy: transfer from AME to DEL	8
Outturn from table 1b	28,213

TABLE 5: Cash grant paid to the Scottish Consolidated Fund 2012-13

	Original Provision £m
Expenditure Classified as Departmental Expenditure Limit ⁽¹⁾	28,445
Expenditure Classified as Annually Managed Expenditure	3,117
Non Domestic Rates	2,263
Total Managed Expenditure	33,825
Adjustments to cash requirement	
Non-budgetary cash items	284
Depreciation and Impairments	(730)
Other Cash to accruals adjustments	(2,218)
Non Domestic Rates Income	(2,263)
National Insurance Fund Payments towards Scottish NHS	(1,724)
Other items including LA supported borrowing and non-voted expenditure	(12)
Cash grant paid to Scottish Consolidated Fund	27,162

Totals may not sum due to roundings

⁽¹⁾ Resource and capital DEL including depreciation

Table 6: Staffing

	2008-09						2009-10						2010-11						2011-12					
	SO		OAG		SO		OAG		SO		OAG		SO		OAG		SO		OAG					
	Comp	Actual	Comp	Actual	Comp	Actual																		
Permanent staff	55	50.6	38	35.4	58	51.7	43	40.8	59	55.2	38	34.1	60	49.6	47	41.3								
Casual staff	-	0.4	-	2	-	1.5	-	1.5	-	1	-	0.6	-	1	-	2								
Overtime	-	2.8	-	1.1	-	2.1	-	1	-	0.6	-	0.4	-	1.6	-	0.2								
Total	55	53.8	38	38.5	58	55.3	43	43.3	59	56.8	38	35.1	60	52.2	47	43.5								

Notes:

1. "Comp" refers to the complement of staff agreed by the Offices' Joint Management Board at the start of each financial year.
2. The "actual" figures show the average number of staff in post throughout the year and thus reflect fluctuations in staffing due to transfers, vacancies, retirements etc.
3. Details of the staff in post at 31 March 2012 are shown at para 3.52.

Chapter 7: Statement of the Accounting Officer's responsibilities

- 7.1** Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Scotland Office and the Office of the Advocate General to prepare, for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Scotland Office and the Office of the Advocate General and of its net resource outturn, the application of resources, changes in taxpayers' equity and cash flows for the financial year.
- 7.2** In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:
- observe the Accounts Direction issued by HM Treasury, 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 whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
 - prepare the accounts on a going concern basis.
- 7.3** HM Treasury has appointed the Director of the Scotland Office as Accounting Officer of the Scotland Office and the Office of the Advocate General. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Scotland Office and the Office of the Advocate General, are set out in *Managing Public Money* published by the HM Treasury.

Chapter 8: Compliance with the Government Corporate Governance Code

Introduction

- 8.1** *Corporate governance in central government departments: code of good practice* was published in July 2011. The Code sets out principles and provisions relating to the role and responsibilities, composition, and functions of departmental boards.
- 8.2** This Chapter summarises the areas in which the Scotland Office and the Office of the Advocate General procedures depart from the Code and should be read in conjunction with the Code which is published at http://www.hm-treasury.gov.uk/psr_governance_corporate.htm .
- 8.3** Most central government departments have multi-billion pound budgets and deliver a range of front line services. The Scotland Office and OAG are among the smallest government departments, with a budget of less than £8m. While the Offices are committed to ensuring that they abide by the principles and spirit of the Code, it would be disproportionate to implement some of the detailed provisions contained in the Code.

The Role of the Board

- 8.4** The Offices comply with the majority of this section of the Code.

Compliance with Paragraph 2.5 of the Code

Paragraph 2.5 of the Code states:

- *“Some activities may be exercised by committees of the board. As a minimum, this will include committees responsible for audit and risk assurance (the responsibilities of which will include for reviewing the comprehensiveness of assurances and integrity of financial statements), and **nominations and governance** (the responsibilities of which will include ensuring there are satisfactory systems for identifying and developing leadership and high potential, scrutinising the incentive structure and succession planning for the board and the senior leadership of the Department, and scrutinising governance arrangements).”*

- 8.5** The Offices’ Joint Management Board (JMB) does not have a nominations and governance sub-committee. Because this requirement is repeated in more detail at section 4 of the Code, a more detailed explanation of the reasons for not operating a nominations and governance committee is set out below.

Compliance with Paragraph 2.15 of the Code

Paragraph 2.15 states that:

- *“The permanent secretary is responsible for the executive management of the department. The permanent secretary should set out annually for the board a structure for discharging this responsibility.”*

8.6 Structures for ensuring the sound executive management of the Offices are set by the Directors of the Scotland Office and OAG respectively. This is not formally reported at Board level as it is unnecessary given the small sizes of the Offices.

Board composition

8.7 HM Treasury has agreed that it would be disproportionate for the Scotland Office and OAG to implement the Government’s Enhanced Departmental Board Protocol. This has a number of implications for the way in which the Offices implement the provisions of the Corporate Governance Code.

Paragraph 3.3 of the code states that:

- *“The board should be balanced, with approximately equal numbers of ministers, senior officials and NEBMs. It should comprise:*
 - *The department’s lead minister, who should chair;*
 - *Other departmental ministers;*
 - *The permanent secretary;*
 - *The finance director, who should be professionally qualified;*
 - *Other senior officials; and*
- *At least four non-executive board members (NEBMs), the majority of whom should be senior people from the commercial private sector, with experience of managing complex organisations. NEBMs should be appointed in accordance with Cabinet Office guidance.*

8.8 The JMB is chaired by the Director of the Scotland Office, as the Principal Accounting Officer for the Offices. Because of the size of the Offices, Ministers and senior officials have frequent and regular opportunities to discuss issues of relevance to the JMB. All three Ministers are to receive briefings on the agenda for all JMB meetings in good time ahead of the meeting and a short note from the Chair after each meeting. In addition, once a year, at one of its quarterly meetings the JMB meets formally with Ministers. This annual meeting provides a forum for Ministers to discuss with the JMB important strategic and operational issues within the Offices, and to offer advice to the Director of the Scotland Office in his role as the Principal Accounting Officer for both Offices. This system

ensures appropriate ministerial input into JMB decision-making while avoiding placing unreasonable demands on ministerial time in a small department.

8.9 Both Offices' finances are handled by the Scotland Office. The relevant finance team is headed by an experienced finance official who routinely attends Board meetings.

