



Scotland Office and Office of the Advocate General for Scotland

Annual Report and Accounts 2012-13



Scotland Office
and
Office of the Advocate General
for Scotland

Annual Report and Accounts 2012-13
(For the year ended 31 March 2013)

Accounts presented to the House of Commons
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Contents

Foreword by the Secretary of State for Scotland	v
Chapter 1: Scotland Office: activities in 2012-13 and plans for 2013-14	1
Chapter 2: Office of the Advocate General for Scotland: activities in 2012-13 and plans for 2013-14	17
Chapter 3: Delivering Efficient and Effective Government	25
Chapter 4: Public Expenditure Financial Tables	32
Chapter 5: Remuneration Report	37
Chapter 6: Statement of Accounting Officer's Responsibilities	43
Chapter 7: Governance Statement (Including Commentary on Compliance with the Government's Corporate Governance Code and Annual Report of the Audit Committee)	44
Chapter 8: The Certificate and Report of the Comptroller and Auditor General to the House of Commons	63
Chapter 9: Financial Statements	66
Statement of Parliamentary Supply	66
Statement of Comprehensive Net Expenditure	67
Statement of Financial Position	68
Statement of Cash Flows	69
Statement of Changes in Taxpayer's Equity	70
Notes to the Accounts	71

Foreword by the Secretary of State for Scotland

The past year has been an historic one, both for Scotland and for the Scotland Office.

In October 2012, the Prime Minister and I signed the Referendum Agreement with the First Minister and Deputy First Minister. Following our consultation on the referendum process during the last financial year, we worked constructively with the Scottish Government in reaching this agreement to ensure that a legal, fair and decisive referendum on Scottish independence can take place. The Scottish Government has since announced that the referendum will take place on 18 September 2014.

While the UK and Scottish Governments take different views about which outcome is best for Scotland, the Agreement reached in October 2012 ensures that a process is in place to settle the most important collective question that those of us who live in Scotland will ever have to answer.

When people in Scotland make this choice next year, they must do so armed with facts and after a well-informed debate: that is what both the UK and Scottish Governments have committed to provide. From the UK Government, this work is well under way. The Scotland Office has worked closely with other Government departments on the Scotland analysis programme which sets out the facts about what Scotland and the United Kingdom gain from being together, and highlights the choices that would be faced if we were to break up. During this past financial year we have set out independent legal advice to show that if Scotland were to leave the UK, it would be a new state and would need to apply to join institutions like the EU and NATO on new terms. We have set out why using the pound as part of the UK provides greater stability and security than any of the currency options that would face an independent Scotland. And we have set out the effects of independence on financial services in Scotland. Further papers will be published by the UK Government over the course of 2013 and 2014.

The referendum on Scottish independence has been at the forefront of the constitutional debate during my third year as Secretary of State for Scotland, but we have also contributed to a number of other significant events over the past year. In May, after over two years of work, the Scotland Act 2012 gained Royal Assent. The Act represents the largest transfer of fiscal powers from Westminster since the United Kingdom was created and will enable the Scottish Government to fund around a third of the spending it controls, giving it greater flexibility and making it more accountable to Scottish voters. However, the legislation is just the beginning of a long process. Both the UK and Scottish Governments are now focussed on the practical steps needed to implement these important changes to Scotland's devolution settlement. In April I published the first annual report, under section 33 of the Act, highlighting our good progress on early implementation stages for the finance measures. I will report annually on the implementation of the new tax powers as they come into operation over the next few years.

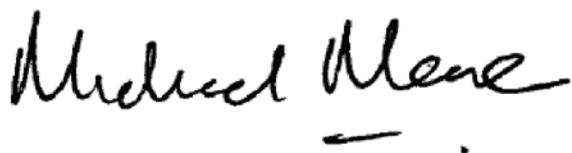
The Scotland Office has worked, and will continue to work, with departments across Whitehall and with the Scottish Government to ensure that Scottish interests are fully considered in the development of Government policies, including measures to

reduce the deficit and encourage growth in the economy. The Scottish Business Board which I established has continued to provide valuable advice on the effects of UK Government economic policy in Scotland, which we are successfully feeding into future policy development. Brian Wilson, former Trade Minister and now a UK Business Ambassador, is leading a review of support for Scottish exporting and is expected to report this autumn. For my own part, I saw for myself the strength of the Scottish oil and gas export market when I visited Brazil earlier this year.

Our commitment to growth and investment in Scotland will be enhanced through the National Insurance £2,000 employment allowance, additional measures to support small and medium enterprises (SMEs), and a package of oil and gas measures to provide further certainty on decommissioning relief which unlock billions of pounds of additional investment. A UK oil and gas strategy underlined our commitment to and confidence in this sector.

Separately, in November 2012 with my Cabinet colleagues, Dr Vince Cable and Ed Davey, I formally launched the UK Green Investment Bank. The Green Investment Bank is headquartered in Edinburgh, drawing on Scotland and the UK's green energy expertise, sitting at the centre of Scotland's thriving businesses and asset management sector, coupled with a team based in London, the world's leading financial centre. This is an excellent example of something that I get to see on a daily basis in this role: by working together we can deliver better outcomes not just for Scotland but for all within our United Kingdom. We have continued to make significant efforts to ensure that viable small businesses in Scotland and the rest of the UK can access external finance when they need it. The Funding for Lending scheme aims to encourage more, and cheaper lending. We also announced the creation of a Government-backed business bank, which will bring together £2.9bn of commitments under existing Government access to finance schemes and deploy an extra £1bn of capital aimed at UK SMEs and mid-sized corporates.

I would like to thank my ministerial colleagues and my staff in the Scotland Office for all they have achieved over the past year. I look forward greatly to the challenge for both the Scotland Office and the Office of the Advocate General in 2013-14.

A handwritten signature in black ink, appearing to read 'Michael Moore', with a horizontal line underneath.

The Rt Hon Michael Moore MP
Secretary of State for Scotland

Chapter 1: Scotland Office: activities in 2012-13 and plans for 2013-14

Foreword by the Parliamentary Under Secretary of State

This chapter provides a brief summary of the wide-ranging work undertaken by the Scotland Office during the financial year 2012-13.

Ministers and officials from the Scotland Office have continued to represent Scotland's interests in the United Kingdom and to ensure that Scottish matters are considered fully when developing and delivering policies across Government.

The UK Government continues to focus our efforts on taking the essential action necessary 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.

2013 sees the introduction of wide ranging welfare reform policies that will change the face of welfare provision throughout the United Kingdom. I have conducted a number of engagements with stakeholders in Scotland to understand how welfare reform is being implemented at a local level and will continue to engage closely as we move into the next financial year.

During the last financial year the Secretary of State and I have both represented Scottish interests at home and abroad. Following my visit to Malawi to support Scotland and the wider UK's relationship with Malawi, I was able to welcome President Banda to the UK in March this year to join the celebrations to mark the bicentenary of Dr David Livingstone's birth. The Secretary of State visited Brussels - undertaking discussions on a range of key issues for Scotland including renewable energy policy and the future implementation of structural funds - and Brazil, where he led the largest ever Scottish trade mission.

We continue to work closely with the Scottish Government to implement the Sewel Convention and to deliver a programme of Scotland Act Orders, both of which ensure that the devolution settlement works successfully and delivers for a strong Scotland within the United Kingdom.



The Rt Hon David Mundell MP

Parliamentary Under Secretary of State at the Scotland Office

Activities

The Scotland Act 1998, as amended by the Scotland Act 2012, provides the legislative basis for devolution in Scotland. The Scotland Act 1998 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

Reserved matters include:

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

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.

Delivery of Objectives in 2012-13

The Scotland Office's business plan for 2012-13 set out five broad objectives for the Office which focused on promoting the best interests of Scotland within the UK.

The Scotland Office is highly integrated and almost all of the Office's work relates to more than one objective. To avoid repetition the first four objectives are discussed

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.

together in this chapter. The actions taken to run the Scotland Office and the Office of the Advocate General effectively, efficiently and economically are described in chapter 3 of this report.

Scotland Office Objectives 2012-13

Objective 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.

Objective 2:

To communicate the benefits of Scotland's position within the UK, and to promote a wider understanding of UK policies in Scotland.

Objective 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.

Objective 4:

To support the effective administration of the Boundary Commission and of Parliament and Scottish Parliamentary elections in Scotland.

Objective 5:

To achieve continuous improvement in running the Scotland Office effectively, efficiently and economically.

Constitutional overview

The current Scottish Government was elected in May 2011 with a manifesto commitment to hold a referendum on independence. The UK Government made clear from the outset that, whilst it was firmly committed to maintaining Scotland's place within the United Kingdom – to the benefit of both Scotland and the rest of the UK - it would help to facilitate a legal, fair and decisive referendum on independence.

During the reporting period 2011-12, the Scotland Office took forward a consultation calling for views on the issues in the referendum process which needed to be addressed and offered proposals on how to address them. In this reporting period we worked with the Scottish Government to reach agreement on a legal referendum process capable of commanding the confidence of both sides of the debate in Scotland.

The Prime Minister, Secretary of State for Scotland, First Minister and Deputy First Minister signed the Referendum Agreement on 15 October 2012. The agreement consisted of two

parts: a draft section 30 Order to provide the Scottish Parliament with the legal power to legislate for a referendum; and a non-statutory agreement signed by both Governments that agreed the framework and rules that would govern the referendum.

The section 30 Order was approved unanimously by both Houses of the UK Parliament and the Scottish Parliament before being made by Her Majesty in Privy Council. The Scottish Parliament has since introduced referendum legislation in the Scottish Parliament within the parameters set by the Referendum Agreement.

Scotland Analysis Programme

The referendum will be one of the most important decisions in Scotland's history. It is therefore important that the debate is informed by analysis and people have access to information before they vote in the referendum.

On 20 June 2012 therefore, the Secretary of State for Scotland announced to the House of Commons that the UK Government would commence a detailed programme of analysis ahead of the independence referendum. The programme would examine how Scotland contributes to and benefits from being part of the UK, and how the rest of the UK benefits from its partnership with Scotland. It would be comprehensive, open and robust, informed by expert opinion and open to scrutiny. It would examine a wide range of issues including:

- the legal and constitutional set-up within the UK and the legal implications of a vote for independence;
- the economic questions, including the economy and public finances of the UK and Scotland's part in that, and the shared institutions and key sectors that support the economic performance of the UK and Scotland; and
- important policy issues such as the UK's place in the world, shared defence and security services, energy, the UK's world-leading financial services sector, welfare and pensions, and culture.

This is a major cross-government programme and the Scotland Office is now working closely with all involved to develop the analysis and supporting evidence base. The Scotland Office is facilitating engagement with experts and communicating and disseminating the findings of the analysis to people in Scotland.

The first paper in the Scotland analysis series, "Devolution and the implications of Scottish independence", was published on 11 February 2013 at a launch event hosted by the Secretary of State for Scotland, the Parliamentary Under Secretary of State for Scotland and the Advocate General. The remaining papers in the series will be published over the course of 2013 and 2014.

Scotland Act 2012

The Scotland Act 2012 received Royal Assent on 1 May 2012. Since then, the Scotland Office has worked with the Scottish Government and with other UK Government

departments to implement and support the changes to the devolution settlement it enacts. The majority of the non-finance provisions contained in the Act have now been commenced including giving the Scottish Government the powers to set a new speed limit and a drink drive limit, and powers in relation to the misuse of drugs, as well as giving the Scottish Parliament competence in relation to certain air weapons.

The two governments are also making good progress with the implementation of the tax and borrowing powers transferred by the Act, which represent the largest transfer of fiscal power to Scotland since the creation of the United Kingdom. This progress is set out in the first annual report on the implementation of Part 3 (finance provisions) of the Scotland Act 2012, which was published on 25 April 2013.

Scotland Office Ministers and officials are represented at all levels of the governance structure overseeing the implementation of the financial powers. Officials sit on the project and programme boards set up by HM Revenue and Customs to oversee implementation of the Scottish rate of income tax from April 2016 and the disapplication of UK Stamp Duty and Landfill Tax from April 2015, and on the inter-governmental assurance board that manages the implementation of all of the financial powers. The Secretary of State for Scotland also regularly meets Ministers from HM Treasury and from the Scottish Government at the Joint Exchequer Committee.

Through this structure, the two administrations have now signed a Memorandum of Understanding setting out their roles and responsibilities in relation to the Scottish Rate of Income Tax, and agreed processes for borrowing by Scottish Ministers and for creating new devolved taxes or devolving existing taxes to Scotland. The two governments have also agreed a set of principles through the Joint Exchequer Committee for assessing options for adjustments to the block grant in relation to the taxes devolved by the Scotland Act 2012.

The Scotland Office will ensure that these provisions continue to be implemented in a phased way over the coming years; that proper transitional provisions are in place; and that the provisions deliver proper accountability and responsibility to the Scottish Parliament. The Secretary of State will continue to report on this progress, annually, to both the UK and Scottish Parliaments.

Scottish Economy

During the last year the Scotland Office continued work to help develop Scotland's global economic competitiveness and to combat unemployment. The UK Government's economic strategy is designed to reduce the deficit, protect the economy through international uncertainties, and equip Scotland within the UK to succeed in a global race. The Autumn Statement and Budget 2013 set out the measures the Government intends to take in order to secure a stronger economy and a fairer society.

While Scotland will contribute its fair share towards tackling the deficit, the Scottish Government's budget will benefit from more than £1.7bn in additional spending announcements since the Spending Review, including more than £1.6bn in capital investment. Growth and investment in Scotland will be supported through a National Insurance £2,000 employment allowance, additional measures to support small and

medium enterprises (SMEs), and a package of oil and gas measures to provide further certainty on decommissioning relief to help unlock billions of pounds of additional investment.

Around 2.2 million Scots will benefit from the additional increase in the personal allowance, and an additional 23,000 people will be lifted out of income tax altogether from April 2014 – taking the total to 224,000 since 2010.

