



**Scotland Office
and
Office of the
Advocate General
for Scotland**

Annual Report and Accounts 2013-14



Scotland Office
and
Office of the Advocate General
for Scotland

Annual Report and Accounts 2013-14
(For the year ended 31 March 2014)

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Chapter 1: Ministerial Forewords

Foreword by the Secretary of State for Scotland

It was a huge honour for me to be appointed as Secretary of State for Scotland in October 2013. On 18 September this year, Scotland faces the most significant decision it has made in over 300 years: whether to remain part of the United Kingdom family or to leave the United Kingdom and its institutions to become an independent state. It is an honour for me to lead the Scotland Office and the Government's referendum campaign in Scotland at this historic time.

Let me first, however, pay tribute to the work carried out by my predecessor, the Rt Hon Michael Moore MP, in his three and a half years in this job. His legacy is both significant and historic. He recognised that the people of Scotland had given substantial support in the 2011 Holyrood election to a political party which wanted a referendum on Scotland's place in the United Kingdom. Accordingly, he negotiated skilfully and at length with the Deputy First Minister what became known as the Edinburgh Agreement, an agreement which ensured that the will of the people of Scotland would be given effect later this year in a manner which is beyond legal challenge, and which is fair and decisive. He also delivered the largest transfer of fiscal powers to Scotland in over 300 years in the shape of the Scotland Act 2012. I pay tribute to the foresight, dedication and honour which characterised his approach to his work at all times.

When people in Scotland make their choice on 18 September, they must do so armed with facts and after a well-informed debate: that is what we have committed to ensuring. In the UK Government, this work is well underway. The Scotland Office has worked closely with other Government departments in the last year on the Scotland Analysis Programme. This in-depth series of publications sets out across a wide range of policy areas the facts about what Scotland and the United Kingdom gain from being part of the same union and highlights the stark choices that Scotland would have to make if we were to break up. These analyses have been universally recognised as authoritative and cogent contributions to the debate. I am proud of the role that my department has played in producing this analysis series and in making sure that the people of Scotland have a fully informed basis on which to make their decision on 18 September.

While the referendum debate has been at the forefront of political debate, the Scotland Office has contributed much to the work of the rest of Government. We continue to focus heavily on the implementation of the Scotland Act 2012. I laid before Parliament in early May 2014 the second annual report, under section 33 of the Act, which highlighted our continued good progress in implementing the Act. The Scotland Office has also played a full role in ensuring that Scottish interests are fully considered in the development of Government policies, including in continuing to reduce the deficit, encouraging growth in the economy, particularly in the oil and gas and renewables sectors, and ensuring a sustainable future for our often fragile rural communities. I have taken a particular interest in focussing on promoting entrepreneurial skills in Scotland and in ensuring that our young people recognise their values in assessing their career options. Similarly, I believe strongly in ensuring that our local communities should be empowered to take control of their own destinies. As MP for Orkney and Shetland, and as a son of Islay, it gave me particular pleasure to welcome representatives from the Western and Northern

Isles to London in my first week in post and to help them put their case to the UK Government on why both they and the rest of the UK would benefit from greater local autonomy for our island communities.

Finally, I would like to thank my ministerial colleagues and my excellent staff in the Scotland Office for all that they have achieved in the last year. I look forward greatly to the challenge presented on 18 September and to convincing our friends and neighbours of the enormous benefits Scotland gains from being part of the most successful family of the nations that the world has ever known. I look forward to Scotland remaining part of the United Kingdom and to building an ever stronger, fairer and more prosperous Scotland.

Alistair Carmichael.

The Rt Hon Alistair Carmichael MP

Foreword by the Parliamentary Under Secretary of State for Scotland

The Scotland Office continues to represent Scotland's interests in the United Kingdom and to ensure that Scottish interests are considered fully when developing and delivering policies across Government.

The decision that the people of Scotland will make in the referendum on 18 September is one of the largest decisions any electorate will ever be called upon to make. The UK Government believes firmly that when the facts and arguments are analysed rigorously it is clear that Scotland is better off as part of the UK and the UK is better off with Scotland in it. Ensuring that the people of Scotland can take a properly informed decision has informed almost every aspect of the Office's work.

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. Scotland is benefitting substantially from that return of economic growth.