8.10 In common with the other territorial offices, the Offices have one Non Executive Board Member (NEBM). The NEBM is a senior individual with significant experience in the Scottish public sector. In addition, another member of the Audit Committee who is an external senior civil servant, with significant experience in operational delivery, is invited to attend meetings of the JMB. Given the size of the department, the level of its budget and its range of responsibilities, the Board concluded that it would be a disproportionate use of resources to appoint additional NEBMs.

Compliance with Paragraph 3.6

Paragraph 3.6 of the Code states that:

- *“If the NEBMs believe the permanent secretary is a barrier to effective delivery, in extremis, they can recommend that the Prime Minister, lead minister and Head of the Home Civil Service, should remove him or her from post.”*

8.11 The Offices do not, for reasons elaborated above, operate a system with a large number of NEBMs. Both the Director of the Scotland Office and the Director of OAG are accountable to the Director General, Deputy Prime Minister's Office, in the Cabinet Office for their performance. It is open to the NEBM *in extremis* to raise any serious concerns about the operation of the Offices with Cabinet Office. In addition, the non-executive board member may request to meet with Scotland Office and OAG Ministers if they deem it necessary, and should meet with Ministers at least once a year (other than at the Ministerial Board meeting).

Compliance with Paragraph 3.10

Paragraph 3.10 of the Code states that:

- *“The mix and balance of skills and understanding [of Board members] should be reviewed periodically, at least annually as part of the board's effectiveness evaluation, to ensure they remain appropriate for the department's board.”*

8.12 The mix and balance of skills on the Board are determined through the appointments process by which individuals are recruited to senior management posts within the Offices. In fulfilling their roles, Board deputy directors are expected to demonstrate the necessary skills and corporate behaviour required of them as JMB members. The exception to this appointments process is the non-executive director sitting on the JMB, whose reappointment is periodically reviewed. The non-executive member has the opportunity to meet regularly with the Principal Accounting Officer to review performance.

Compliance with Paragraph 3.13

Paragraph 3.10 states that:

- *“The board should agree and document in its board operating framework a de minimis threshold and mechanism for board advice on the operation and delivery of policy proposals.”*

- 8.13** The Board’s Operating Framework sets out clearly those areas and decisions which are reserved for the Board. The size of the Offices ensures that there is regular and close communication between Board members.

Board effectiveness

- 8.14** The JMB complies with the majority of this section of the Code. However, there are some areas where the Offices depart from the principles outlined in this section, due to the nature and composition of the JMB.

Compliance with Paragraphs 4.3 to 4.5

Paragraph 4.3 describes a board’s nominations and governance committee and paragraphs 4.4 to 4.5 elaborate the requirement.

- *4.3 All boards should have a nominations and governance committee, which will advise the board on key elements of effectiveness, including ensuring there are satisfactory systems for identifying and developing leadership and high potential, scrutinising the incentive structure and succession planning for the board and the senior leadership of the Department, and scrutinising governance arrangements.*

- 8.15** The Joint Management Board does not operate a nominations and governance sub-committee. The Scotland Office and the Office of the Advocate General do not employ staff directly, relying on secondments and loans from other government bodies. Staff terms and conditions are set by parent bodies, primarily the Ministry of Justice and the Scottish Government - this includes the pay and reward systems and other HR policies which comprise the incentive structure.

- 8.16** The Board collectively is responsible for monitoring key personnel issues. It also seeks to develop high potential across the Offices. The Senior Management Team of the Scotland Office and the OAG Management Team also regularly consider staffing and training and development issues, and where appropriate will discuss these jointly. However, in view of the specialised legal nature of many OAG posts, cross-over staff deployment between the two Offices is not common. The Director of OAG is a member of the Government Legal Service for Scotland staffing committee.

- 8.17** Governance arrangements are reviewed at JMB level. In addition, the Audit Committee is responsible for providing assurances to the Principal Accounting

Officer that systems are in place for the effective monitoring of risk management, internal control (including financial control) and governance across the Offices.

Compliance with Paragraph 4.11

Paragraph 4.11 states that the Board Secretary should agree the agenda for Board meetings with both the Chair and the lead non-executive board member. Under JMB procedures, agendas are agreed with the Chair of the Board in advance of each meeting and all members have the opportunity to raise items for inclusion on the agenda.

Compliance with Paragraphs 4.12 to 4.14

Paragraphs 4.12 to 4.14 relate to evaluations of the effectiveness of the Board.

- 8.18** The Board will carry out a full evaluation of its effectiveness on a regular basis. However, any review should be appropriate to the size and range of JMB responsibilities. Board members, with the exception of the non-executive director, receive annual appraisals in line with the senior civil service performance management framework.

Chapter 9: Annual Report of the Audit Committee

Report for the year 2011-2012 from the chairman

Purpose

- 9.1** To provide the Joint Management Board of the Scotland Office/Office of the Advocate General (SO/OAG) with a report on the work of the SO/OAG Audit Committee during 2011-12, and to report on any issues or risks which the Committee believes should be brought to the attention of the Board.

Background

- 9.2** The Head of the Scotland Office was designated Principal Accounting Officer during 2011-12; previously he had been an Additional Accounting Officer. As an accounting officer, he needs to have confidence that the Scotland Office (SO) and Office of the Advocate General (OAG) are well run and have effective corporate governance and effective risk management in place.
- 9.3** The Accounting Officer seeks to use the available evidence to give him the confidence he needs. Because of the nature of the work the Offices conduct and their relatively small staff, most of that assurance is obtained directly from the senior staff within the organisations, with the support of internal and external audit where appropriate. The Audit Committee supports the process by providing independent scrutiny and advice. Specifically, it considers the arrangements put in place to review corporate risk and its management; the independence, effectiveness and coordination of internal and external audit; the quality of financial management; and the assurances given relating to corporate governance. It also provides the Head of SO and his senior colleagues with a forum where they can test assumptions and decisions in these areas.

Activity

- 9.4** The Audit Committee met formally 4 times during 2011-12. One meeting was held in London, with the others taking place in Edinburgh. Members of the Committee were encouraged to attend in person, while officials could participate by video conference if they wished.

Membership

- 9.5** Three of the members of the Committee in post as at 1 April 2011 – John Aldridge (Chairman), Charlotte Barbour and Edward Adams all continued in their role as independent members throughout the year. Ian Doig left the committee at the

end of his period of appointment. The committee paid tribute to his valuable contribution to the work of the committee. In order to ensure continuity on the Committee, plans were being prepared to stagger the termination dates for the appointments of the members, and the consequent recruitment of new members. As part of corporate governance changes, John Aldridge was appointed as a non-executive member of the Offices' Joint Management Board (JMB). Edward Adams also continued to attend meetings of the JMB.