Financial Services and Access to Finance

The Scotland Office has engaged extensively with Scotland's financial services industry throughout 2012-13 in order to support the vital role the sector plays in providing credit and financial services to businesses and households across Scotland. Scotland's financial services sector contributes £9.2 billion to the economy, accounting for 7% of total Scottish GDP. Recent figures show that the sector employs around 85,000 people directly (3.6% of total Scottish employment), as well as a further 100,000 indirectly.

The UK Government is working to ensure that Scotland and the rest of the UK has a reformed, fair and competitive financial services industry. The Government's reforms have included the Financial Services Act 2012, which implements the Government's commitment to strengthen the financial regulatory structure in the UK. The Government has also introduced the Banking Reform Bill, implementing its response to the Independent Commission on Banking, including ring-fencing retail banking activities, loss-absorbency, resolvability and the regulation of payment systems. The Government is committed to having the relevant legislation in place by 2015, and has also supported key partners on a range of issues to help improve the competitiveness of the Scottish banking sector. There has been welcome progress on diversification of the sector, including the decision by Tesco Bank (headquartered in Edinburgh) to start offering mortgages for the first time in August 2012, and progress on the sell-off of the Lloyds "Verde" network, which is expected to introduce a new banking presence on the Scottish high street. The Government supported the Independent Commission on Banking's recommendation regarding the introduction of an industry-led, "hassle-free" 7-day bank account switching service to be introduced in Scotland by September 2013.

These changes clearly present significant challenges and opportunities for the financial services sector in Scotland. Scotland Office Ministers have engaged with key representatives of the sector, in order to understand their views and to promote understanding of UK Government policy.

The Scotland Office has also continued its dialogue with the banking sector and UK Government departments on access to finance, which remains an essential issue for small businesses and households. The UK Government worked closely with the Bank of England to put in place the Funding for Lending scheme, which has helped to improve credit conditions. The Government is also working to put in place a new Business Bank, which will bring together £1 billion of new Government capital and £2.9 billion of capital in existing schemes. By bringing together into one place management, budgets, spending authorities and the power to alter or create new schemes, Government will be providing a more coherent and comprehensive package of support for businesses.

The Business Bank's programmes began operating from within the Department for Business, Innovation and Skills (BIS) from April 2013, and the bank itself is expected to become a fully operational new institution in Autumn 2014.

UK Green Investment Bank

The Government announced in February 2012 that the UK Green Investment Bank (GIB) would be headquartered in Edinburgh. The Bank, which has been capitalised with £3 billion of UK Government money, received state aid clearance from the European Commission in October 2012, allowing it to make investments on commercial terms across an agreed range of green economy sectors.

The Secretary of State warmly welcomed the appointment of a very strong senior team, led by Lord Smith of Kelvin (Chairman) and Shaun Kingsbury (Chief Executive). A number of highly experienced and influential Scots have also been announced as non-executive directors. The Secretary of State, played a key role in the formal launch of the Bank in Edinburgh in November 2012. The UK GIB has its headquarters in Edinburgh, at the centre of Scotland's thriving businesses and asset management sector, coupled with a team based in London, the world's leading financial centre. The Bank has already begun making investments in key sectors, including offshore wind, biomass and waste.

Scottish Business Board

The Scottish Business Board has continued to provide the Secretary of State with advice on the effects of UK Government economic policy in Scotland, allowing him to represent the views of the Scottish business community effectively in Whitehall. A number of senior Ministers and officials from other departments have attended the Board, and the Scotland Office has worked closely with the Treasury, BIS and UK Trade and Investment (UKTI) to ensure members have the opportunity to give their views on a range of key issues, including the Heseltine Review, transport issues, access to finance, the UK Government's Industrial Strategy and Budget 2013. The Scottish Government is represented at Board meetings, and Scotland Office Ministers have welcomed their constructive engagement to date.

As a result of the early discussions of the Board, Brian Wilson, former Trade Minister and now a UK Business Ambassador, was appointed by the Secretary of State to lead a review of support for Scottish exporting. Mr Wilson is being supported in this work by Scotland Office officials and the Scotland International Group of the Scottish Business Board. The review is expected to report in autumn 2013.

Energy

Scotland Office Ministers have been engaged in a range of issues affecting the energy sector over the course of the year. Fuel poverty remains a major concern for people and organisations across Scotland and both the Parliamentary Under Secretary of State and the Secretary of State hosted meetings to focus on this issue. These meetings

were attended by a range of organisations, and the Secretary of State also hosted a joint fuel poverty meeting with the Scottish Government. The Secretary of State for Energy and Climate Change attended the meeting. In addition, the Scotland Office was involved with the launch and promotion of the UK Green Deal scheme to help with home insulation measures.

The Secretary of State held discussions with Scottish Renewables on the future of the sector in Scotland and the role of the UK Government in supporting the development of the sector through current Government reforms. He also hosted a roundtable discussion in Edinburgh for Commissioner Oettinger, the European Energy Commissioner, with key players in the sector so that Commissioner Oettinger could hear about the potential of renewables in Scotland first hand and to give those involved in the sector an opportunity to engage directly with European decision makers. During his regular visits to businesses and organisations throughout Scotland, the Secretary of State met a wide cross section of those involved in the sector from wind turbine manufacturers to those establishing community marine energy projects.

The Secretary of State had regular engagement throughout the year with the oil and gas sector, including meetings and visits with companies involved directly in production and those companies who work in the supply chain. The oil and gas sector continues to be a major economic contributor in Scotland and the UK and alongside Ed Davey and Vince Cable, the Secretary of State for Business, Innovation and Skills, launched the UK oil and gas sector strategy in Aberdeen. This is a recognition of both the importance of the sector and also the importance that the UK Government attaches to working with the industry to ensure it can achieve maximum economic benefit in the coming decades.

Emergency Towing Vessels

The Scotland Office was successful in securing a long-term replacement for the emergency towing vessels (ETV) service in waters surrounding the Northern Isles and Western Isles. BP and North Star both agreed to work in conjunction with HM Coastguard in order to provide support in the event of a pollution incident. BP have also signalled their commitment to the industry scheme by investing up to \$250,000 towards new towing equipment to upgrade its fleet of Caledonian regional support vessels.

Agriculture, Fisheries, Food and Drink and the Environment

Scotland Office Ministers have continued to work to support the interests of Scottish farmers and fishermen by ensuring, for example, that the UK Government's negotiating position on reform of the EU Common Agricultural Policy (CAP) and the EU Common Fisheries Policy (CFP) reflects their priorities. Both Ministers have supported proposals for greater regionalisation of both the CAP and the CFP to ensure that the Scottish Government has the flexibility to implement policy that reflects the specific needs of producers in Scotland.

Scotland Office Ministers and officials have engaged with a range of industry stakeholders and decision makers. For example the Secretary of State met the Chef de

Cabinet from the office of the European Commissioner for Agriculture to discuss issues of importance to Scottish producers in CAP reform negotiations. In February 2013, the Secretary of State addressed the centenary Annual General Meeting of the National Farmers' Union of Scotland. Alongside the UK Fisheries Minister, the Parliamentary Under Secretary of State has met representatives from the industry in Scotland to discuss issues of concern in regard to fishing effort allocations.

Scotland Office Ministers have also facilitated visits to Scotland by other UK Government Ministers with policy responsibilities affecting the agriculture, fisheries and food and drink sectors. In March 2013, the Secretary of State welcomed the Secretary of State for Environment, Food and Rural Affairs to Scotland and attended a meeting with him and board members from the National Farmers' Union of Scotland. The Secretary of State and Parliamentary Under Secretary of State held regular bilateral meetings with members of relevant representative groups and with producers themselves, to gather their views in regard to such issues as CAP and CFP reform, the dairy industry code of practice package, and the newly appointed Groceries Code Adjudicator.

Employment and Welfare

The Scotland Office has continued to engage on the issues of employment and welfare in fulfilment of its objective to help develop Scotland's global competitiveness and combat unemployment. The Secretary of State co-chairs the Scottish Employability Forum alongside the Scottish Government Finance Secretary, John Swinney, and the Convention of Scottish Local Authorities representative for Health and Wellbeing, Cllr Harry McGuigan. The Forum brings together the three layers of government in Scotland with employers and with a cross section of the main employability delivery partners. The Forum met for the first time on 31 January and has begun work to assess the most pressing priorities regarding tackling unemployment levels in Scotland, including approaches to the allocation of funding and matching programmes to the needs of employers and individuals.

2013 sees the introduction of wide ranging welfare reform policies that will change the face of welfare provision throughout the United Kingdom. Over the course of the past year the Department for Work and Pensions has been engaging in Scotland with partners at all levels as programme reforms prepare to come on line. Scotland Office Ministers have engaged with stakeholders in Scotland to understand how welfare reform is being implemented at a local level. As part of these welfare reforms, Council Tax Benefit and aspects of the Social Fund have been abolished, with funding transferred from the UK Government to the Scottish Government to enable local successor schemes to be established. With regard to the latter, the Parliamentary Under Secretary of State and the Advocate General completed the passage of a Scotland Act Order through the House of Commons and House of Lords respectively in order to transfer the requisite powers to the Scottish Parliament in respect of the new Scottish Welfare Fund.

National Security, Defence and Civil Contingencies

The Scotland Office continues to fulfil its important responsibilities in relation to national security and civil contingencies. The Office worked with the Scottish Government

and other partners on the delivery of CONTEST, the Government's counter terrorism strategy, and on the cross-UK response to several contingencies. Over the course of the year these included preparations for a potential Great Britain wide tanker drivers' strike in 2012 and a strike by aviation fuel tanker drivers at Grangemouth in 2013, the terrorist attack and hostage taking at the Amenas gas field in Algiers in January 2013, and the severe winter weather in March 2013.

The Scotland Office recognises the importance of the defence footprint and the defence industries in Scotland and engages regularly with the Ministry of Defence (MoD), to ensure that Scotland's interests are well represented. The Scotland Office was 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 March 2013, the Secretary of State for Defence delivered the outcome of the Army Basing Review where he announced that Scotland will be home to one of seven "centres of gravity" for the Army. With significant concentration of troops at Leuchars and Edinburgh, troop numbers will increase to their highest level since 2007 and around £100 million of additional infrastructure investment will be made. The Scotland Office continues to retain a key role, engaging with the MoD and local communities, as the detailed implementation of the Basing Review is taken forward.

The defence industry in Scotland plays a key role in equipping and supporting the UK Armed Forces – from iconic industries such as shipbuilding on the Clyde and at Rosyth to cutting edge high tech manufacturing. The defence industry in Scotland generates billions for the economy and supports thousands of jobs as well as apprenticeships locally, through projects such as the Queen Elizabeth Class carriers, built at Scotstoun, Govan and Rosyth. The Scotland Office continues to engage regularly with the MoD and defence companies in Scotland so that their interests are represented.

Promoting and Maintaining the Devolution Settlement

The Scotland Office also promotes the devolution settlement in the Government's formal devolution machinery and is committed to embedding the culture of devolution throughout the civil service.

The Office promotes Scottish interests in the formulation of Government legislation with its extensive involvement in the development of Government Bills. The Office is in regular 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.

In keeping with the UK Government's commitment to the effective operation of the devolution settlement, Scotland Office officials continued to work with counterparts at the Scottish Government to ensure that Legislative Consent Motions (LCMs) were sought when required, and agreed to in a timely fashion.

In the year to 31 March 2013 a total of 10 UK Government Bills, which triggered the Sewel Convention, secured the required consent of the Scottish Parliament. A total of 13 LCMs were secured across these 10 Government Bills. These included three LCMs for the Enterprise and Regulatory Reform Act and two for the Crime and Courts Act, as well as one LCM for each of the following:

- Defamation Act;
- Electoral Registration and Administration Act;
- Finance (No.4) Act;
- Growth and Infrastructure Act;
- Local Government Finance Act;
- Prisons (Interference with Wireless Telegraphy) Act; and
- Statute Law (Repeals) Act
- Scotland Act 2012 (a second LCM for the Bill was required, to reflect changes to the Bill made since the first LCM was passed in March 2011).

In addition to Government Bills, an LCM was secured for the Marine Navigation (No. 2) Act, which was a Private Members Bill.

Partnerships (Prosecution)(Scotland) Bill

The Scotland Office and the Office of the Advocate General have legislated this year to close the loophole in Scots law that allowed partnerships to evade prosecution for potentially serious offences by dissolving. The anomaly was discovered as a result of the Rosepark nursing home fire in Lanarkshire, in 2004, in which 14 residents died. The Bill has implemented the proposals of the Scottish Law Commission using a special Law Commission procedure for the first time in relation to Scots law.

The Scotland Office also consulted on taking forward Commission proposals relating to unincorporated associations. A response to the consultation on both these issues can be found on the Scotland Office website.

Statutory Instruments

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 12 Scotland Act Orders.

The power at section 30 of the Scotland Act 1998 enables changes to be made to the legislative competence of the Scottish Parliament. In addition to the section 30 Order to deliver the Referendum Agreement reached between the two Governments, the power

at section 30 was used to give the Scottish Parliament the legislative competence to provide assistance to those members of the community who might previously have applied for a community care grant or crisis loan for living expenses following changes introduced by the Welfare Reform Act 2012.

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. Three of the 12 Scotland Act Orders taken forward in this reporting year were made using this power. In particular the power at section 104 was used to make ticket touting of Commonwealth Games tickets an offence across the UK - an important requirement to meet the terms of Glasgow's winning bid for the 2014 Games.

Five orders were taken forward as a result of the Scotland Act 2012. These orders commenced provisions in the Act and made a number of minor and consequential amendments as a result of the implementation of the 2012 Act.

The full list of the Scotland Act Orders taken forward by the Scotland Office in 2012-13 are as follows:

- SI 2012/1852 The Glasgow Commonwealth Games Act 2008 (Ticket Touting Offence)(England and Wales and Northern Ireland) Order 2012;
- SI 2012/2855 The Forestry Commissioners (Climate Change Functions) (Scotland) Order 2012 (Consequential Modifications) Order 2012;
- SI 2012/3073 The Scottish Administration (Offices) Order 2012;
- SI 2013/242 The Scotland Act 1998 (Modification of Schedule 5) Order 2013;
- SI 2013/192 The Scotland Act 1998 (Modification of Schedule 5) (No.2) Order 2013;
- SI 2013/602 The Police and Fire Reform (Scotland) Act 2012 (Consequential Provisions and Modifications) Order 2013;
- SI 2012/1710 The Scotland Act 2012 (Commencement No. 1) Order 2012;
- SI 2012/2516 The Scotland Act 2012 (Commencement No. 2) Order 2012;
- SI 2013/6 The Scotland Act 2012 (Commencement No. 3) Order 2013;
- SI 2013/7 The Scotland Act 2012 (Transitional and Consequential Provisions) Order 2013; and
- SI 2013/728 The Scotland Act 2012 (Consequential Provisions) Order 2013.