2013 saw the introduction of wide ranging welfare reform policies that will change the face of welfare provision throughout the United Kingdom. I have liaised extensively with stakeholders throughout Scotland to discuss 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 carried out a wide range of engagements. In particular, I was honoured to be in the United States in December 2013 to lay a wreath at Arlington Cemetery on behalf of the UK Government on the 25th anniversary of the Lockerbie bombing, still the worst act of terrorism to have taken place on UK soil. The Secretary of State visited Brussels, undertaking discussions on a range of key issues for Scotland including renewable energy policy and structural funds. He also visited Denmark to promote links between Scotland and other North Sea communities.

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

Foreword by the Advocate General for Scotland

It has been my continued privilege to serve as Advocate General for Scotland during the financial year 2013–14. I was also appointed as Deputy Leader of the House of Lords on 15 Oct 2013.

The last year has seen the debate on Scotland's constitutional future intensify as we approach the referendum on independence in September 2014, and my office has continued to play a significant role. We have made a substantial contribution to the UK Government's Scotland Analysis Programme, a series of publications that provides the people of Scotland with factual information prior to the referendum. That work included two further meetings this year of the forum of independent legal experts which I first convened in 2012. The discussions at these meetings, which took place in September and October 2013, helped greatly in shaping subsequent Scotland analysis publications. We will continue to work in support of the UK Government's objectives in the run-up to the historic vote in September.

As Advocate General my principal functions are to act as the United Kingdom Government's senior adviser on Scots law and the Scottish devolution settlement. In doing so, I am supported by a dedicated team of Scots lawyers based in Edinburgh and London whose core work is to provide legal services to UK Government departments on a day to day basis, and there has been no let-up in demand for these services in this last year.

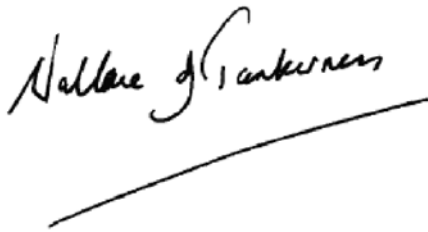
In the Scottish courts, my office has represented a number of government departments. Major areas of work have included acting for the Home Secretary in immigration cases, covering applications for judicial review, applications for leave to appeal and statutory appeals, as well as five cases before the UK Supreme Court. The immigration judicial reviews comprised almost 80% of the Court of Session's total judicial review business, and the effective discharge of this caseload is a great credit to the officials working in my office. My office also dealt with HM Revenue & Customs' core litigation in Scotland, with our dedicated HMRC Division dealing with 98 new cases raised in the course of the year as well as on-going litigation for the department through the tribunal system, sheriff courts and the Court of Session. We have also represented the Department of Work and Pensions in 14 appeals to the Upper Tribunal and in one appeal to the Inner House of the Court of Session, and represented a number of other departments in the Scottish courts throughout the year.

In exercising my statutory functions under the Scotland Act 1998, I have maintained my intervention in the devolution challenge raised by the Scotch Whisky Association and others in relation to the Scottish Parliament's *Alcohol (Minimum Pricing) (Scotland) Act 2012* in the Court of Session, and also intervened in the appeal by the liquidators of the Scottish Coal Company Limited. My office continues to monitor cases that raise devolution issues and compatibility issues under the Scotland Act, and scrutinise all Scottish Parliament Bills in support of my statutory functions.

My officials have also had a very busy year providing advisory and legislative services to a wide range of UK Government departments on legislation proceeding through the UK Parliament. We provided Scots law advice on the vast majority of Bills proceeding in the third Parliamentary session and have been heavily engaged in the preparatory

work for Bills to be introduced in the coming fourth session, ensuring that UK Parliament legislation affecting Scotland takes proper account of Scots law and the devolution settlement.

The challenges in the coming year, including support for the preparation of the Commonwealth Law Conference in Glasgow in May 2015, are clear, and I look forward to meeting them with confidence, in what promises to be a pivotal period for Scotland's future.

A handwritten signature in black ink, reading "Wallace of Tankerness". The signature is written in a cursive style and is positioned above a single horizontal line that extends to the right.

Lord Wallace of Tankerness QC
Advocate General for Scotland

Chapter 2: Director's Introduction

I am pleased to present the Scotland Office and Office of the Advocate General's Annual Report and Accounts for 2013-14. 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. I am responsible for delivery of the Scotland Office's business objectives, and the Director of the Office of the Advocate General has responsibility for delivery of its objectives. However, the two offices share a single budget and I act as Principal Accounting Officer for both, as well as 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.