Terms of Reference and Self-Assessment

- 9.6** The Committee's Terms of Reference remain essentially unchanged. They are due to be reviewed during the early part of 2012-13. At the same time, the committee will undertake a self-assessment of its performance, drawing on the template in the Audit Committee Handbook, published by HM Treasury and the expertise of internal and external auditors. Meanwhile it continued to seek to improve its practice where appropriate.

Main Issues

- 9.7** The Committee was satisfied that the systems in place in the SO and OAG were sound and appropriate for the purposes they were required to support. The Offices continued to cope with a high level of activity, not only in taking forward the recommendations of the Calman Commission and the consequent legislation, but also in liaising with other Government departments and the Scottish Government as the debate on the extent of devolution and the prospect of a referendum on independence developed. In addition the OAG continued to face high demand for its services. We continued to note the key importance for the Offices in fostering the cooperation and goodwill of other Government departments. All this was in the context of the pressures faced by all Government departments to reduce costs. The Committee continued to recognise that the capacity of the Offices was limited, and to stress the crucial role that careful and effective management plays in managing these risks. The Committee was pleased to note that issues of corporate governance continued to receive an appropriately high level of attention.
- 9.8** The Committee was pleased that the Offices' Risk Registers continued to be refined during the year, and continued with the approach started in 2010-11 of focussing at each meeting on one risk and the measures that were in place to mitigate it.
- 9.9** Further progress was made in developing business continuity plans for the Offices, although we remained concerned at the time it was taking to finalise this work.
- 9.10** The Committee expressed continuing concern at the length of time it was taking to complete the process of agreeing service level agreements with the Ministry of Justice for the provision of corporate services such as HR and internal audit. We noted that progress had been made, but while recognising the need to get them right, were concerned that failure to tie them down would pose risks to the effective management of the Offices.

Audit

- 9.11** Internal and External Audit (provided by the Ministry of Justice Internal auditors and the National Audit Office respectively) provided strong support to the Committee throughout the year, attending all the meetings. The Committee was again pleased to encourage constructive discussions between the Offices and Internal Audit about the proportionate level of Internal Audit activity.

Statement on Internal Control

- 9.12** The Committee considered the SO Assurance Statement and the Statement on Internal Control (SIC) at the July 2011 meeting. It was satisfied that the SIC drew appropriately on the various sources of assurance available to the Accounting Officer and thus properly addressed the relevant issues, and that the Accounting Officer should sign it.

Future Work

- 9.13** Over the next year, as well as continuing to monitor the effectiveness and comprehensiveness of the assurance processes, with a view to ensuring that the programme of audit reflects the risks facing the SO and OAG, the Committee will pay particular attention to the Offices' governance and risk management for the implementation of the Scotland Act (once it becomes law), and to the way in which resources are matched to the developing needs of the Offices. The Committee will also seek to develop its own effectiveness.

John Aldridge

May 2012

Chapter 10 The Certificate and Report of the Comptroller and Auditor General to the House of Commons

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

10.1 I certify that I have audited the financial statements of the Scotland Office and Office of the Advocate General for Scotland for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

10.2 As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

10.4 I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

10.5 In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

10.6 In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2012 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

10.7 In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Chapters 1 to 4 of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

10.8 I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

10.9 I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

13 July 2012

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Chapter 11: Financial Statements

Statement of Parliamentary Supply

Summary of Resources and Capital Outturn 2011-12

	2011-12										2010-11		
	Estimate			Outturn			Voted outturn compared with Estimate: saving/ (excess)				Outturn		
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total				Total		
Departmental Expenditure Limit													
- Resource	2	8,156	1	8,157	7,131	13,777	20,908	1,025				18,579	
- Capital		89	0	89	0	0	0	89				0	
Annually Managed Expenditure													
- Resource		0	0	0	0	0	0	0				0	
- Capital		0	0	0	0	0	0	0				0	
Total Budget		8,245	1	8,246	7,131	13,777	20,908	1,114				18,579	
Non-Budget													
- Resource	2	26,984,655	0	26,984,655	26,179,500	0	26,179,500	805,155				26,772,500	
Total		26,992,900	1	26,992,901	26,186,631	13,777	26,200,408	806,269				26,791,079	
Total Resource		26,992,811	1	26,992,812	26,186,631	13,777	26,200,408	806,180				26,791,079	
Total Capital		89		89	0	0	0	89				0	
Total		26,992,900	1	26,992,901	26,186,631	13,777	26,200,408	806,269				26,791,079	

Net Cash Requirement 2011-12

	Note	2011-12		2010-11	
		Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
£000	4	26,992,844	26,186,412	806,432	26,780,576

Administration Costs 2011-12

	2011-12	2010-11
Estimate	7,619	Outturn
Outturn	6,833	Outturn
		7,688

Explanations of variances between Estimate and outturn are given in Note 2 and in the Management Commentary.

The non-voted expenditure relates to the funding provided to Returning Officers to run elections in Scotland.

* Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2012

£000		<u>2011-12</u>	<u>2010-11</u>
	Note		
Administration Costs			
Staff Costs	7	5,591	5,499
Other Costs	8	4,142	3,651
Income	10	(2,900)	(1,462)
Programme Costs			
Staff Costs	7	160	98
Other Costs	9	26,179,638	26,772,590
Election Expenses		13,777	10,703
NLF interest payable		50,246	50,714
NLF interest receivable		(50,246)	(50,714)
Net Operating Costs for the year ended 31 March 2012		<u>26,200,408</u>	<u>26,791,079</u>
Total Expenditure		26,253,554	26,843,256
Total Income		(53,146)	(52,177)
Net Operating Costs for the year ended 31 March 2012		<u>26,200,408</u>	<u>26,791,079</u>
Other Comprehensive Net Expenditure		0	0
Total comprehensive expenditure for the year ended 31 March 2012		<u>26,200,408</u>	<u>26,791,079</u>