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.

Promoting Scotland Internationally

USA and Canada

In April 2012, the Parliamentary Under Secretary of State led a trade delegation to the USA, containing a number of Scottish SMEs, mainly from the educational, creative and engineering sectors. He visited a number of key universities and colleges in Chicago, focussing on their work on bringing innovative technologies to market and discussing how the UK and UK businesses might learn from this approach. He also had meetings with a number of Scottish businesses represented in the US from various sectors. He concluded his visit in New York, taking part in the Tartan Week activities, as the UK government representative there.

In December 2012 the Secretary of State visited Washington, Ottawa and Montreal to promote Scotland as part of the UK, Scottish interests, trade and exports. The Secretary of State met a number of American and Canadian businesses and highlighted that free trade between the UK and the US is essential to economic recovery and prosperity in both countries. The Secretary of State stressed the importance of the relationship for Scotland, saying the UK and the US are the largest investors in each other's economies and that a transatlantic free trade agreement with the US would be very positive for both the EU and US, liberalising our markets and could bring economic benefits similar in scale to the creation of the Single Market.

Brussels

The Secretary of State visited Brussels in December 2012 to meet with the European Commission, EU Commissioners, Members of the European Parliament, and Belgian investors with interests in Scotland. During his visit, he undertook discussions on a range of key issues for Scotland including renewable energy policy and the Energy Bill, current and future implementation of structural funds in Scotland and Common Agricultural Policy reform.

Malawi

The Parliamentary Under Secretary of State, David Mundell, visited Malawi in January to support Scotland's and the wider UK's relationship with Malawi. He met President Joyce Banda, her senior Ministers, as well as British and Malawian business leaders to discuss trade and broader development issues. Mr Mundell visited several health, education and access to justice projects to witness the substantial support that the Department for International Development is providing to the people in Malawi through these projects; many of which are complemented by projects run by Scottish organisations.

Mr Mundell also raised the profile of the bicentenary of Dr David Livingstone's birth, and was pleased to welcome President Banda to the UK in March to join in the celebrations in Scotland and in London to mark this historic event.

Brazil

In 2011 the Secretary of State led the largest ever Scottish trade mission to Brazil. Following this visit, he made a follow up trip in March 2013. He began the 2013 trip in

Porto Alegre, at the invitation of the Governor of Rio Grande do Sul, looking at a lesser known (to UK and Scottish businesses) region of Brazil, but one where there are major opportunities for business, particularly in engineering and the oil and gas supply chain.

He then went to Sao Paulo, to participate in the launch of Edinburgh University's Office of the Americas, which the University opened to generate links and opportunities for research, innovation and collaboration. Moving on to Rio de Janeiro, he gave the keynote speech at a major energy showcase led by UKTI, which put together key Scottish and UK companies from the oil and gas sector with major Brazilian contractors and Petrobras, Brazil's state sponsored oil major.

In Rio, he held discussions with Brian Wilson, UKTI and FCO officials and a number of Scottish companies looking at opportunities in Brazil, to understand first-hand what support was available to potential exporters and investors, and how businesses were finding opportunities in Brazil. He then met Lord Coe, who was in Brazil promoting UK Olympics expertise, to highlight with him the additional Scottish expertise available as a result of the preparations for the Commonwealth Games, to be held in Glasgow in 2014. Representatives from Glasgow City Council also attended, and there was an opportunity to highlight Glasgow's bid for the 2018 Youth Olympics. He concluded his visit by giving the keynote address to attendees at the gala reception for the Energy Showcase, as well as holding a number of meetings with Scottish businesses, including IBM Scotland.

Culture, Media and Sport

Scotland Office Ministers were active in promoting the Olympic games in Scotland, attending football at Hampden and supporting Scottish sportsmen and sportswomen at events in London. The Scotland Office initiated and is contributing to the planning for managing the reserved aspects of the Commonwealth Games. Working with HM Treasury we have arranged for similar tax exemptions for visiting athletes as applied at the Olympics. The Scotland Office has also legislated to prevent the touting of Games tickets.

The 2012 Cultural Olympiad brought opportunities to promote Scotland internationally. The Secretary of State hosted a breakfast event for visiting Culture Ministers associated with the Edinburgh International Culture Summit. Ministers participated in events across the country to celebrate Scottish talent.

Scotland Office Ministers and officials are engaged in the Government's programme to commemorate the centenary of the First World War which was formally launched in October 2012. Glasgow will be the centre of the Commonwealth commemorative events and Commonwealth heads of state and government are to be invited to remain in Glasgow at the end of the Glasgow 2014 Commonwealth Games to take part in a special service at Glasgow Cathedral and a wreath laying service at the city's Cenotaph on Monday 4 August 2014, the day after the closing ceremony of the Commonwealth Games, which will be attended by Commonwealth leaders from across the globe.

On broadcasting, appointments to the Board of MG Alba were approved by the Secretary of State. Ministers also welcomed the terms of Ofcom's relicensing of Channels 3 and

5 for a further decade, setting the basis for high quality news broadcasting across the whole of Scotland.

Parliamentary Select Committees

The Scotland Office continued to perform a liaison function in relation to Parliamentary Select Committees, in particular with the Scottish Affairs Committee. Scotland Office Ministers appeared three times in 2012-13 to give oral evidence to the Committee's on-going inquiry 'The Referendum on Separation for Scotland'.

The Office submitted a Government Memorandum to the Lords Constitution Committee for its inquiry on 'The agreement on a referendum on independence for Scotland'. The Secretary of State gave oral evidence to the Lords Economic Affairs Committee's inquiry 'The Economic Implications for the UK of Scottish Independence'.

The Secretary of State gave oral evidence to the Scottish Parliament's Referendum (Scotland) Bill Committee. The Office also submitted written evidence to this Committee on 'The Electoral Commission's Role in the Development of Referendum Questions'.

Elections and Boundaries

The Secretary of State has statutory functions in relation to elections and constituency boundaries in Scotland. He has lead responsibility for the policy and law governing parliamentary elections in Scotland and is also responsible for making legislation concerning certain electoral and boundary matters in Scotland. To this end, the Scotland Office works closely and meets 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.

The Scotland Office is currently discussing with the Scottish Government the commencement of sections 1 to 3 of the Scotland Act 2012, which will transfer the responsibility for the administration of elections to the Scottish Parliament from the Scotland Office to the Scottish Government.

Boundary Commission for Scotland

The Scotland Office sponsors the Boundary Commission for Scotland and maintains close and regular contact with the Secretary of the Commission.

Under section 6 of the Electoral Registration and Administration Act 2013, the date for completion of the Commission's sixth review of UK Parliament constituencies in Scotland has been moved from before 1 October 2013 to between 1 and 30 September 2018.

Further information about the review and the Commission can be found on the Commission's website: www.bcomm-scotland.independent.gov.uk

Objectives for 2013-14

The Scotland Office supports the UK Government's objectives for Scotland and promotes the best interests of Scotland within the United Kingdom.

The Scotland Office's Business Plan for 2013 to 2014 is published on www.gov.uk. It sets out five objectives. These build on, and take forward, the objectives set in 2012-13:

Objective 1

To inform the debate about Scotland's future in the UK ahead of the 2014 referendum;

Objective 2

To support UK Government work to promote economic growth in Scotland;

Objective 3

To ensure the UK Government serves the interests of all people in Scotland through the reserved policies it delivers;

Objective 4

To maintain the devolution settlement by ensuring that devolution respects the needs of Scotland and the rest of the UK; and

Objective 5

To ensure continuous improvement in running the Scotland Office effectively, efficiently and economically, delivering on all internal targets.

The Office will review progress towards its objectives over the course of the year.

Chapter 2: Office of the Advocate General for Scotland: Activities in 2012-13 and Plans for 2013-14

Foreword by the Advocate General for Scotland

It has been my continued honour and privilege to serve as Advocate General for Scotland throughout this last year.

As Advocate General, my principal role is that of the UK Government's senior legal adviser on Scots law. I also discharge a variety of statutory functions under the Scotland Act 1998 in relation to the devolution settlement. In carrying out these roles, I am supported by a dedicated team of Scots lawyers based in Edinburgh and London. On a day to day basis, my officials provide Scots law advice, and advice on devolution, to UK government departments and provide them with legal representation in the Scottish courts.

The last year has been very significant in Scotland's constitutional history and the ongoing debate surrounding its constitutional future has been central to the work of my office. Following the agreement reached between the Prime Minister and Scotland's First Minister in Edinburgh in October 2012, my officials worked with colleagues in the Scotland Office and other departments to draft an order under section 30 of the Scotland Act to ensure the independence referendum can proceed on a sound legal footing. I took the order through the House of Lords in January 2013, and it was also approved by the House of Commons and the Scottish Parliament. Its effect was to give the Scottish Parliament the legal power to legislate for the referendum.

Our work on Scotland's constitutional future did not end there, and as the debate has moved from issues of process onto matters of substance, my office has continued to play a central role. We have made a significant contribution to the UK government's programme of analysis on Scotland's place in the UK, which will provide the people of Scotland with factual information in advance of the referendum next year. That included the formation of a forum of independent legal experts in August 2012 to examine some of the issues which are raised by the constitutional debate. The discussions which took place at the forum helped to inform much of the first paper in the Scotland analysis programme, *Devolution and the implications of Scottish independence*, which was published on 11th February 2013.

My office continues to provide legal services to UK government departments on legislation going through the Westminster Parliament. This year, my officials provided Scots law advice on bills in the second and third Parliamentary sessions, and led on the legal aspects of two key pieces of legislation for Scotland, the Scotland Act 2012 and the Partnerships (Prosecution) (Scotland) Act 2013. The latter act implemented recommendations of the Scottish Law Commission and closed a loophole in Scottish criminal law that had prevented successful prosecutions after a fatal fire at the Rosepark care home in 2004.

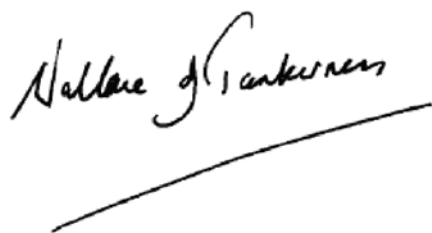
My office has also scrutinised all of the Scottish Parliament's primary legislation, and has engaged regularly with the Scottish Government and a wide variety of UK departments to ensure that legislation is within the competence of the Scottish Parliament, and therefore capable of resisting legal challenge. Indeed, I made my first appearance before the Supreme Court in November 2012 when I intervened in support of the Scottish Government in *Imperial Tobacco Limited v Lord Advocate*. In that case, Imperial Tobacco challenged the validity of the Scottish Parliament's Tobacco and Primary Medical Services (Scotland) Act 2010 on the grounds that provisions within the Act were outside the legislative competence of the Scottish Parliament. It was particularly satisfying that the Supreme Court unanimously rejected the challenge. The outcome of the case bears testimony to the work done by my officials both in scrutinising Acts of the Scottish Parliament and in providing support to me when exercising my statutory right to intervene in particular cases.

In October 2012, I appeared on behalf of the United Kingdom before the Court of Justice of the European Union in the appeal of the case Kadi, arising out of a European Council regulation implementing a UN Security Council resolution on the imposition of asset freezing orders. The final Judgement of the Court is still awaited.

It has also been a successful year for my team of officials in acting for UK government departments in the Scottish courts and tribunals. We have undertaken a wide variety of litigation, ranging from Social Security appeals to Human Rights challenges. My officials have discharged a high volume of immigration litigation, which we conduct on behalf of the Home Office, and continues to be a hugely important and major area of work, as well as all of HM Revenue & Customs major Scottish litigation.

The activity of my officials during the year has not been restricted to direct provision of legal advice. In March 2013, my office organised the Scottish launch of the UK government's revised *Plan for Growth of UK Legal Services*. This renewed plan sets out how the UK government is working with the legal profession to promote the legal sector on the international stage. My office played an important role in ensuring that the Scottish profession can benefit from this successful co-ordination between government and the profession and from the UK government's unique networks around the globe. I am proud to be involved in such a crucial initiative and was delighted to be one of the signatories to the plan.

The coming year promises to be no less exciting than the last, and I look forward to meeting the many challenges it will bring.

A handwritten signature in black ink, reading "Wallace of Tankerness", written over a horizontal line.

Lord Wallace of Tankerness QC
Advocate General for Scotland

Delivery of OAG's Priorities in 2012-13

OAG set the following priorities for 2012-2013

Objective 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.

Objective 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.

Objective 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.

Objective 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.

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

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.

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.

After the consultation on the Unincorporated Associations and Partnerships (Scotland) Bill, a Scottish only Bill was introduced into the UK Parliament in November 2012 to deal with the specific issue of partnerships avoiding criminal prosecution by dissolving the partnership. The Partnerships (Prosecution) (Scotland) Act 2013 was passed on 25 April 2013 and came into force the following day. OAG worked collaboratively with the Scottish Law Commission in seeing this project to fruition.

OAG was involved in instructing or advising on UK Bills which have been consulted on in draft or introduced to Parliament (some of 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 Chapter 1. OAG also contributed to the preparation of a wide range of secondary legislation prepared by UK Government Departments.