2013-14 has been a year of achievement for both Offices. In addition to our significant workload of day to day business, both offices have played a major role in the work of the UK Government to set out the benefits for Scotland remaining in the UK, in advance of the forthcoming referendum. Many of the staff from both offices have been very closely involved with No 10, HM Treasury, the Cabinet Office and a range of other government departments to support this cross government effort. In particular we have been heavily involved in contributing to producing the Scotland Analysis Programme (SAP) papers. My staff and those from the Office of the Advocate General have engaged regularly with a wide range of stakeholders throughout Scotland. The communications team has led the communications and media relations work of the UK Government in Scotland. Both Offices have also worked closely with our team of Ministers to ensure that they are able to lead the referendum debate informed by evidence and sound analysis.

This has been a challenge for both Offices at a time of tight resources across government. I am extremely grateful to all the staff who have risen to the challenge.

2014-15 will be a critical year for Scotland and for the United Kingdom as a whole. During the year we will need to prepare for and respond to the outcome of the referendum. And we will need to look ahead to the challenge of supporting Ministers in the final year before the UK General Election of May 2015 in a continuing climate of tight resources. I am very confident that the staff of both Offices will continue to rise to that challenge and deliver for our Ministers in the way they have done this year.

Alun Evans

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

11 July 2014

Chapter 3: Strategic Report

Part 1: Scotland Office

Delivery of Objectives in 2013-14

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

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 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 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 part 3 of this chapter and elsewhere in the report, particularly chapters 4 and 7.

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;

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.

- Foreign affairs including European Union negotiations;
- The constitution;
- Taxation (subject to the provisions of the Scotland Act 2012) and economic macro-management;
- Social security;
- Immigration and nationality;
- UK single market;
- UK and international transport;
- Energy regulation; and
- Broadcasting.

Funding for the Scottish Government's budget is prescribed by the UK Parliament under the Scotland Act 1998 (as amended by the Scotland Act 2012). 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.

Constitutional Overview

During the reporting period 2012-13 the Scotland Office delivered both the Scotland Act 2012 and the Referendum Agreement on 15 October which put in place the arrangements for a legal referendum on Scottish Independence to take place.

During this reporting period we have worked with the Scottish Government and other UK Government departments, in particular HM Treasury and HMRC to begin the implementation work for the financial provisions in the Scotland Act 2012. Much of this work has focussed on the transfer of the two smaller taxes: stamp duty land-tax and landfill tax which will become the responsibility of the Scottish Parliament from April 2015; work also continues on the preparations for the introduction of a Scottish Rate of Income Tax from April 2016.

Under the terms of the Referendum Agreement, the Scottish Parliament and Government are responsible for the legislation and administration of the Scottish Independence Referendum that will take place on 18 September 2014. The Scotland Office continues to liaise closely with the Scottish Government and the Electoral Commission on the preparations for the referendum. During this reporting period we have also worked closely with all UK Government departments involved in making the UK Government's case for Scotland's continuing place within the United Kingdom, through the Scotland Analysis programme and Ministerial and official engagement across Scotland.

Scotland Analysis Programme

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

The UK Government has therefore undertaken a programme of analysis on Scotland and how it contributes to, and benefits from, being part of the United Kingdom. This work is comprehensive, robust and informed by independent experts.

The Scotland Analysis programme is a major cross-government programme and the Scotland Office works closely with all involved to develop the analysis and supporting evidence base. The Scotland Office engages with stakeholders both when developing the analysis and presenting the findings.

The following papers have been published:

- devolution and the implications of Scottish independence;
- currency and monetary union;
- business and microeconomic framework;
- financial services and banking;
- macroeconomic and fiscal performance;
- defence;
- security;
- science and research;
- EU and international issues;
- borders and citizenship;
- assessment of a sterling currency union;
- energy;
- work and pensions;
- fiscal sustainability; and
- summary paper.

All papers are made available on the web at <https://www.gov.uk/government/collections/scotland-analysis>

In conjunction with a Minister from the department publishing the paper, the Secretary of State for Scotland has launched four papers and the Parliamentary Under Secretary for Scotland has launched two.

The Scotland Office has also produced a series of Scotland analysis summary leaflets which are provided to individuals and organisations. All papers are made available on the web at <https://www.gov.uk/government/collections/scotland-analysis-papers-summary-leaflets>.

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 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 are now in force. Further information on the provisions relating to the administration of elections is set out in the elections and boundaries section of this report.