Statement of Financial Position

as at 31 March 2012

£000	Note	<u>2011-12</u>	<u>2010-11</u>
Non-current assets:			
Property, plant and equipment	11	62	76
Financial assets (NLF)	14	704,387	738,493
Total non-current assets		<u>704,449</u>	<u>738,569</u>
Current Assets:			
Trade and other receivables	14	879	664
NLF receivables	14	44,408	31,647
Cash and cash equivalents	15	4,650	3,475
Total current assets		<u>49,937</u>	<u>35,786</u>
Total Assets		<u>754,386</u>	<u>774,355</u>
Current liabilities			
Trade and other payables	16	(2,786)	(2,518)
NLF payables	16	(44,408)	(31,648)
Total current liabilities		<u>(47,194)</u>	<u>(34,166)</u>
Non-current assets plus/less net current assets/liabilities		707,192	740,189
Non-current liabilities			
Other payables (NLF)	16	(704,387)	(738,493)
Total non-current liabilities		<u>(704,387)</u>	<u>(738,493)</u>
Assets less liabilities		<u>2,805</u>	<u>1,696</u>
Taxpayers' Equity and other reserves			
General fund		(2,805)	(1,696)
Total equity		<u>(2,805)</u>	<u>(1,696)</u>

Signed:

Alisdair McIntosh

Principal Accounting Officer, Scotland Office and
Office for the Advocate General for Scotland

July 2012

Statement of Cash Flows

for the period ended 31 March 2012

		2011-12	2010-11
		£000	£000
	Note		
Cash flows from operating activities			
Net operating cost		(26,200,408)	(26,791,079)
Adjustments for non-cash transactions	8	55	71
(Increase)/Decrease in trade and other receivables		(12,978)	(15,791)
Less: Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		12,761	15,985
Increase/(Decrease) in trade payables		12,740	16,626
Less: Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(12,760)	(15,985)
Closing account in year movement		64	(34)
Net cash outflow from operating activities	4	(26,200,526)	(26,790,207)
(Repayments) from other bodies		21,106	5,106
Net cash outflow from investing activities	4	21,106	5,106
Cash flows from financing activities			
From the Consolidated Fund (Supply) - Current Year		26,186,700	26,780,500
From the Consolidated Fund (non-supply election expenses)		15,000	10,956
Repayment of loans from the National Loans Fund		(21,106)	(5,106)
(Capital element) of payments in respect of finance leases and on-balance (SoFP) sheet PFI contracts			
Net financing		26,180,594	26,786,350
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		1,174	1,249
Payments of amounts due to the Consolidated Fund			
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		1,174	1,249
Cash and cash equivalents at the beginning of the period	15	3,476	2,227
Cash and cash equivalents at the end of the period	15	4,650	3,476

Statement of Changes in Taxpayer's Equity

for the year ended 31 March 2012

	General Fund £000	Total Reserves £000
Balance at 1 April 2010	(1,394)	(1,394)
Net Parliamentary Funding - draw down	(26,780,500)	(26,780,500)
Consolidated Fund Standing Services	(10,955)	(10,955)
Closing account in year movement	28	28
Unspent supply carried forward	97	97
Comprehensive Spending for the year	26,791,079	26,791,079
Non-Cash Adjustments:		
Non-cash charges -		
auditor's remuneration	(25)	(25)
Overheads	(29)	(29)
Net Gain or loss on revaluation of property, plant & equipment	3	3
Balance as at 31 March 2011	(1,696)	(1,696)
Consolidated Fund Standing Services	(15,000)	(15,000)
Net Parliamentary Funding - draw down	(26,186,700)	(26,186,700)
Unspent supply carried forward	288	288
Closing account in year movement	(64)	(64)
Comprehensive Spending for the year	26,200,408	26,200,408
Non-Cash Adjustments:		
Non-cash charges -		
auditor's remuneration	(41)	(41)
Balance as at 31 March 2012	(2,805)	(2,805)

Notes to the accounts for the year ended 31 March 2012

1. Statement of Accounting Policies

1.1 Basis of Preparation

These financial statements have been prepared in accordance with HM Treasury's Financial Reporting Manual 2011-12 (FReM). The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Scotland Office and the Office of the Advocate General for Scotland for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Scotland Office and the Office of the Advocate General for Scotland are described below. They have been applied consistently in dealing with items considered material in relation to these Accounts.

In addition to the primary statements, the FReM also requires the Scotland Office and the Office of the Advocate General for Scotland to prepare one additional key statement. The Statement of Parliamentary Supply and its supporting notes report outturn against the Estimate in terms of the net resource requirement and the net cash requirement. The functional and presentational currency of the Scotland Office and the Office of the Advocate General for Scotland is the British pound sterling.

1.2 Accounting Convention

These Accounts have been prepared on an accruals basis under the historical cost convention, as modified to account for the revaluation of non-current assets, where material.

1.3 Machinery of Government Changes and Restatement of Comparatives

Prior to 1 April 2011 the Scotland Office and the Office of the Advocate General for Scotland was deemed to be part of the Ministry of Justice (MoJ) for operational purposes. As such, its financial transactions formed part of MoJ's resource accounts. With effect from 1 April 2011, the Scotland Office and the Office of the Advocate General for Scotland became a department in its own right with its own Estimate and is therefore required to prepare its own resource accounts.

As at 1 April 2011 appropriate assets and liabilities totalling £76k were nominally transferred to the Scotland Office and the Office of the Advocate General for Scotland from MoJ at book value. The prior year comparatives for 2010-11 shown in these accounts reflect this change. By so doing, it appears that the Scotland Office and the Office of the Advocate General for Scotland always existed in its present form. This enables the user of the accounts to make useful comparisons between the data from the prior year and the current year.

1.4 Operating Segments

The Scotland Office and the Office of the Advocate General for Scotland is considered to provide a single function and in terms of IFRS reporting is considered to be a single operating segment

1.5 Property, Plant and Equipment

Valuation Basis

Non-current assets are stated at fair value. On initial recognition assets are measured at cost including any costs directly attributable to bringing them into working condition.

Valuation Method

The Scotland Office and the Office of the Advocate General for Scotland has no property assets.

Non-property assets are included at cost upon purchase and are restated at each reporting date using the Price Index Numbers for Current Cost Accounting (PINCCA) produced by the Office for National Statistics.

Revaluation

When an asset's carrying amount increases as a result of a revaluation, the increase is recognised in the Statement of Comprehensive Net Expenditure to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Comprehensive Net Expenditure. Any remaining increase is credited directly to the Revaluation reserve in Taxpayers' equity.

When an asset's carrying amount decreases (other than as a result of a permanent diminution), the decrease is recognised in the Revaluation reserve to the extent a balance exists in respect of that asset. Any further decrease in excess of revaluation surpluses are charged to the Statement of Comprehensive Net Expenditure.