UK Parliament Bills

OAG provided legal instruction or advice on a number of UK Parliament Bills that were consulted on in draft or introduced to Parliament. These included:

- Antarctic Bill;
- Disabled Persons' Parking Badges Bill;
- Children and Families Bill;
- Crime and Courts Bill;
- Defamation Bill;

- Electoral Registration and Administration Bill;
- Energy Bill;
- Enterprise and Regulatory Reform Bill;
- Entertainment , Licensing and Regulation Bill;
- Finance Bills;
- Financial Services Bill;
- Groceries Code Adjudicator Bill;
- Growth and Infrastructure Bill;
- House of Lords Reform Bill;
- Justice and Security Bill;
- Local Government Finance Bill;
- Mental Health (Discrimination) (No 2) Bill;
- Partnerships (Prosecution) (Scotland) Bill;
- Pensions Bill;
- Prisons (Interference with Wireless Telegraphy) Bill;
- Public Service Pensions Bill;
- Scotland Bill;
- Small Charitable Donations Bill;
- Succession to the Crown Bill; and
- Water Bill

Litigation

During 2012-13, OAG was involved in a wide variety of litigation and considered 403 devolution issues.

The Advocate General intervened in two significant devolution challenges: the appeal to the Supreme Court by Imperial Tobacco challenging the Scottish Government's legislation on tobacco sales and the judicial review raised by the Scotch Whisky Association and Others challenging the Scottish Government's legislation relating to minimum alcohol pricing. A breakdown of the cases in which the Advocate General

has intervened since devolution can be found at: <https://www.gov.uk/government/organisations/office-of-the-advocate-general-for-scotland>

Immigration litigation continued to be a major area of work. A total of 267 new cases were dealt with on behalf of the United Kingdom Border Agency (UKBA), comprising of 218 petitions for judicial review and 49 statutory applications for leave to appeal and statutory appeals. This represents an 18% increase in this work overall with the greatest increase being in the number of appeals. Three significant themes have emerged this year in the immigration work: claims challenging major changes in the Immigration Rules relating to family life (Article 8 ECHR,); cases related to UKBA Legacy programmes and cases following the Supreme Court decision in *Eba* which considered whether it was competent in certain circumstances to judicially review a decision of the Upper Tribunal. In response to the volume of immigration litigation the Court of Session has introduced various new procedures for dealing with applications for to leave to appeal and judicial reviews which involve more front loading of cases and should lead to swifter disposal.

OAG appeared for the Secretary of State for Work and Pensions in 23 appeals to the Child Support and Social Security Commissioners/Upper Tribunal and one statutory appeal to the Inner House of the Court of Session. One of the appeals to the Upper Tribunal concerns the validity of notices sent to individuals to start the conversion of some existing benefits to the new Employment Support Allowance.

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.

HMRC Division handled a high volume of litigation in the past year. A total of 113 new litigation matters were raised. The work included cases relating to tax and duties before the Court of Session, several Sheriff Courts, the First-tier Tribunal (Tax Chamber) and the Upper Tribunal (Tax and Chancery Chamber) as well as National Minimum Wage matters before the Employment Tribunal and the Employment Appeal Tribunal.

Support for Ministers

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.

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.

Under section 33 of the Scotland Act 1998, the Advocate General may refer to the Supreme Court the question of whether a Bill of the Scottish Parliament, or any provision of such a Bill, is thought to be outside the legislative competence of the Scottish Parliament. OAG advises and supports the Advocate General in relation to this

statutory function, which is one of the fundamental checks and balances of devolution. OAG ensures that the relevant UK Government Departments are consulted in relation to the Advocate General's role under section 33 as regards particular Bills.

The Advocate General is the official spokesperson in the House of Lords for the Scotland Office and the Attorney General's Office. He answers oral questions and steers certain legislation through the House on behalf of the UK Government. In the 2012-2013 session the Advocate General has been responsible for the Partnerships (Prosecution) (Scotland) Bill, Justice and Security Bill and Succession to the Crown Bill as well as helping other Departments with legislation and taking Statutory Instruments for the Scotland Office through the House of Lords.

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 negotiation of an agreement between the UK and Scottish Governments for a legal, fair and decisive referendum on whether Scotland should leave the United Kingdom and taking the resulting secondary legislation (the 'section 30 order') through the UK Parliament. The office has also supported Ministers in the implementation of the Scotland Act 2012, in particular in relation to the policy development and secondary legislation required to commence the provisions relating to appeals to the Supreme Court.

Engagement

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.

Plans for 2013-2014

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

Objective 1

Advice on Policy and Legislation Affecting Scotland. We will advise UK government departments on the implications of their policies for Scotland and work with them to ensure UK legislation works for Scotland. We will review Scottish Parliament legislation in support of the Advocate General's statutory function under section 33 of the Scotland Act and engage with UK government departments and the Scottish Government to ensure implications of Scottish legislation are understood and competence issues are addressed.

Objective 2

Protecting the UK Government's Interests in the Courts. We will continue to discharge effectively litigation in the Scottish courts and tribunals and in the UK Supreme Court for departments such as Home Office, Department of Work and Pensions and

HM Revenue & Customs. We will support the Advocate General in discharging his statutory functions under Schedule 6 to the Scotland Act.

Objective 3

Scotland's Place Within the UK. We will work to support Scotland's continuing place within the UK, including contributing to the cross-government Scotland analysis programme.

Objective 4

Helping to Ensure that Devolution Works. We will work to ensure that the UK government operates effectively for Scotland in reserved areas and facilitate co-operation between Scotland's two administrations;

Objective 5

Supporting Ministers. We will work to ensure that UK government Ministers achieve their objectives in Scotland, and in particular support the Advocate General for Scotland and the Secretary of State for Scotland.

Chapter 3: Delivering Efficient and Effective Government

In 2012-13 within the Parliamentary Supply Estimates (Spring Supplementary Estimate) for the Scotland Office and the Office of the Advocate General the spend totalled £26.1 billion, being primarily a grant to the Scottish Consolidated Fund.

Financial Performance

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.

Movements in Estimate provision during 2012–13: At the start of the year the Scotland Office and the Office of the Advocate General were voted £27.170 billion in its Main Estimate. By the final Single Supplementary Estimate, this had increased to £27.272 billion due to the following main reason:

- £102,568,000 increase in the grant to the Scottish Consolidated Fund.

Explanation for Variances between Estimate and Net Resource Outturn

Overall there was an underspend of 4.23% (£1,152.507m) on the estimate provision of £27.272 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 £60,000 and 5% are set out below.

The Scotland Office and the Office of the Advocate General underspend is mainly attributable to 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	7,151	7,303	152	2.08%

The underspend by the Boundary Commission for Scotland was due to the lower than expected costs and the postponement of the Sixth Review of UK Parliament Constituencies. The review process was less intensive than expected and the Commission was able to reduce its costs significantly by having fewer and shorter public hearings. Savings on advertising were also achieved by having fewer and smaller public notices.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Boundary Commission for Scotland	281	327	46	14.07%

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 payable to the Scottish Consolidated Fund	26,112,400	27,264,632	1,152,232	4.23%

Reconciliation of resource expenditure between Estimate, Accounts and Budgets

	Estimate £000	Outturn £000
Net Resource Outturn (Estimates)	27,272,262	26,119,744
Net Operating Cost (Accounts)	27,272,262	26,119,744
Voted expenditure outside the budget	(27,264,632)	(26,112,400)
Resource Budget Outturn (Budget)	7,630	7,432

Performance Targets

For 2012-13, the Offices' three main indicators aimed at ensuring the provision of high quality and efficient services in dealings with the public were as follows:

Target	Indicator	Performance in 2012-13
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 2102 pieces of correspondence (up by 98 from 2011-12) and replied to 89.5% 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 136 FOI requests in 2012-13 and replied to 91% within 20 working days either substantively or explaining the reason for an extension. The Office of the Advocate General received 39 FOI requests in 2012/13 and replied to 100% 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 97.9% of invoices within 5 days.

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 ten sitting days (in the Lords); and the total number of named day Parliamentary Questions received and the percentage answered on the named day. Ministers have also answered oral questions on a number of occasions in the Commons and Lords. The Scotland Office received Commons oral questions on six occasions during the reporting year – on 18 April 2012, 20 June 2012, 12 September 2012, 21 November 2012, 9 January 2013 and 13 February 2013.

	Ordinary written (total number and % answered in no time)		Named day (total number and % answered on nominated day)	
House of Commons	216	97%	103	81%
House of Lords	10	100%	n/a	n/a
Total	226	97%	103	81%

The Offices have adopted the same performance indicators for 2013-14.

Freedom of Information Act 2000

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 both Offices' websites. 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

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. In the course of the year the Audit Committee reviewed the Offices' work information assurance, and in particular the specific requirements placed on the Office of the Advocate General when handling personal tax information in the course of litigation for HMRC.

Health and Safety

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

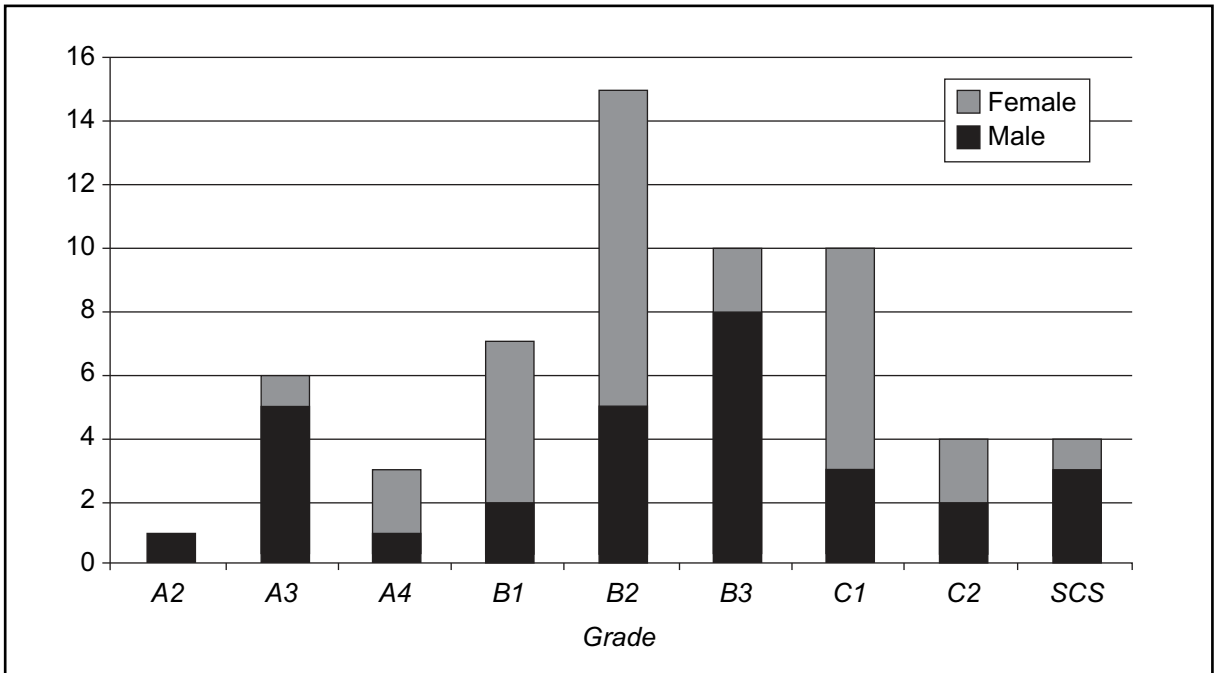
The Scotland Office and the Office of the Advocate General do not directly employ any staff. Instead, staff are seconded or loaned by other Civil Service bodies, mainly the Scottish Government and the Ministry of Justice. The Offices seek staff on secondment to provide the skills and experience needed 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 2013.

Scotland Office	Actual	Full Time Equivalent
Scotland Office, London	23	23
<i>of which Ministerial Private Offices (London)</i>	7	7
Scotland Office, Edinburgh	37	35
Total	60	58
Office of the Advocate General		
Ministerial Private Office	2	2
Legal Secretariat to the Advocate General	3	3
Office of the Solicitor to the Advocate General	38	36.7
Total	43	41.7

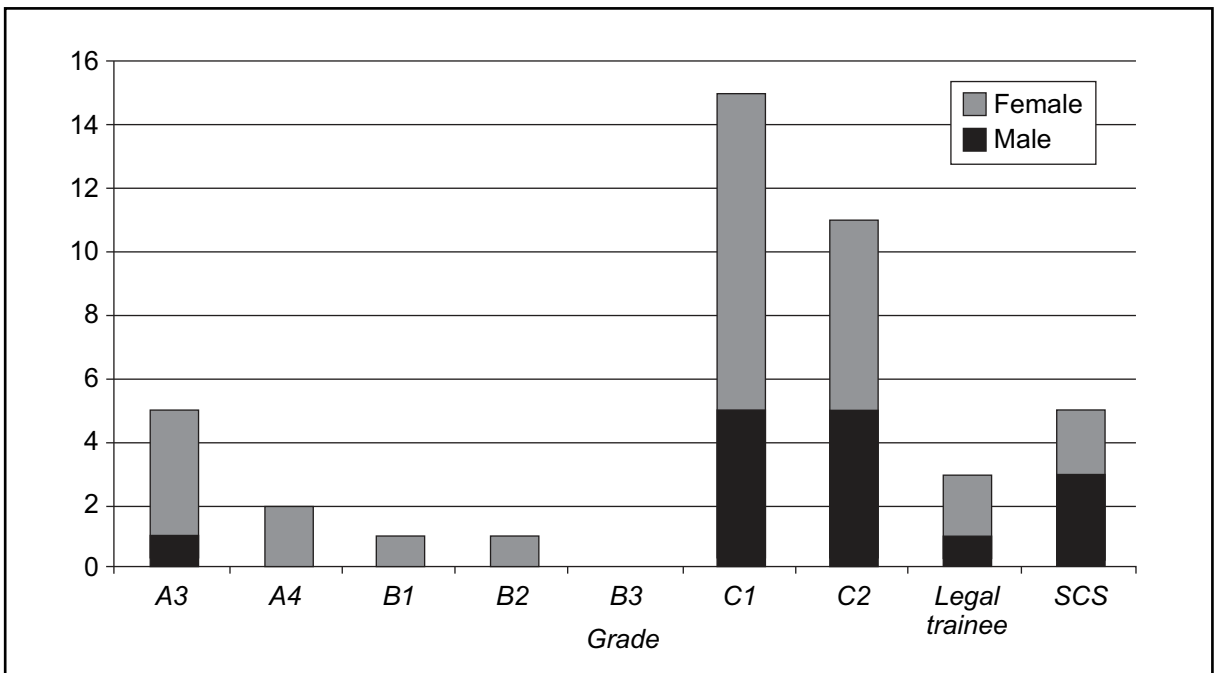
Diversity

Women make up 50% of staff in the Scotland Office and 65.1% of staff in the Office of the Advocate General. The following tables show the number of women and men in each grade in the two Offices

Gender in the Scotland Office at 31 March 2013



Gender in the Office of the Advocate General at 31 March 2013



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.