Capitalisation Threshold – Individual Assets

The Scotland Office and the Office of the Advocate General for Scotland's capitalisation threshold for individual assets is £1,000 (including VAT).

Capitalisation Threshold – Grouped Assets

The Scotland Office and the Office of the Advocate General for Scotland has a small pool of assets for furniture and fittings which meets the capitalisation threshold.

The Scotland Office and the Office of the Advocate General for Scotland applies a capitalisation threshold for grouped assets of £10,000 (including VAT).

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to write-off the value of assets less estimated residual value evenly over their estimated useful lives or for

leased assets, over the life of the lease or the period implicit in the repayment schedule. The useful lives of assets or asset categories are reviewed annually and any changes are discussed with the relevant authorities to ensure that budgeting implications have been properly considered. Where a change in asset life is agreed, the asset is depreciated on a straight-line basis over its remaining assessed life. Depreciation commences in the month following the acquisition of a non-current asset for land, buildings and dwellings and in-month for all other non-current assets.

Estimated useful asset lives are within the following ranges:

Freehold land	Not depreciated
Grouped assets	Various depending on individual asset types
Information technology	Shorter of remaining lease period or 3 to 15 years
Plant and equipment	Shorter of remaining lease period or 3 to 20 years
Furniture and fittings	Shorter of remaining lease period or 5 to 20 years
Assets under construction	Not Depreciated

The carrying values are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If an asset is determined to be impaired, the asset is written down immediately to its recoverable amount.

Disposal of Non-Current Assets

Gains and losses on disposal of non-current assets are determined by comparing the proceeds with the carrying amount and are recognised within Administration or Programme costs, as appropriate, in the Statement of Comprehensive Net Expenditure.

When revalued assets are sold, the amounts included in the Revaluation reserve are transferred to the General Fund.

Assets Under Construction

Assets under construction are valued at historical cost under "property, plant and equipment and intangible assets" and are not depreciated or amortised. An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to the respective asset category. Depreciation or amortisation is then charged on the asset in accordance with the stated accounting policy.

Expenditure is capitalised where it is directly attributable to bringing an asset into working condition. The Scotland Office's and the Office of the Advocate General's own staff costs are expensed to the Statement of Comprehensive Net Expenditure, as are those of agency and contract staff undertaking ongoing roles that might otherwise be filled by civil servants. The costs of external consultants engaged on specific projects are capitalised where they are directly attributable to bringing the asset into working order.

1.6 Intangible Assets

The Scotland Office and the Office of the Advocate General for Scotland does not have any intangible assets

1.7 Leases

The Scotland Office and the Office of the Advocate General for Scotland does not have any finance leases.

Operating Leases

Leases where substantially all of the risks and rewards are held by the lessor are classified as operating leases. Operating lease rentals are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the lease term.

Arrangements Containing a Lease

In determining whether the Scotland Office and the Office of the Advocate General for Scotland is party to a lease, contracts that do not take the legal form of a lease but which may contain an embedded lease, for example outsourcing arrangements and take-or-pay contracts, are assessed according to the criteria set by IFRIC (International Financial Reporting Interpretations Committee) 4 'Determining Whether an Arrangement Contains a Lease'. The contract is accounted for as a lease if the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The arrangement is then assessed under IAS 17 to determine whether it is classified as a finance or operating lease.

1.8 Investments

National Loans Fund (NLF)

Advances from the National Loans Fund (NLF) are treated as investments and disclosed at historical cost. The balances within these accounts represent loans from the NLF lent onwards by the Secretary of State for Scotland to the Registers of Scotland and Scottish Water prior to devolution. The responsibility for repayment of principal and interest falls on the Scottish Government and is a charge on the Scottish Consolidated Fund. Amounts received by the Scotland Office and the Office of the Advocate General for Scotland are surrendered to the NLF. Outstanding loan balances are included within Trade and other payables.

1.9 Employee Benefits

Employee Leave Accruals

Under IAS 19 'Employee Benefits', accruals are made for untaken annual leave and flexi-leave. Performance bonuses are not accrued as the annual appraisal process which determines performance pay is not finalised at the time these Accounts are prepared.

Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS) cover most past and present employees. The defined benefit scheme is unfunded and non-contributory except in respect of dependants' benefits.

The Scotland Office and the Office of the Advocate General do not directly employ staff and recruit staff on loan or secondment from other government bodies. The Office is not responsible for the payment of national insurance or pension contributions and is simply invoiced for the costs by the appropriate government body.

Early Departure Costs

All Scotland Office and the Office of the Advocate General for Scotland staff are loaned or seconded from other government bodies and therefore it is the responsibility of the appropriate body to pay the additional cost of benefits beyond the normal PCSPS benefits in respect of their employees who retire early, unless the retirement is on approved medical grounds. Early departure costs for Scotland Office and the Office of the Advocate General for Scotland staff that are met by the other government bodies are accordingly excluded from these Accounts.

1.10 Operating Income

Operating income includes both income appropriated in aid to offset related expenditure and income that is surrendered on receipt to the Consolidated Fund as Extra Receipts.

1.11 Consolidated Fund Extra Receipts (CFERs)

CFERs balances are calculated on an accruals basis, unless stated otherwise. These mostly relate to amounts originally received by certain devolved bodies in Scotland that have been designated by the Treasury under Section 71 of the Scotland Act 1998. These amounts are paid over by Scottish Ministers to the Secretary of State and charged on the Scottish Consolidated Fund. The Scotland Office and the Office of the Advocate General for Scotland also receive amounts through the recovery of lost deposits from Scottish Elections and pays the amounts received into the UK Consolidated Fund.

1.12 Administration and Programme Expenditure

The Statement of Comprehensive Net Expenditure comprises administration expenditure for the running costs of the Secretary of State for Scotland and the Advocate General for Scotland together with the grant payable to the Scottish Consolidated Fund under Section 64 of the Scotland Act 1998.

1.13 Non-Cash Costs

Other

Non-cash costs represent the NAO's cost for the audit of the financial statements.

1.14 Provisions

Provisions are recognised when the Scotland Office and the Office of the Advocate General for Scotland has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and for which a reliable estimate can be made for the amount of the obligation.

Provisions reflect the best estimate of the expenditure required to settle the obligation. Where the effect of discounting is material, provisions are measured at their present value using the real rate set by HM Treasury, currently 2.6% (2010–11: 2.7%).

1.15 Value Added Tax (VAT)

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase costs of non-current assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.16 Financial Instruments

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items (such as goods or services), which are entered into in accordance with the Scotland Office and the Office of the Advocate General for Scotland's normal purchase, sale or usage requirement, are recognised when, and to the extent to which, performance occurs. All other financial assets and liabilities are recognised when the Scotland Office and the Office of the Advocate General for Scotland becomes party to the contractual provisions to receive or make cash payments. Financial liabilities are derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Classification and Measurement – Financial Assets

In addition to Cash and cash equivalents, the Scotland Office and the Office of the Advocate General for Scotland has one category of financial assets:

Loans and Receivables

Loans and receivables comprise trade receivables, other receivables and loans that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method net of any impairment. Interest is recognised by applying the effective interest rate. The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating the interest revenue or expense over the relevant period using the estimated future cash flows.

Impairment of Financial Assets

At the end of each reporting period, the Scotland Office and the Office of the Advocate General for Scotland assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

Objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the end of the reporting period ('a loss event');

The loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and

A reliable estimate of the amount can be made.

Classification and Measurement – Financial Liabilities

The Scotland Office and the Office of the Advocate General for Scotland has one category of financial liability known collectively as "Other Financial Liabilities":

Other Financial Liabilities

Other financial liabilities comprise finance lease liabilities, trade payables and loans. All financial liabilities are recognised initially at fair value, net of any transaction costs incurred, and then measured at amortised cost using the effective interest rate method. Interest on financial liabilities carried at amortised cost is calculated using the effective interest rate method and is charged to the Statement of Comprehensive Net Expenditure.

1.17 Cash and Cash Equivalents

Cash and cash equivalents recorded in the Statement of Financial Position and Statement of Cash Flow include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1.18 Significant Accounting Estimates and Assumptions

The Accounts reflect estimates and assumptions concerning the future. By definition, estimates are unlikely to be the same as actual results. Estimates are continually evaluated and are based on historical experience and other relevant factors including expectations of future events that are believed to be reasonable and under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1.19 Accounting policy in respect of "Accounting Standards, interpretations and amendments to published standards"

The Department has reviewed the standards, interpretations and amendments to published standards that became effective during 2011-12 and which are relevant to its operations. The adoption of these standards has not had a significant impact on the Department's financial position or results.

The Department has not adopted any Standards or Interpretations in advance of the required implementation dates. It is not expected that any Standards or Interpretations that have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

2. Net Outturn

2.1 Analysis of net resource outturn by section

2011-12									2010-11 Outturn
Outturn						Estimate		Total	
Administration			Programme			Total	Net total		Net total compared to Estimate
Gross	Income	Net	Gross	Income	Net				

Spending in Departmental Expenditure Limit

Voted:

A - Scotland Office & Office of the Advocate General	9,733	2,900	6,833	0	0	0	6,833	7,619	786	7,688
B - Boundary Commission for Scotland	0	0	0	298	0	298	298	537	239	188

Non-Voted

C - Election Expenses	0	0	0	13,777	0	13,777	13,777	1	(13,776)	10,703
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Annually Managed Expenditure

Non-Budget

D - Grant to the Scottish Consolidated Fund	0	0	0	26,179,500	0	26,179,500	26,179,500	26,984,655	805,155	26,772,500
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Total	9,733	2,900	6,833	26,193,575	0	26,193,575	26,200,408	26,992,812	792,404	26,791,079
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2.2 Analysis of net capital outturn by section

2011-12					2010-11 Outturn
Outturn			Estimate		
Gross	Income	Net	Net total	Net total compared to Estimate	Total

Spending in Departmental Expenditure Limit

Voted:

Scotland Office & Office of the Advocate General	0	0	0	89	89	0
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Total	0	0	0	89	89	0
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3. Reconciliation of Outturn to Net Operating Cost and Against Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

			2011-12	2010-11
			£000	£000
		Note	Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget	2	20,908	18,579
	Non-Budget		26,179,500	26,772,500
			<u>26,200,408</u>	<u>26,791,079</u>
Add:	Capital grants		0	0
	Other		0	0
			<u>26,200,408</u>	<u>26,791,079</u>
Less:	Income payable to the Consolidated Fund		0	0
	Other		0	0
			<u>26,200,408</u>	<u>26,791,079</u>
Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure			<u>26,200,408</u>	<u>26,791,079</u>

3.2 Outturn Against Final Administration Budget

			2011-12	2010-11
			£000	£000
		Note	Outturn	Outturn
Estimate administration costs limit			7,619	7,889
Outturn - gross administration costs			9,733	9,150
Outturn - gross income relating to administration costs			(2,900)	(1,462)
Outturn - net administration costs			<u>6,833</u>	<u>7,688</u>
Reconcilliation to operating costs:			6,833	7,688
Less:provisions utilised (transfer from programme)			0	0
Less: Other			0	0
Administration Net Operating Costs			<u>6,833</u>	<u>7,688</u>

4. Reconciliation of Net Cash Requirement to Increase / (Decrease) in Cash

	2011-12 £000	2010-11 £000
Net cash requirement - Core department and agencies	(26,186,412)	(26,780,576)
Amounts relating to non-voted cash movements - Consolidated Fund Standing Services - Elections (see note 15)	886	1,324
From the Consolidated Fund (Supply) - Current year	26,186,700	26,780,500
From the Consolidated Fund (Supply) - prior year	0	0
Amounts due to the Consolidated Fund received and not paid over	0	0
Amounts due to the Consolidated Fund received in prior year and paid over	0	0
Other	0	0
Increase/(decrease) in cash held by core department and agencies	1,174	1,249
Add - increase/(decrease) in cash held by arms length bodies	0	0
Net increase/(decrease) in cash held by departmental group	1,174	1,249

5. Income Payable to the Consolidated Fund

5.1 Analysis of Income Payable to the Consolidated Fund

In addition to income retained by the department, the following income relates to the department and has been paid to the Consolidated Fund (cash receipts being shown in italics)

	Outturn 2011-12		Outturn 2010-11	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Operating Income Outside the ambit of the Estimate				
Excess cash surrenderable to the Consolidated Fund	0	0	0	0
Total Income payable to the Consolidated Fund	0	0	0	0

5.2 Consolidated Fund Income

Consolidated Fund income shown in note 5.1 above does not include any amounts collected by the Scotland Office where it is acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	2011-12	2010-11
Forfeited election deposits and interest	(56)	(5)
Fines and penalties	(32,048)	(32,892)
Other income	(577)	(1,789)
Less:		
Costs of collection - where deductible	0	0
Uncollectible debts	0	0
Amount payable to the Consolidated Fund	(32,681)	(34,686)
Balance held at the start of the year	0	0
Payments into the Consolidated Fund	32,681	34,686
Balance held on trust at the end of the year	0	0

The Consolidated Fund receipts paid to the Scotland Office by the Scottish Government are in respect of the Designation of Receipts Order 2010 and consist mainly of fines, fixed penalties and bank interest.