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 Disability Discrimination Act 1995 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

The salaries of Senior Civil Servants in the Scotland Office and the Office of the Advocate General at 31 March 2013 are shown in the table below:

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	1	2
£70,000 - £74,999	-	1
£75,000 - £79,999	-	1
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	1
£95,000 - £99,999	-	-
£100,000+	1	-

Government Expenditure in Scotland

Funding

Responsibility for fiscal policy, macroeconomic policy and public expenditure allocation across the United Kingdom is reserved, and the Scottish Government's Budget is determined within the framework of public expenditure control in the United Kingdom, pending the implementation of the finance provisions in the Scotland Act 2012. The financial relationship is set out in the Statement of Funding Policy.¹

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.

The Scottish Government makes its own spending decisions on devolved programmes within the overall totals, subject to approval by the Scottish Parliament. The grant made in 2012-13 was £26,112,400,000.

Efficient Use of Resources

We are committed to achieving efficiency and effectiveness in all areas of our activities. Throughout 2012-13 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.

¹ The most recent edition was published in October 2010 and is available at: http://www.hm-treasury.gov.uk/spend_sr2010_fundingpolicy.htm

The financial year 2013-14 is the third 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 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 is small and relates to the Boundary Commission for Scotland only.

Spending by the Scotland Office and Office of the Advocate General

Details of planned Scotland Office and Office of the Advocate General expenditure are contained in table 1 of chapter 4. The combined provision for the net administration costs is £7.11m in 2013-14.

Scottish Government Budget

The Scottish Government has published details of how it has allocated its budget for 2012-13; these are contained in *Scotland's Spending Plans and Draft Budget 2012-13*.²

Table 2 in chapter 4 shows changes in the Scotland Departmental Expenditure Limit (DEL) between Public Expenditure Statistical Analyses³ (PESA) 2011 and 2012. The Scotland DEL no longer includes the expenditure of the Scotland Office and Office of the Advocate General.

Resource Accounting and Budgeting (RAB)

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.

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)

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

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

3 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

Chapter 4: Public Expenditure Financial Tables

TABLE 1: The Scottish Block 2008-09 to 2014-15

	2008-09 outturn £'000	2009-10 outturn £'000	2010-11 outturn £'000	2011-12 outturn £'000	2012-13 Estimated outturn £'000	2013-14 plans £'000	2014-15 plans £'000
Table 1a - Scotland Office and Office of the Advocate General (OAG) ^{(1) (2)}							
Scotland Office & OAG Resource ⁽³⁾							
Scotland Office and OAG Administration Costs	7,235	7,530	7,688	6,833	7,083	7,110	6,263
Scotland Office and OAG - Other ⁽³⁾	593	557	188	298	281	355	235
Scotland Office and OAG Resource⁽³⁾	7,828	8,087	7,876	7,131	7,364	7,465	6,498
Scotland Office and OAG Capital	89	0	0	0	68	66	55
Scotland Office and OAG Resource + Capital DEL⁽³⁾	7,917	8,087	7,876	7,131	7,432	7,531	6,553
<i>less depreciation & impairments</i>	<i>(28)</i>	<i>(20)</i>	<i>(16)</i>	<i>(14)</i>	<i>(12)</i>	<i>(30)</i>	<i>(30)</i>
Scotland Office and OAG DEL⁽⁴⁾	7,889	8,067	7,860	7,117	7,420	7,501	6,523
Non-Voted Election Expenditure	980	10,237	10,703	13,777	(88)	0	0
Scotland Office and OAG Resource + Capital DEL⁽³⁾ + non voted expenditure	8,869	18,304	18,563	20,894	7,332	7,501	6,523

Table 1b - Scottish Government DEL and Total Scottish Block

Scottish Government ^{(1) (2) (7)}

Scotland Office Resource ⁽³⁾

Scottish Government Resource ⁽³⁾ 24,481,397 25,488,688 26,151,241 25,812,097 26,195,423 26,443,204 26,511,311

Scottish Government Capital 3,332,587 3,926,513 3,283,549 2,731,882 2,961,082 2,632,178 2,859,627

Scotland Government DEL ^{(3) (7)} 27,813,984 29,415,201 29,434,790 28,543,979 29,156,505 29,075,382 29,370,938

less depreciation & impairments (579,901) (636,802) (564,468) (623,149) (853,413) (771,213) (820,285)

Scotland Government DEL ^{(4) (7)} 27,234,083 28,778,399 28,870,322 27,920,830 28,303,092 28,304,169 28,550,653

Scotland Office and OAG Resource + Capital DEL ^{(3) + non voted expenditure} 8,869 18,304 18,563 20,894 7,332 7,501 6,523

Total Scottish Block ^{(4) (5) (6)} 27,242,952 28,796,703 28,888,885 27,941,724 28,310,424 28,311,670 28,557,176

(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 (includes Student Loans 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 publication of 2011-12 Report & Accounts

	2011-12 £m Outturn	2012-13 £m Estimated Outturn	2013-14 £m Plans	2014-15 £m Plans
Capital DEL plus Resource DEL: June 2012	28,212.6	28,445.3	28,428.7	28,686.7
Interdepartmental transfers				
from DWP: Council Tax Benefit	374.9	372.9	328.0	320.0
from DWP: Social Fund	0.0	0.0	28.8	28.4
From Home Office: RIPA	0.0	0.0	0.0	0.0
From DECC: Green Deal	0.0	1.6	0.0	0.0
Spending Policy				
Budget Exchange	0.0	183.0	0.0	0.0
Coastal Communities Fund	0.0	0.7	0.0	0.0
Student Loan Impairment	0.0	192.0	0.0	0.0
Forth Replacement Crossing	0.0	50.0	0.0	0.0
Fossil Fuel Levy	0.0	103.0	0.0	0.0
Barnett Consequentials				
Autumn Statement 2012	0.0	4.6	174.4	151.5
Budget 2013	0.0	0.0	55.0	120.8
Departmental outturn (underspend compared to final plans)				
Provisional Outturn 2011-12	(42.9)	0.0	0.0	0.0
Final Outturn 2011-12	(0.6)	0.0	0.0	0.0
Estimated Outturn 2012-13	0.0	(196.6)	0.0	0.0
Budgeting Changes				
Record non cash expenditure of Police & Fire	0.0	0.0	60.5	63.5
Subtotal	331.4	711.2	646.7	684.2
Capital DEL plus Resource DEL: June 2013	28,544.0	29,156.5	29,075.4	29,370.9

TABLE 3: Cash grant paid to the Scottish Consolidated Fund 2011-12: Provision and Final Outturn

	Original Provision	Final Provision	Final Outturn
	£m	£m	£m
Expenditure Classified as Departmental Expenditure Limit ⁽¹⁾	27,988	28,350	28,161
Expenditure Classified as Annually Managed Expenditure	3,258	3,322	3,240
Non Domestic Rates	2,171	2,182	2,182
Total Managed Expenditure	33,417	33,854	33,583
Adjustments to cash requirement			
Non-budgetary cash items	294	294	292
Depreciation and Impairments	(635)	(644)	(637)
Other Cash to accruals adjustments	(2,616)	(2,601)	(3,296)
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	(11)	(12)	(29)
Closing balance in Scottish Consolidated Fund			224
Cash grant paid to Scottish Consolidated Fund	26,554	26,985	26,179

⁽¹⁾ Resource and capital DEL including depreciation

Reconciliation between DEL in table 3 and 1

Final outturn from table 3	28,161
add:	
Housing subsidy transfer from AME to DEL	8
Council Tax Benefit: MoG transfer from DWP	375
Outturn from table 1b	28,544

TABLE 4: Cash grant paid to the Scottish Consolidated Fund 2012-13: Provision and Estimated Outturn

	Original Provision	Final Provision	Estimated Outturn
	£m	£m	£m
Expenditure Classified as Departmental Expenditure Limit ⁽¹⁾⁽²⁾	28,445	28,980	28,784
Expenditure Classified as Annually Managed Expenditure	3,117	3,148	3,058
Non Domestic Rates	2,263	2,263	2,263
Total Managed Expenditure	33,825	34,391	34,105
Adjustments to cash requirement			
Non-budgetary cash items	284	284	283
Depreciation and Impairments	(730)	(1,051)	(1,012)
Other Cash to accruals adjustments	(2,218)	(2,155)	(3,084)
Non Domestic Rates Income	(2,263)	(2,263)	(2,263)
National Insurance Fund Payments towards Scottish NHS	(1,724)	(1,724)	(1,905)
Other items including LA supported borrowing and non-voted expenditure	(12)	(11)	(11)
Fossil Fuel Levy cash transfer of funds	–	(206)	(206)
Closing balance in Scottish Consolidated Fund	–	–	205
Cash grant paid to Scottish Consolidated Fund	27,162	27,265	26,112

⁽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	28,784
<i>add:</i>	
Council Tax Benefit: MoG transfer from DWP	373
Outturn from table 1b	29,157

TABLE 5: Cash grant paid to the Scottish Consolidated Fund 2013-14

	Original Provision £m
Expenditure Classified as Departmental Expenditure Limit ⁽¹⁾	29,075
Expenditure Classified as Annually Managed Expenditure	3,082
Non Domestic Rates	2,435
Total Managed Expenditure	34,592
Adjustments to cash requirement	
Non-budgetary cash items	281
Depreciation and Impairments	(871)
Other Cash to accruals adjustments	(1,943)
Non Domestic Rates Income	(2,435)
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	27,888

⁽¹⁾ Resource and capital DEL including depreciation

Alun Evans

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

21 June 2013

Chapter 5: Remuneration Report

Auditable Sections

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

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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 Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

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' Departmental Expenditure Limits; and
- The Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com

Board Members and Senior Civil Servants Remuneration

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.

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

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.

Unless otherwise stated below, the officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at civilservicecommission.independent.gov.uk.

Ministers' Salary and Pension Entitlements

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.

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	2012-13		2011-12	
	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	£68,827	0	£68,827	0
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland	£23,697	0	£23,697	0
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland	£128,121	0	£128,121 ⁽ⁱ⁾	0

(i) includes £36,366 House of Lords Office Holder's Allowance

Pension Benefits

Pension Benefits	Accrued pension at age 65 as at 31/03/13	Real increase in pension at age 65	CETV at 31/03/13	CETV at 31/03/12	Real increase in CETV
The Rt Hon Michael Moore MP Secretary of State for Scotland	2.5-5	0-2.5	54	33	10
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland	0-2.5	0-2.5	25	17	4
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland	5-7.5	0-2.5	110	71	23

Ministerial Pensions

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).

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.

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 applied from 1 April 2012.

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)

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

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

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 2012-13 relate to performance in 2011-12 and the comparative bonuses reported for 2011-12 relate to performance in 2010-11.

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

Remuneration	2012-13			2011-12		
	Salary	Bonus Payments	Benefits in Kind (to the nearest £100)	Salary	Bonus Payments	Benefits in Kind (to the nearest £100)
Alun Evans Director (from July 2012)	85-90 (115-120 Full year equivalent)	0	0	n/a	n/a	n/a
Alisdair McIntosh Director (to July 2012)	25-30 (80-85 Full year equivalent)	0	0	80-85	0	0
Michael Chalmers Director (from December 2012)	30-35 (90-95 Full year equivalent)	0	0	n/a	n/a	n/a
Paul Johnston Director (to January 2013)	70-75 (90-95 Full year equivalent)	0	0	90-95	0	0
Chris Flatt Deputy Director	60-65	0	0	60-65	0	0
Colin Faulkner Deputy Director	*70-75	0	0	n/a	n/a	n/a
Kate Richards Deputy Director (until 9 March 2012)	n/a	n/a	n/a	75-80	0	6
Margaret Porteous Deputy Director	60-65	0	0	45-50 (60-65 full year equivalent)	0	0
Jan Marshall Deputy Director	70-75	0	£22,300	70-75	0	0
Robert Marshall Deputy Director (until 6 November 2011)	n/a	n/a	n/a	45-50 (70-75 full year equivalent)	0	0

* Includes Private Secretary Allowance of £10,098

The banded remuneration of the most-highly paid director in the Scotland Office and the Office of the Advocate General in the financial year 2012-13 was £115,000–£120,000. This was 2.74 times the median salary of the workforce, which was £43,736.

	2012-13		2011-12	
	Number	£000	Number	£000
Total Remuneration Permanent Staff		4,136		4,117
Total Permanent Staff	96		98	
Median Pay of Permanent Staff		43.7		43.7
Highest Paid Director of Pay band		119.7		93
As a multiple of Permanent Staff Median Pay		2.7		2.1

Non-Executive Directors

The Scotland Office and the Office of the Advocate General non-executive director did not receive remuneration or pension payments during 2012-13.

Compensation for Loss of Office

No senior managers received compensatory payments in 2012-13 (£Nil in 2011-12).