6. Statement of Operating Costs by Operating Segment

Narrative to disclose:

The Main Supply Estimate provides for the administration costs of the Scotland Office and Office of the Advocate General and the salaries of the Secretary of State for Scotland, his Parliamentary Under-Secretary of State, the Advocate General for Scotland, the costs of the Boundary Commission for Scotland and a grant to the Scottish Consolidated Fund.

The Offices Management Boards monitor the administration costs of the Scotland Office and the Office of the Advocate General for Scotland, the provision agreed for the Boundary Commission and the management of the transfer of a block grant to the Scottish Consolidated Fund to meet expenditure by the Scottish Parliament and the Scottish Government.

Note	2011-12			2010-11			Total	Election Expenses	Total			
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Scotland Office	Office of the Advocate General				Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses
Gross Expenditure	4,695	5,038	298	26,179,500	13,777	26,203,308	5,005	4,145	188	26,772,500	10,703	26,792,541
Income	(265)	(2,635)	0	0	0	(2,900)	(151)	(1,311)	0	0	0	(1,462)
Net Expenditure	4,430	2,403	298	26,179,500	13,777	26,200,408	4,854	2,834	188	26,772,500	10,703	26,791,079

Description of segments

Scotland Office

The role of the Scotland Office is to deliver the UK Government's objectives for Scotland and to promote the best interests of Scotland within the United Kingdom.

Office of the Advocate General

The role of the Office of the Advocate General is to provide high quality legal services to secure the UK Government's objectives in Scotland.

Boundary Commission

The Boundary Commission for Scotland is responsible for reviews of both the Scottish Parliament's constituencies and regions and also the UK Parliament's constituencies in Scotland.

Grant to the Scottish Consolidated Fund

The Scottish Government's Budget is determined by means of a population based formula, the Barnett formula. The UK Parliament votes the necessary provision to the Secretary of State, who, in turn, makes grants to the Scottish Government as set out in the Scotland Act 1998. Provision for the costs of the Scotland Office, Office of the Advocate General, Scottish Parliament elections and European elections are found from within these resources.

Election Expenses

The Scotland Office is responsible for administering the funding to Returning Officers for the running of elections to the Scottish Parliament and also the UK Parliament and European Parliament in Scotland and thereafter scrutinising the final accounts. The funding is non voted expenditure and is therefore separate from the voted costs for the administration of the Scotland Office and the Office of the Advocate General.

6.1 Reconciliation between Operating Segments and SocNE / SoFP

	2011-12					Total
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses	
Total net expenditure per statement of comprehensive net expenditure by operating segment	4,430	2,403	298	26,179,500	13,777	26,208,408
Total net expenditure per Statement of Comprehensive Net Expenditure	4,430	2,403	298	26,179,500	13,777	26,200,408

6.2 Reconciliation between Operating Segments and Note 2

	2010-11					Total
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses	
Total net expenditure per statement of comprehensive net expenditure by operating segment	4,854	2,834	188	26,772,500	10,703	26,791,079
Net outturn per statement of parliamentary supply	4,854	2,834	188	26,772,500	10,703	26,791,079

7. Staff Numbers and Related Costs

Staff costs comprise:

	Total	Permanently employed staff	2011-12 £000			Special advisers	2010-11
			Others	Ministers			Total
Wages and salaries	4,508	0	4,227	221	60	4,430	
Social security costs	396	0	366	24	6	374	
Other pension costs	847	0	834	0	13	793	
Sub Total	5,751	0	5,427	245	79	5,597	
Less recoveries in respect of outward secondments	0	0	0	0	0	0	
Total net costs	5,751	0	5,427	245	79	5,597	

Of which:

Admin	5,591	5,499
Programme	160	98

The Scotland Office and the Office of the Advocate General do not directly employ staff and recruit staff on loan or secondment from other government bodies. The Office is not responsible for the payment of national insurance or pension contributions and is simply invoiced for the costs by the appropriate government body.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

Office	Total	Permanently employed staff	2011-12 Number			Special advisers	2010-11
			Others	Ministers			Total
Scotland Office	58	0	55	2	1	59	
Office of the Advocate General	46	0	45	1	0	36	
Boundary Commission	5	0	5	0	0	3	
Total	109	0	105	3	1	98	

Of which

Core Department	104
NDPBs	5

The total number of staff in post as at 31st March 2012 of 107 (105FTE) includes 3 agency member(s) of staff. All other staff are loaned or second from other Government bodies.

8. Other Administration Costs

	2011-12	2010-11
Note	<u>£000</u>	<u>£000</u>
Rentals under operating leases	297	319
Accommodation Costs	1,200	1,168
Legal Costs	1,898	1,451
Travel Costs	402	364
Miscellaneous Other Costs	290	278
<i>Non-cash items:</i>		
Depreciation	14	16
Auditors' remuneration and expenses	41	25
Finance overheads	0	30
Total	<u>4,142</u>	<u>3,651</u>

9. Programme Costs

	2011-12	2010-11
Note	<u>£000</u>	<u>£000</u>
Grant paid to SCF	26,179,500	26,772,500
Boundary Commission Staff Costs	160	98
Boundary Commission Admin Costs	138	90
Election expenses	13,777	10,703
Total	<u>26,193,575</u>	<u>26,783,391</u>

10. Income

	2011-12	2010-11
Note	<u>£000</u>	<u>£000</u>
Hire of Office Facilities	265	151
Legal fees and charges to clients	1,035	358
Recovery of legal outlays from other Government Bodies	1,600	953
Total	<u>2,900</u>	<u>1,462</u>

11. Property, Plant and Equipment

2011-12	Plant & machinery £000	Furniture & fittings £000	Total £000
Cost or valuation			
At 1 April 2011	79	59	138
At 31 March 2012	79	59	139
Depreciation			
At 1 April 2011	(23)	(39)	(62)
Charged in year	(8)	(6)	(14)
At 31 March 2012	(31)	(46)	(77)
Net book value at 31 March 2012	48	14	62
Net book value at 31 March 2011	56	20	76

2010-11	Plant & machinery £000	Furniture & fittings £000	Total £000
Cost or valuation			
At 1 April 2010	151	92	243
Disposals	(74)	(33)	(107)
Revaluations	2	0	2
At 31 March 2011	79	59	138
Depreciation			
At 1 April 2010	(87)	(66)	(153)
Charged in year	(8)	(6)	(14)
Disposals	74	33	107
Revaluations	(2)	0	(2)
At 31 March 2011	(23)	(39)	(62)
Net book value at 31 March 2011	56	20	76
Net book value at 31 March 2010	64	26	90

12. Financial Instruments

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

12.1 Categories of Financial Instruments

		31st March 2012	31 March 2011
	Note	£'000	£'000
Financial Assets			
Cash	15	4,650	3,476
<i>Loans and Receivables < 1 year</i>			
Receivables for goods and services (gross)			
Other receivables (gross)	14	11,182	11,104
National Loans Fund - capital	14	34,106	21,106
<i>Loans and Receivables > 1 year</i>			
National Loans Fund	13	704,387	738,493
Carrying amount of Financial Assets		754,325	774,179
Financial Liabilities			
<i>Financial Liabilities at amortised cost</i>			
National Loans Fund - capital	13	(738,493)	(759,599)
Carrying amount of Financial Liabilities		(738,493)	(759,599)

13. Investments in Other Public Sector Bodies

	Loans funded from National Loans Fund
	£000
Cost or valuation	
At 1 April 2010	759,599
Loans repayable within 12 months transferred to debtors	(21,106)
Balance at 31 March 2011	738,493
Loans repayable within 12 months transferred to debtors	(34,106)
Balance at 31 March 2012	704,387

History of Accounts

The Scotland Office accounts report payments and outstanding balances owed on behalf of Scottish Water and Registers of Scotland.

The National Loan Fund (NLF) outstanding balances at 31 March 2012 were made prior to 1 July 1999, under the terms of the Local Government etc. (Scotland) Act 1994 (Scottish Water). Prior to 1 July 1999, responsibility for accounting for the repayments fell to the Scottish Office. Upon devolution, the responsibility transferred to the Scotland Office.

Registers of Scotland (ROS) was established as a Trading Fund on 1 April 1996 and the loan was deemed to have been issued from the National Loan Fund (NLF) as ROS had no direct sponsor department. However, no physical payment has been made from the NLF. The deemed loan was based on the value of the assets and liabilities appropriated to the Trading Fund. 60% was attributed to capital loans to be paid through the NLF and 40% as public dividend capital, repayable through the Consolidated Fund.

14. Trade Receivables and Other Current Assets

	2011-12	2010-11
	£000	£000
Amounts falling due within one year:		
VAT	67	52
Trade receivables	669	311
Deposits and advances	0	1
NLF interest receivables	10,302	10,541
Prepayments and accrued income	144	299
Current part of NLF loan	34,106	21,106
	<u>45,288</u>	<u>32,310</u>
	2011-12	2010-11
	£000	£000
Amounts falling due after more than one year:		
Instalments due on NLF loans	704,387	738,493
	<u>704,387</u>	<u>738,493</u>

14.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12	2010-11	2011-12	2010-11
Balances with other central government bodies	<u>45,144</u>	<u>32,011</u>	<u>704,387</u>	<u>738,493</u>
Balances with bodies external to government	144	299	0	0
Total receivable at 31 March 12	<u>45,288</u>	<u>32,310</u>	<u>704,387</u>	<u>738,493</u>

15. Cash and Cash Equivalents

	2011-12	2010-11
	£000	£000
Balance at 1 April 2011	3,476	2,227
Net change in cash and cash	1,174	1,249
Balance at 31 March 2012	<u>4,650</u>	<u>3,476</u>
The following balances at 31 March 2012 were held at:		
Commercial banks and cash in hand	385	97
Election funding	4,265	3,379
Balance 31 March 2012	<u>4,650</u>	<u>3,476</u>

16. Trade Payables and Other Current Liabilities

	2011-12	2010-11
	£000	£000
Amounts falling due within one year:		
Trade payables	12	18
NLF interest payable	10,302	10,541
Accruals and deferred income	1,429	1,106
Current part of NLF loans	34,106	21,106
Accruals relating to elections	960	1,298
Amounts issued from the Consolidated Fund for supply but not spent at year end	385	97
	<u>47,194</u>	<u>34,166</u>
Amounts falling due after more than one year:		
NLF loans	704,387	738,493
	<u>704,387</u>	<u>738,493</u>

16.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12	2010-11	2011-12	2010-11
Balances with other central government bodies	44,599	32,684	704,387	738,493
Balances with bodies external to government	2,595	1,482	0	0
Total payable at 31 March 2012	<u>47,194</u>	<u>34,166</u>	<u>704,387</u>	<u>738,493</u>

17. Capital and Other Commitments

17.1 Operating Leases

	2011-12	2010-11
	£000	£000
Buildings		
Not later than one year	199	199
Later than one year and not later than five years	259	458
Later than five years		
	<hr/> 458	<hr/> 657

18. Related-party Transactions

The Scotland Office and the Office of the Advocate General work closely with the Scottish Government and Ministry of Justice from where the majority of their staff are loaned. Advice and assistance were provided by both government bodies for some specialised areas where they have greater expertise, such as IT, accommodation and finance. Not all of these services were covered by Service Level Agreements during the year.

Under ISA 24 Scotland Office and Office of the Advocate General Ministers and Board members have no related-party transactions to disclose.

19. Entities within the Departmental Boundary

The entities within the boundary during 2011–12 were as follows:

List of entities analysed between:

Supply financed agencies	None
Non-departmental public bodies (executive and non-executive being listed under subheadings)	<i>The Boundary Commission for Scotland</i>
Others - Core Department	<i>Scotland Office</i> <i>Office of the Advocate General for Scotland</i>

20. Events after the Reporting Period

In accordance with the requirements of International Accounting Standards 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue.

This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. There are no material events to report.



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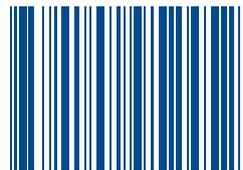
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