Pension Benefits

Officials	Accrued pension at age 65 as at 31/03/13 and related lump sum	Real increase in pension at age 65 and related lump sum	CETV at 31/03/13	CETV at 31/03/12	Real increase in CETV
Alun Evans Director (from 9 July 2012)	45-50 plus lump sum of 140-145	0-2.5 plus lump sum of 0-2.5	926	878	6
Alisdair Mcintosh Director (to 22 July 2012)	15-20 plus lump sum of 50-55	0-2.5 plus lump sum of 0-2.5	286	272	3
Paul Johnston Director (to 6 January 2013)	10-15 plus lump sum of 40-45	0-2.5 plus lump sum of 0-2.5	176	160	5
Michael Chambers Director (from 17 December 2012)	5-10	0-2.5	105	96	4
Chris Flatt Deputy Director	5-10 plus lump sum of 20-25	0-2.5 plus lump sum of 0-2.5	94	83	5
Colin Faulkner Deputy Director (from 12 April 2012)	5-10 plus lump sum of 25-30	2.5-5 plus lump sum of 10-15	117	70	41
Margaret Porteous Deputy Director	25-30 plus lump sum of 75-80	0-2.5 plus lump sum of 0-2.5	538	506	4
Jan Marshall Deputy Director	15-20 plus lump sum of 55-60	0-2.5 plus lump sum of 0-2.5	342	316	7

Alun Evans

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

21 June 2013

Chapter 6: Statement of the Accounting Officer's responsibilities

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.

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;
- to make judgements and estimates on a reasonable basis;
- to 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
- to prepare the accounts on a going concern basis.

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 7: Governance Statement (Including Commentary on Compliance with the Government's Corporate Governance Code and Annual Report of the Audit Committee)

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 2012-13. 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 share a single budget. I act as Principal Accounting Officer for both Offices and also for the Boundary Commission for Scotland. Together, the Scotland Office and the Office of the Advocate General comprise about 100 staff in Edinburgh and London.

2012-13 has been a significant year of achievement for both Offices. The successful passage through both the UK and the Scottish Parliaments, of the section 30 order transferring legislative competence to the Scottish Parliament to hold an independence referendum, is of historic importance. At the same time both Offices have sustained substantial burdens of ordinary business through such diverse activities as supporting UK departments in litigation in the Scottish courts, briefing Ministers so that they could represent the UK Government in a range of complex policy areas, a wide array of stakeholder events, and managing our resources and assets rigorously so as to secure maximum value from them. Both Offices have worked closely with HM Treasury and other government departments on the launch, and subsequent detailed work, of the Scotland analysis programme.

As Principal Accounting Officer for both Offices I am responsible for the governance statement in this annual report and for the financial statements in Chapter 9. I took office on 9 July 2012, succeeding Alisdair McIntosh who served as Principal Accounting Officer for the first three months of 2012-13. The Governance Statement covers the whole of the period 2012-2013.

The two Offices' considerable achievements in 2012-13 owe a great deal to the hard work and commitment of all our staff. 2013-14 will be a critical period for the future of Scotland as we approach the independence referendum. I am very confident that the staff of both Offices will rise to the challenge of 2014 and of future years.

Alun Evans

Director, Scotland Office

Principal Accounting Officer, Scotland Office

and Office of the Advocate General for Scotland

This governance 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 2012-13 and will be governed and managed in 2013-14; and how they are accountable for what they do. The governance statement was introduced in departmental annual reports for the first time in 2011-12. This is the second such statement produced by the Principal Accounting Officer for the Scotland Office and the Office of the Advocate General. It is designed to provide a statement, tailored to the circumstances of the two Offices, 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

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 Scotland Office maintains the devolution settlement, represents the UK Government in Scotland, and Scotland within the UK Government in reserved matters. The Scotland Office is also responsible for the administration of Parliamentary elections in Scotland and the transmission of the block grant to the Scottish Consolidated Fund. The Office of the Advocate General provides Scottish legal services to the UK Government and supports the Advocate General in his role as a Law Officer and the UK Government's senior advisor on Scots law. The Office of the Advocate General also supports the Advocate General's function of representing the UK Government in the Scottish courts, and supports him in exercising his statutory functions under the Scotland Act 1998. In discharging these overall responsibilities the Scotland Office and the Office of the Advocate General for Scotland are required to have proper governance and risk management arrangements in compliance with the Government's corporate governance code.

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. The Director of the Scotland Office was appointed Principal Accounting Officer for both offices, having previously been an Additional Accounting Officer for them. This report and statement covers the second year of the Offices under this arrangement.

The governance framework describes 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 processes by which Ministers and senior management monitor the achievement of objectives and consider whether the activities of the Offices are delivering appropriate and cost-effective outcomes. Risk identification and management form a significant part of the governance framework.

During 2012-13 the three holders of ministerial office in the Scotland Office and the Office of the Advocate General for Scotland were:

- The Rt Hon Michael Moore, Secretary of State for Scotland;

- The Rt Hon David Mundell, Parliamentary Under Secretary of State at the Scotland Office; and
- The Rt Hon Lord Wallace of Tankerness QC, Advocate General for Scotland.

The Scotland Office is responsible for one Arms-Length Body, the Boundary Commission for Scotland. 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. The Office of the Advocate General is not responsible for any Arms-Length Bodies.

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 within the UK Government 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 also has 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 within Scotland; and for ensuring that Scottish interests are properly understood and represented across Whitehall.

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.

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 decisions. Scotland Office Ministers also make Orders under the Scotland Act 1998, to adjust the detail of the devolution settlement to reflect legislation enacted by both the UK and Scottish Parliaments.

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.

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.

As a Minister, the Advocate General sits on a number of ministerial Cabinet Committees. He is also the spokesperson in the House of Lords for the Scotland Office and the

Attorney General's Office. He was the spokesperson in the House of Lords for the Wales Office until September 2012. 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.

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.

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 Secretary of State. 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.

Alisdair McIntosh served as Director of the Scotland Office and Principal Accounting Officer for both Offices until 9 July 2012, when I succeeded him. Paul Johnston served as Director of the Office of the Advocate General until the end of December 2012 when he was succeeded by Michael Chalmers. Michael Chalmers had previously been a Deputy Director in the Office of the Advocate General and served on the Offices' Joint Management Board thus helping to provide valuable continuity in the Offices' governance.

As the Director of the Scotland Office I am the Principal Accounting Officer of both 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.

The Statement of the Accounting Officer's responsibilities is in chapter 6.

Changes to Corporate Governance and Compliance with the Corporate Governance Code

The Offices' annual report for 2011-12 described the measures that the Offices were implementing in line with the guidance published by HM Treasury and the Cabinet Office "Corporate Governance in Central Government Departments" (July 2011). The two major changes to the then system of corporate governance, described in the Offices' annual report for 2011-12, were as follows:

- the Offices' Joint Management Board would meet annually as a ministerial Joint Management Board, around the end of the financial year, 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 about the management of the Offices' resources; and
- the Chairman of the Audit Committee would become a member of the Joint Management Board as the Non-executive Board Member to provide independent external advice to Ministers and senior officials.

Both of these changes were implemented and the ministerial Joint Management Board duly met for the first time in June 2012. On that occasion Ministers and the rest of the Board decided to meet again in October, and in October it was decided to change the arrangement formally. The Board decided that henceforth it would meet three times a year and that every meeting of the Board would be a ministerial meeting, chaired by the Secretary of State. The three meetings would be in the autumn, before the Easter recess and before the summer recess.

The original rationale for a single annual meeting of the Board as a Ministerial Board was that it would enable Ministers to set the strategic direction around the start of a new financial year without involving them unnecessarily in the more routine operations of the two Offices. However when the Board evaluated its first two meetings at the end of the second one, it concluded that the participation of Ministers in Board meetings was invaluable in shaping deliberations, and that the model of a thrice yearly Ministerial Board was better suited to the Offices' requirements than the model of an annual Ministerial Board with other meetings attended only by officials. The Board was also satisfied that the revised model was compliant with the Corporate Governance Code.

The Offices also implemented and developed their plans in relation to non-executive members. The Chairman of the Audit Committee joined the Joint Management Board as a non-executive member. A second member of the Audit Committee, who had previously attended Joint Management Board meetings, continued to attend Board meetings, as a non-executive member. The non-executive members of the Board have a right of direct access to the Secretary of State should they think it necessary to exercise it.

In its evaluation of the new Board structure at the conclusion of its second meeting the Board also concluded that the participation of non-executive members in its proceedings had added significant value and had enabled the Board to benefit from external advice, experience and scrutiny.

In the final quarter of 2012-13 our Internal Auditors carried out an audit of the Offices' corporate governance. There were a number of recommendations, including that the Board should conduct an annual evaluation of its effectiveness, that consideration should be given to recruiting a non-executive member who might also sit on the Northern Ireland Office and Wales Office Audit Committee, that a non-executive member with appropriate legal skills might be recruited, that new non-executive members should receive a formal induction, that a risk management policy should be

developed, and that an assurance map should be developed. Implementation of the audit's recommendations will be discussed in the Offices' annual report for 2013-14.

A revised account of the Offices' compliance with the Corporate Governance code, in the light of the changes implemented in 2012-13, is annexed to this chapter.

Joint Management Board

The Board comprises:

- the three Ministers;
- the Director of the Scotland Office and Principal Accounting Officer for both Offices;
- the Director of the Office of the Advocate General;
- five senior officials; and
- two non-executive members: the chairman of the Audit Committee and another member of the Committee.

The Chairman of the Audit Committee is John Aldridge, formerly a senior official in the Scottish Office and latterly Finance Director in the Scottish Executive. The second member of the Audit Committee and other non-executive Board member is Edward Adams. During 2012-13 Mr Adams was a Ministry of Justice official on secondment to NHS London where he served as Secretary of the Board and Head of Corporate Governance.

Joint Management Board	No of JMB meetings attended in 2012-13
Rt Hon Michael Moore, Secretary of State for Scotland	3
Rt Hon David Mundell, Parliamentary Under Secretary of State at the Scotland Office	2
Rt Hon Lord Wallace of Tankerness QC, Advocate General for Scotland	3
Alisdair McIntosh, Director (until July 2012)	1
Alun Evans, Director (from July 2012)	2
Colin Faulkner Deputy Director Private Office and Communications (from April 2013), Scotland Office	2
Chris Flatt, Deputy Director Corporate and Constitution Division, Scotland Office	2
Margaret Porteous, Deputy Director Policy Division, Scotland Office	2
Paul Johnston, Director of the Office of the Advocate General (until January 2013)	2
Michael Chalmers, Director of the Office of the Advocate General (from January 2013)	3
Jan Marshall, Legal Secretary to the Advocate General	1
John Aldridge, Non-executive member and Chair of the Audit Committee	1
Edward Adams, Non-executive member and member of the Audit Committee	2

Neither Mr Aldridge nor Mr Adams was able to attend the first meeting of the new Ministerial Board. They met the Secretary of State in advance of the meeting and briefed him about their views of the conduct of departmental business.

Board Sub-committees, including the Audit Committee

The Joint Management Board has three sub-committees:

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

The two Senior Management Teams 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 each Office. They both meet monthly. They are chaired by the Director of the respective Office and are comprised of their respective senior civil servants.

The remit of the Audit Committee is to advise the Principal Accounting Officer and provide assurance 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 2012-13 is annexed to this governance statement.

The Audit Committee is comprised of three members: John Aldridge (chair), Edward Adams, and Charlotte Barbour. There were four meetings during the year.

The Audit Committee is advised by the National Audit Office and the Internal Audit Directorate of the Ministry of Justice. (The Ministry of Justice provides internal audit services to the Scotland Office and the Office of the Advocate General.) The Directors and senior staff of both Offices responsible for corporate affairs also attend meetings of the Committee.

Audit Committee	Number of Audit Committee meetings attended in year (there were 4 in total)
John Aldridge (Chair)	4
Charlotte Barbour	4
Edward Adams	4

Business Objectives

The Scotland Office and the Office of the Advocate General produced separate but related sets of business objectives. The objectives were drafted through processes designed to engage the enthusiasm and ideas of staff. The Scotland Office business

plan and the objectives of the Office of the Advocate General were subsequently published on the Offices' websites. The work undertaken to fulfil the business objectives of the Scotland Office and the Office of the Advocate General are set out in chapters 1 and 2 respectively.

Decision-taking and Business Management

During 2012-13 the Scotland Office was organised into three divisions to deliver its functions:

- Corporate and Constitution Division;
- Private Office and Communications Division; and
- Policy Division.

The Corporate and Constitutional Division is responsible for both

- the Office's corporate services, in such matters as finance, accommodation, HR, and corporate governance, and also
- constitutional policy and therefore covers such matters as primary legislation, Scotland Act orders, the Scotland analysis programme, the implementation of the Scotland Act 2012, and Parliamentary elections in Scotland.

The Private Office and Communications Division provided support to Scotland Office Ministers, and was responsible for the press office and public communications (During the course of the year the communications function was transferred to the Corporate and Constitution Division.)

The Policy Division supports Ministers in their function of representing Scotland in reserved matters within the UK Government.

Each division was headed by a Deputy Director reporting directly to the Director of the Scotland Office. The Director and three Deputy Directors comprise the Senior Management Team of the Office and are collectively responsible for the operational management of the Scotland Office. Each Deputy Director acts as a budget holder for his or her division and is responsible for ensuring that all expenditure is incurred with regard to propriety and regularity, that value for money is secured, and any savings identified are being achieved. Divisional budgets are then reviewed monthly by the Senior Management Team so that the Team can monitor the Office's expenditure to date and financial forecasts. The Corporate and Constitutional Division sponsors the Boundary Commission for Scotland and monitors the Commission's outturn. The Scotland Office Senior Management Team also receives monthly financial information about the Commission's spending.

The Office of the Advocate General has four Divisions, three based in Edinburgh and one based in London. All Divisions focus on providing 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).

The Litigation Division provides Scots law advice and support in respect of any action raised by or against a UK Government department in Scotland, providing departments with representation in the Scottish courts. It also supports the Advocate General in respect of any action raised or defended in the Scottish Courts to which he is a party.

The Advisory and Legislation Division provides legal advice and legislative services to UK Government departments, and in particular advice on Scots law and the Scottish devolution settlement. The Division also assesses the impact of Scottish Government legislation going through the Scottish Parliament in support of the Advocate General's statutory functions under the Scotland Act 1998.

The HMRC Division deals with the legal work of HM Revenue & Customs 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.

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 1998. 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 Director of the Office acts as the budget holder for all parts of the Office. The Senior Management Team reviews management information about the Office's expenditure and outturn at its monthly meetings.

The Scotland Office Finance Manager and the Office of the Advocate General Business Manager provide advice about affordability to the budget holders within their respective Offices. There is a common system of financial delegations in place across both Offices to ensure that expenditure is controlled and authorised properly.

Shared Services with Other Government Bodies

As a very small department it would not be economical or feasible for the Scotland Office and the Office of the Advocate General to operate without receiving many corporate services from other larger government bodies. These services are provided to the Offices by the Ministry of Justice and the Scottish Government in areas such as payroll and human resources, IT provision and accommodation management. The Boundary Commission for Scotland receives almost all its corporate services from the Scottish Government. In July 2012 the Director of the Scotland Office, in common with

the heads of the Northern Ireland Office and the Wales Office, signed a portfolio of service level agreements with the Ministry of Justice describing the different services provided to the Territorial Offices. The Offices are in regular contact with the officials in the Ministry of Justice and the Scottish Government 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.

The Scotland Office also provides services to other government bodies by making space available in its buildings for office accommodation. Providing accommodation to other government departments enables the Office to secure best value for money from the property assets it holds, and enables other departments and bodies to use good value accommodation within the government estate.

Additionally, the Scotland Office and the Office of the Advocate General use a shared Parliamentary service with the Northern Ireland Office and the Wales Office. The new service provides greater flexibility and resilience and allows the members of the team to specialise in different areas, thus increasing the expertise available to the Offices.

Internal Audit services are provided to the Scotland Office and the Office of the Advocate General by the Ministry of Justice. During 2012-13 Internal Audit reports were produced on the following subjects and made available to the Audit Committee:

- the review and restructure of the Office of the Advocate General;
- the shared Parliamentary service with the Northern Ireland Office and the Wales Office; and
- corporate governance .

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

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

- the Offices' financial settlement for the current spending review period;
- financial controls;
- business planning and achievement of objectives;
- performance against targets.

Risk Assessment

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 routinely;
- the Audit Committee review both registers together at all their meetings. In addition to general overviews of both registers the Audit Committee examines 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 assessment process 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. During the year the Secretary of the Commission presented to the Audit Committee about risk management in the Commission;
- 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.

The risk register cover policy, communications and corporate matters. The Offices did not have any risks assessed as high risk. Most of the Offices' risks were assessed as medium. Corporate risks related to the management and adequacy of financial and human resources to meet the objectives of the two Offices. Policy risks largely related to the successful management of the devolution settlement. With transfer of legislative competence to the Scottish Parliament to hold an independence referendum the risk relating to the legality, fairness and decisiveness of the referendum was reduced to low. Risks which were consistently assessed as very low were removed from the registers.

Propriety and Assurance

In January 2013, an examination was carried out into transactions that had been entered into using Government Procurement Cards (GPCs). While most transactions constituted properly authorised and appropriate expenditure, some transactions on one card of a former member of staff appeared to be inappropriate. The transactions took place before I became Principal Accounting Officer.

The matter was reported to the Chairman of the Audit Committee. Subsequently the matter was reported to our internal auditors and also to the National Audit Office. A number of new controls on the use of Government Procurement Cards were instituted. All cardholders were reminded of the terms of their use. The number of cards held by Scotland Office staff was reduced to four. The Offices' hospitality policy was clarified. The Audit Committee was asked to oversee routine checks of GPC transactions. Our Internal Auditors have been asked to investigate if there any further measures that should be taken. The particular instance and the measures introduced were reviewed by the Audit Committee and the Joint Management Board. I am very grateful for the advice and guidance I have received from the Committee and the Board on this particular issue.

Otherwise during 2012-13 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 or regularity with regard to spending or the receipt of income;
or
- unauthorised use or disposal of assets.

For the period of 2012-13, I am able to report that there were no significant weaknesses in the Offices' system of internal controls which affected the achievement of the Offices' key policies, aims and objectives.

Alun Evans

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

21 June 2013

Annex A: Commentary on Compliance with the Government's Corporate Governance Code

Introduction

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.

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 .

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 Offices first began to implement the Code in 2011-12 and reported on compliance with it in the annual report for that year. In the course of 2012-13 the Offices made some changes to its corporate governance, especially in respect of ministerial attendance at meetings. These changes are discussed in the governance statement and reflected where appropriate in this annex.

The Role of the Board

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).”*

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.”*

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

Compliance with Paragraph 3.3 of the 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.*

The Board is chaired by the department’s lead minister, the Secretary of State. The other two ministers sit on the board. The two official heads of the Offices, the Director of the Scotland Office and the Director of OAG are members of the Board.

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. Five other senior officials are members of the Board.

The Board has two non executive board members (NEBMs), the Chairman of the Audit Committee and another member of the Committee who attended Board meetings

before the Offices adopted the Corporate Governance Code. Both NEBMs are senior individuals with experience of managing complex organisations within Government and the wider public sector. Given the size of the department, the level of its budget and its range of responsibilities, the Board concluded that it would not be appropriate to appoint additional NEBMs. When it is necessary to appoint new NEBMs they will be appointed in accordance with Cabinet Office guidance.

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.”*

The Scotland Office and the Office of the Advocate General do not have a permanent secretary. 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 NEBMs *in extremis* to raise any serious concerns about the operation of the Offices with the Director General, Deputy Prime Minister’s Office. In addition, the non-executive board member may request to meet with Scotland Office and OAG Ministers if they deem it necessary, outside the structure of Board meetings.

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.”*

The mix and balance of skills of the official members of 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 NEBMs sitting on the JMB, whose reappointment is periodically reviewed. The NEBMs have 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.”*

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

Board effectiveness

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 Board.

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.

- *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.*

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.

The Offices' Senior Management Teams are responsible for monitoring key personnel issues and seek to develop high potential across the Offices. They 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.

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 NEBM. Under JMB procedures, agendas are agreed with the Secretary of State as Chair of the Board in advance of each meeting and all members have the opportunity to raise items for inclusion on the agenda.

Annex B: Annual Report of the Audit Committee

Report for the year 2012-2013 from the Chairman

Purpose

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 2012-13, and to report on any issues or risks which the Committee believes should be brought to the attention of the Board.

Background

The Head of the Scotland Office is Principal Accounting Officer for the Offices. 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.

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

The Audit Committee met formally 4 times during 2012-13. 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

The members of the Committee in post as at 1 April 2012 – John Aldridge (Chairman), Charlotte Barbour and Edward Adams all continued in their role as independent members throughout the year. John Aldridge and Edward Adams also acted as non-executive members of the Offices' Joint Management Board. Because the terms of office of the 3 members of the Committee were all due to end at about the same time, it was agreed that steps should be taken to stagger those departures so as to ensure an element of continuity. That process was due to start in 2013-14. During the year the Offices agreed that the members of the Committee should be paid a daily rate for their duties.

Terms of Reference and Self-Assessment

The Committee's Terms of Reference were reviewed in the summer of 2012. Some changes were agreed to reflect developments in the way the Committee operates. The Committee also aims to review its own performance from time to time using 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

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, particularly in passing the legislation flowing from the Calman Commission report and with the accelerating pace of activity associated with the planned referendum on Scottish independence. But the Committee was also concerned to receive assurance that the other activities of the Offices – such as promoting Scottish economic development and providing legal advice and representation were not neglected. The Committee was reassured that these other activities continued to receive appropriate attention on the basis of the reports we received from relevant parts of the Offices. We noted 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 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.

The Committee was pleased that the Offices' Risk Registers had now reached a stage where they were providing useful support to officials in carrying out their work. It was therefore content to focus at each meeting on one risk and the measures that were in place to mitigate it, rather than spending time discussing risk management in general.

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.

The Committee was particularly pleased to note the completion of the process of agreeing service level agreements with the Ministry of Justice for the provision of corporate services such as HR and internal audit, which had caused us concern in earlier years.

Towards the end of the financial year the Committee was informed that some concerns had arisen about the use of the Government Procurement Card by a senior official. At the request of the Accounting Officer the Committee considered what steps might be taken to ensure that financial propriety was fully achieved, and agreed a package of measures to address this issue.

To ensure that all the activities of the Offices were covered, the Committee held a session about the work and governance arrangements for the Boundary Commission for Scotland. We were satisfied that the arrangements in place were working well.

Audit

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.

Corporate Governance Statement

The Committee considered the Principal Accounting Officer's corporate governance statement in draft and provided advice on its form and content. It was satisfied that the final version drew appropriately on the various sources of assurance available to the Accounting Officer, described the processes of corporate governance within the Offices, and properly addressed the relevant issues, and that the Accounting Officer should sign it.

Future Work

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. The Committee will also seek to develop its own effectiveness.

May 2013.

Chapter 8 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

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 2013 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

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

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.

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

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 2013 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

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2013 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

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

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

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

25 June 2013

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

Chapter 9: Financial Statements

Statement of Parliamentary Supply

Summary of Resources and Capital Outturn 2012-13

£000	2012-13 Estimate			2012-13 Outturn			2012-13 Voted outturn compared with Estimate: saving/ (excess)	2011-12 Outturn	
	Voted	Non-Voted	Total	Voted	Non-Voted	Total			
	£000	£000	£000	£000	£000	£000			£000
	Note								
Departmental Expenditure Limit									
- Resource	3	7,630	0	7,630	7,364	(90)	7,274	266	20,908
- Capital		77	0	77	68	0	68	9	0
Annually Managed Expenditure									
- Resource		0	0	0	0	0	0	0	0
- Capital		0	0	0	0	0	0	0	0
Total Budget		7,707	0	7,707	7,432	(90)	7,342	275	20,908
Non-Budget									
- Resource	3	27,264,632	0	27,264,632	26,112,400	0	26,112,400	1,152,232	26,179,500
Total		27,272,339	0	27,272,339	26,119,832	(90)	26,119,742	1,152,507	26,200,408
Total Resource		27,272,262	0	27,272,262	26,119,764	(90)	26,119,674	1,152,498	26,200,408
Total Capital		77	0	77	68	0	68	9	0
Total		27,272,339	0	27,272,339	26,119,832	(90)	26,119,742	1,152,507	26,200,408

Net Cash Requirement 2012-13

Note	2012-13			2011-12
	Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
	£000	£000	£000	£000
4	27,272,283	26,120,016	1,152,269	26,186,412

Administration Costs 2012-13

2012-13		2011-12
Estimate	Outturn	Outturn
£000	£000	£000
7,303	7,083	6,833

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 areas outlined in bold are voted totals subject to Parliamentary Control.

The notes on pages 71 to 91 form part of these accounts and figures outlined in bold are voted totals or other totals subject to parliamentary control.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2013

		2012-13	2011-12
		£000	£000
	Note		
Administration Costs			
Staff Costs	7	5,765	5,591
Other Costs	8	4,100	4,142
Income	10	(2,782)	(2,900)
Programme Costs			
Staff Costs	7	160	160
Other Costs	9	121	138
Grant to the Scottish Consolidated Fund	9	26,112,400	26,179,500
Election Expenses	9	(90)	13,777
NLF interest payable		48,997	50,246
NLF interest receivable		(48,997)	(50,246)
Net Operating Costs for the year ended 31 March 2013		26,119,674	26,200,408
Total Expenditure		26,171,453	26,253,554
Total Income		(51,779)	(53,146)
Net Operating Costs for the year ended 31 March 2013		26,119,674	26,200,408
Other Comprehensive Net Expenditure		0	0
Total comprehensive expenditure for the year ended 31 March 2013		26,119,674	26,200,408

Statement of Financial Position

as at 31 March 2013

		31 March 2013	31 March 2012
		£000	£000
	Note	<u> </u>	<u> </u>
Non-current assets:			
Property, plant and equipment	11	118	62
Financial assets (NLF)	14	697,281	704,387
Total non-current assets		<u>697,399</u>	<u>704,449</u>
Current Assets:			
Trade and other receivables	14	955	879
NLF receivables	14	16,952	44,408
Cash and cash equivalents	15	172	4,650
Total current assets		<u>18,079</u>	<u>49,937</u>
Total Assets		<u>715,478</u>	<u>754,386</u>
Current liabilities			
Trade and other payables	16	(1,453)	(2,786)
NLF payables	16	(16,952)	(44,408)
Total current liabilities		<u>(18,405)</u>	<u>(47,194)</u>
Non-current assets plus/less net current assets/liabilities		697,073	707,192
Non-current liabilities			
Other payables (NLF)	16	(697,281)	(704,387)
Total non-current liabilities		<u>(697,281)</u>	<u>(704,387)</u>
Assets less liabilities		<u>(208)</u>	<u>2,805</u>
Taxpayers' Equity and other reserves			
General fund		(208)	2,805
Total equity		<u>(208)</u>	<u>2,805</u>

Alun Evans

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

21 June 2013

Statement of Cash Flows

for the period ended 31 March 2013

		2012-13 £000	2011-12 £000
	Note		
Cash flows from operating activities			
Net operating cost		(26,119,674)	(26,200,408)
Adjustments for non-cash transactions	8	53	55
(Increase)/Decrease in trade and other receivables		27,380	(12,978)
Less: Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		(27,456)	12,761
Increase/(Decrease) in trade payables		(28,789)	12,740
Less: Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		27,617	(12,760)
Closing account in year movement		0	64
		(26,120,869)	(26,200,526)
Cash flows from investing activities			
Purchase of Plant & Machinery and Fixtures & Fittings	11	(16)	0
(Repayments) from other bodies	13	34,106	21,106
		34,090	21,106
Cash flows from financing activities			
From the Consolidated Fund (Supply) - Current Year		26,119,800	26,186,700
From the Consolidated Fund (Non-supply)		0	15,000
Repayment of loans from the National Loans Fund		(34,106)	(21,106)
Repayment of unspent election funding		(3,393)	0
		26,082,301	26,180,594
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		(4,478)	1,174
Income payable to the Consolidated Fund		(26,881)	(32,681)
Income paid to the Consolidated Fund		26,881	32,681
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund			
		(4,478)	1,174
Cash and cash equivalents at the beginning of the period	15	4,650	3,476
Cash and cash equivalents at the end of the period	15	172	4,650

Statement of Changes in Taxpayer's Equity

for the year ended 31 March 2013

	General Fund £000	Total Reserves £000
Balance at 1 April 2011	(1,696)	(1,696)
Consolidated Fund Standing Services	(15,000)	(15,000)
Net Parliamentary Funding - draw down	(26,186,700)	(26,186,700)
Deemed Supply	(97)	(97)
Supply Payable	385	385
Closing account in year movement	(64)	(64)
Comprehensive Spending for the year	26,200,408	26,200,408
Non-Cash Adjustments:		
Auditor's remuneration	(41)	(41)
Balance as at 31 March 2012	(2,805)	(2,805)
Net Parliamentary Funding - drawdown	(26,119,800)	(26,119,800)
Consolidated Fund Standing Services repaid	3,393	0
Deemed Supply	(385)	0
Supply Payable	172	172
Closing account in year movement	0	0
Comprehensive Spending for the year	26,119,674	26,119,676
Non-Cash Adjustments:		
Auditor's remuneration	(41)	(41)
Balance as at 31 March 2013	(208)	(208)

Notes to the Accounts for the Year Ended 31 March 2013

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 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.

Assets are valued at historical cost less depreciation, as an approximation of fair value, due to the low value of assets.

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;
- Leasehold improvement Shorter of remaining lease period or 5 to 20 years;

- Furniture and fittings Shorter of remaining lease period or 5 to 20 years;
and
- 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.

1.4 Intangible Assets

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

1.5 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.

1.6 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.

1.7 Employee Benefits

Employee Leave Accruals

The Scotland Office and Office of the Advocate General do not directly employ staff and the responsibility for accounting for undertaken leave is the responsibility of the employing government body..

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.

1.8 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.

1.9 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.

1.10 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.

1.11 Non-Cash Costs

Other

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

1.12 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 2.2% (2011–12: 2.6%).

1.13 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.

1.14 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.

1.15 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.

1.16 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.

1.17 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 2012-13 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.

1.18 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2012 and not early adopted

The following new standards, interpretations and amendments, which are not yet effective, may have an impact on the future Scotland Office accounts

Entities may also be impacted by modifications to accounting for termination benefits.

IAS 9 - Financial Instruments (effective from accounting periods beginning of after 2015 (as per exposure draft issued 4 August 2011- not yet EU adopted). This standard has three phases;

Phase 1, classification and measurement issues; Phase 2 how impairments of financial assets should be calculated and recorded and Phase 3 addresses hedge accounting.

IAS 1 Presentation of Financial Statements (annual improvements 2009-11 on or after 1 January 2013)

Clarification of the requirements for comparative information. This clarification does not change the minimum requirements.

IAS 16 Property, Plant and Equipment (annual improvements 2009-11 on or after 1 January 2013)

Classification of servicing equipment- items such as spare parts, stand by equipment and servicing equipment

ISA 32 Financial Instruments: Presentation (annual improvements 2009-11 on or after 1 January 2013)

Tax effect of distribution to holders of equity instruments. The FReM is expected to apply this change in full.

The above standards to be adopted are not expected to have a material impact on the Scotland Office.

2. Net Outturn

2.1 Analysis of net resource outturn by section

2012-13									2011-12 Outturn
Outturn						Estimate		Total	
Administration			Programme			Total	Net total		Net total compared to Estimate
Gross	Income	Net	Gross	Income	Net				
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000

Spending in Departmental Expenditure Limit

Voted:

A - Scotland Office & Office of the Advocate General	9,865	2,782	7,083	0	0	0	7,083	7,303	220	6,833
B - Boundary Commission for Scotland	0	0	0	281	0	281	281	327	46	298

Non-Voted

C - Election Expenses	(90)	0	(90)	0	0	0	(90)	0	90	13,777
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Non-Budget

D - Grant to the Scottish Consolidated Fund	0	0	0	26,112,400	0	26,112,400	26,112,400	27,264,632	1,152,232	26,179,500
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Total	9,775	2,782	6,993	26,112,681	0	26,112,681	26,119,674	27,272,262	1,152,588	26,200,408
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2.2 Analysis of net capital outturn by section

2012-13					2011-12 Outturn
Outturn			Estimate		
Gross	Income	Net	Net total	Net total compared to Estimate	Total
£000	£000	£000	£000	£000	£000

Spending in Departmental Expenditure Limit

Voted:

A - Scotland Office & Office of the Advocate General	68	0	68	77	9	0
B - Boundary Commission for Scotland	0	0	0	0	0	0

Non-voted:

C - Election Expenses	0	0	0	0	0	0
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Non-Budget

D - Grant to the Scottish Consolidated Fund	0	0	0	0	0	0
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Total	68	0	68	77	9	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

			2012-13	2011-12
			£000	£000
		Note	Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget	2	7,274	20,908
	Non-Budget		26,112,400	26,179,500
			<u>26,119,674</u>	<u>26,200,408</u>
Add:	Capital grants		0	0
	Other		0	0
			<u>26,119,674</u>	<u>26,200,408</u>
Less:	Income payable to the Consolidated Fund		0	0
	Other		0	0
			<u>26,119,674</u>	<u>26,200,408</u>
Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure			26,119,674	26,200,408

3.2 Outturn Against Final Administration Budget

			2012-13	2011-12
			£000	£000
		Note	Outturn	Outturn
Estimate - Administration costs limit			7,303	7,619
Outturn - Gross administration costs			9,865	9,733
Outturn - Gross income relating to administration costs			(2,782)	(2,900)
Outturn - Net administration costs			<u>7,083</u>	<u>6,833</u>
Reconcillation to operating costs:			7,083	6,833
Less: Provisions utilised (transfer from programme)			0	0
Less: Other			0	0
Administration Net operating costs			<u>7,083</u>	<u>6,833</u>

4. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate saving / (excess) £000
Resource Outturn	2.1	27,272,262	26,119,674	1,152,586
Capital Outturn	2.2	77	68	9
Accruals to cash adjustment				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(30)	(12)	(18)
Other non-cash items		(26)	(41)	15
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in receivables		0	(27,380)	27,381
Increase/(decrease) in payables		0	27,617	(27,616)
Removal of non-voted budget items:				
Consolidated Fund Standing Services		0	0	0
Other adjustments		0	90	(90)
Net cash requirement		27,272,283	26,120,016	1,152,267

5. Income Payable to the Consolidated Fund

5.1 Consolidated Fund Income

The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	2012-13	2011-12
	£000	£000
Forfeited election deposits and interest	(3)	(56)
Fines and penalties	(26,310)	(32,048)
Other income	(568)	(577)
Less:		
Costs of collection - where deductible	0	0
Uncollectible debts	0	0
Amount payable to the Consolidated Fund	(26,881)	(32,681)
Balance held at the start of the year	0	0
Payments into the Consolidated Fund	26,881	32,681
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.

	2012-13 £000					
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses	Total
Gross Expenditure	4,872	4,993	281	26,112,400	(90)	26,122,456
Income	(306)	(2,476)	0	0	0	(2,782)
Net Expenditure	4,566	2,517	281	26,112,400	(90)	26,119,674

	2011-12 £000					
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses	Total
Gross Expenditure	4,695	5,038	298	26,179,500	13,777	26,203,308
Income	(265)	(2,635)	0	0	0	(2,900)
Net Expenditure	4,430	2,403	298	26,179,500	13,777	26,200,408

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 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 Office of the Advocate General.

7. Staff Numbers and Related Costs

Staff costs comprise:

	2012-13					2011-12
	£000					£000
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Wages and salaries	0	4,380	221	60	4,661	4,508
Social security costs	0	379	24	6	409	396
Other pension costs	0	842	0	13	855	847
Sub Total	0	5,601	245	79	5,925	5,751
Less recoveries in respect of outward secondments	0	0	0	0		0
Total net costs	0	5,601	245	79	5,925	5,751

	2012-13		2011-12	
	Charged to Admin budgets	Charged to Programme budgets	Charged to Admin budgets	Charged to Programme budgets
Of which:				
Core Department	5,765	0	5,591	0
Other designated bodies (Boundary Commission)	0	160	0	160

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 full-time equivalent persons employed during the year was as follows.

Office	2012-13					2011-12
	Number					Number
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Scotland Office	0	58	2	1	61	58
Office of the Advocate General	0	42	1	0	43	46
Boundary Commission	0	4	0	0	4	5
Total	0	104	3	1	108	109

The total number of staff in post as at 31st March 2013 of 112 (103.3 FTE) includes 4 agency member(s) of staff. All other staff are loaned or second from other Government bodies.

8. Other Administration Costs

	2012-13 £000	2011-12 £000
Rentals under operating leases	297	297
Accommodation Costs	1,169	1,200
Legal Costs	1,739	1,898
Travel and Subsistence Costs	552	402
Miscellaneous Other Costs	290	290
<i>Non-cash items:</i>		
Depreciation	12	14
Auditors' remuneration and expenses	41	41
Total	4,100	4,142

The Scotland Office did not purchase any non-audit services from the National Audit Office

9. Programme Costs

	2012-13 £000	2011-12 £000
Grant paid to Scottish Consolidated Fund	26,112,400	26,179,500
Boundary Commission Operating Costs	121	138
Election expenses ⁽¹⁾	(90)	13,777
Total	26,112,431	26,193,415

10. Income

	2012-13 £000	2011-12 £000
Hire of Office Facilities	306	265
Legal fees and charges to clients	975	1,035
Recovery of legal outlays from other Government Bodies	1501	1,600
Total	2,782	2,900

⁽¹⁾ Actual expenditure less anticipated expenditure in 2011-12

11. Property, Plant and Equipment

2012-13	Leasehold improvements	Plant & machinery	Furniture & fittings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2012	0	80	59	139
Additions	52	12	4	68
At 31 March 2013	52	92	63	207
Depreciation				
At 1 April 2012	0	(31)	(46)	(77)
Charged in year	0	(7)	(5)	(12)
At 31 March 2013	0	(38)	(51)	(89)
Net book value at 31 March 2013	52	54	12	118
Net book value at 31 March 2012	0	49	13	62

2011-12	Leasehold improvements	Plant & machinery	Furniture & fittings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2011	0	80	59	139
At 31 March 2012	0	80	59	139
Depreciation				
At 1 April 2011	0	(23)	(40)	(63)
Charged in year	0	(8)	(6)	(14)
At 31 March 2012	0	(31)	(46)	(77)
Carrying amount at 31 March 2012	0	49	13	62
Carrying amount at 31 March 2011	0	56	20	76

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

	Note	31st March 2013 £'000	31 March 2012 £'000
Financial Assets			
Cash	15	172	4,650
<i>Loans and Receivables < 1 year</i>			
Receivables for goods and services (gross)			
Other receivables (gross)	14	10,801	11,182
National Loans Fund (capital)	14	7,106	34,106
<i>Loans and Receivables > 1 year</i>			
National Loans Fund	13	697,281	704,387
Carrying amount of Financial Assets		715,360	754,325
Financial Liabilities			
<i>Financial Liabilities at amortised cost</i>			
National Loans Fund (capital)	13	(704,387)	(738,493)
Carrying amount of Financial Liabilities		(704,387)	(738,493)

13. Investments in Other Public Sector Bodies

	Loans funded from National Loans Fund
	£000
Cost or valuation	
At 1 April 2011	738,493
Loans repayable within 12 months transferred to debtors	(34,106)
Balance at 31 March 2012	704,387
Loans repayable within 12 months transferred to debtors	(7,106)
Balance at 31 March 2013	697,281

History of Accounts

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

The National Loan Fund (NLF) outstanding balances at 31 March 2013 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

	2012-13 £000	2011-12 £000
Amounts falling due within one year:		
VAT	124	67
Trade receivables	724	669
Deposits and advances	0	0
NLF interest receivables	9,846	10,302
Prepayments and accrued income	107	144
Current part of NLF loan	7,106	34,106
	17,907	45,288
	2012-13 £000	2011-12 £000
Amounts falling due after more than one year:		
Instalments due on NLF loans	697,281	704,387
	697,281	704,387

14.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012-13 £000	2011-12 £000	2012-13 £000	2011-12 £000
Balances with other central government bodies	17,834	45,144	697,281	704,387
Balances with bodies external to government	73	144	0	0
Total receivable at 31 March 12	17,907	45,288	697,281	704,387

15. Cash and Cash Equivalents

	2012-13 £000	2012-13 £000
Balance at 1 April 2012	4,650	3,476
Net change in cash and cash	(4,478)	1,174
Balance at 31 March 2013	172	4,650

The following balances at 31 March 2013 were held at:

Commercial banks and cash in hand	172	385
Election funding	0	4,265
Balance 31 March 2013	172	4,650

16. Trade Payables and Other Current Liabilities

	2012-13 £000	2011-12 £000
Amounts falling due within one year:		
Trade payables	120	12
NLF interest payable	9,846	10,302
Accruals and deferred income	1,161	1,429
Current part of NLF loans	7,106	34,106
Amounts issued from the Consolidated Fund for supply but not spent at year end	172	385
Accruals relating to elections	0	960
	18,405	47,194

Amounts falling due after more than one year:

NLF loans	697,281	704,387
	697,281	704,387

16.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012-13 £000	2011-12 £000	2012-13 £000	2011-12 £000
Balances with other central government bodies	17,838	44,599	697,281	704,387
Balances with bodies external to government	567	2,595	0	0
Total payable at 31 March 2012	18,405	47,194	697,281	704,387

17. Capital and Other Commitments

17.1 Operating Leases

	2012-13	2011-12
	£000	£000
Buildings		
Not later than one year	189	199
Later than one year and not later than five years	70	259
Later than five years		
	<hr/> 259 <hr/>	<hr/> 458 <hr/>

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 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.

The wife of Michael Chalmers, the current director of the Office of the Advocate General, is a partner in Anderson Strathern, a firm of solicitors who provide litigation services to the UK Government. This work is carried out under a Scottish Government Framework Agreement for legal services (2011-2015) to which OAG and UK Departments have access. OAG has a role in administering the outsourcing arrangements for UK departments under this contract. Michael declared his interest prior to the arrangements being put in place and he does not take any part in the outsourcing, which is handled by two other members of OAG's Senior Management Team. The expenditure incurred in 2012-13 totalled £152,807.

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

19. Entities within the Departmental Boundary

The entities within the boundary during 2012–13 were as follows:

List of entities analysed between:

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

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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