Good progress is also being made with the implementation of the tax and borrowing powers transferred by the Act. The second annual report on the implementation of Part 3 (finance provisions) of the Scotland Act 2012, which was published on 6 May 2014, sets out the progress made over the year.

In April 2015, UK Stamp Duty Land Tax and Landfill Tax will be switched off in Scotland and two new Scottish taxes, administered by a new Scottish tax administration (Revenue Scotland), will be introduced to replace them. The project team from Her Majesty's Revenue and Customs (HMRC) responsible for disapplying the UK taxes is working closely with the Scottish Government to ensure that the transition from UK-wide taxes to devolved Scottish taxes is smooth. Scottish Ministers will also have enhanced borrowing powers and a cash reserve to manage income from the devolved taxes, and the Government announced in February 2014 that the Scottish Government will also be able to issue bonds from 2015-16.

From April 2016, the Scottish Parliament will be able to set a Scottish rate of income tax which will be added to each of the reduced UK rates. Over the past year, work on the project responsible for implementing the Scottish rate of income tax has focussed on identifying Scottish taxpayers, setting out how tax relief on pension contributions and Gift Aid will be affected by the introduction of a Scottish rate, and ensuring that appropriate auditing arrangements are in place so that the Scottish Parliament can have confidence in HMRC's operation of the Scottish rate.

The Scotland Office will continue to work with HMRC, HM Treasury and the Scottish Government to ensure that the powers are implemented efficiently and that they deliver accountability and responsibility to the Scottish Government and Parliament for raising revenue, as well as taking decisions about how it is spent.

The Secretary of State for Scotland will continue to report on this progress annually to the UK and Scottish Parliaments.

Scottish Economy

During the year to April 2014 the economic recovery gathered momentum and Scotland benefitted from economic growth, increasing employment and falling unemployment.

The Government's long term economic plan is working, and the Autumn Statement and Budget 2014 set out further action to secure the recovery and build a resilient economy. The UK Government is continuing to take the difficult decisions necessary to put the public finances on a sustainable footing. As part of the UK, Scotland benefits from being able to pool resources and the Scottish Government's budget will benefit from more than £2.2bn in additional spending announcements since the Spending Review 2010, including more than £1.9bn in capital investment.

Growth, investment and jobs in Scotland will be enhanced through actions supporting some of Scotland's key industries. The Budget 2014 included a freeze on Scotch whisky duty. It also included new allowances to support exploration, development projects and the supply chain in the oil and gas industry. In addition, the enhanced capital allowances to companies in enterprise zones have been extended until March 2020 and the annual investment allowance has been doubled to £0.5m.

As a result of a series of increases in the tax-free personal allowance to £10,000 in 2014-15, 2.28m people in Scotland will have benefitted and 242,000 will have been taken out of income tax altogether from April 2014.

Support for Scottish Business

Scotland Office Ministers and officials have continued to engage regularly with the Scottish business community, in order to represent their views in Whitehall and engage in dialogue on UK Government policy. This engagement, which has covered businesses large and small in different sectors all over the country, is vitally important in supporting the success of the Scottish and wider UK economy. For example, the Scotland Office routinely consults key representatives of the Scottish business community in advance of the Autumn Statement and Budget, in order to inform discussions with HM Treasury and other departments.

Some of the key issues raised by the Scottish business community in 2013-14, other than the potential impact of independence, included the need for investment in infrastructure, energy costs, access to finance, support for exports, and regulatory burdens. The UK Government has put in place a very wide range of measures to address these issues. These include:

- £1.9 billion of additional capital spending power to the Scottish Government since the Spending Review of 2010 (out of a total £2.2 billion increase since SR 2010);
- The Autumn Statement 2013 which provided Scottish local authorities with access to up to £250m of cheaper borrowing from the Public Works Loan Board, and £10m over 2 years to support infrastructure projects in the Shetland Islands (subject to match-funding by the Scottish Government);
- Support for Scottish infrastructure projects which are among the forty projects now at the stage known as prequalification for the UK Guarantees scheme. The scheme was introduced by the UK Government to avoid delays to investment in UK infrastructure projects that may have stalled because of adverse credit conditions. It works by providing a UK Government backed guarantee to help

projects access finance. Some examples are:

- Countesswells mixed use development in Aberdeen, which will see 3000 new homes built alongside business spaces and retail outlets;
 - Neart Na Gaoithe windfarm in the outer Forth Estuary; and
 - Ineos Grangemouth Ethane Plant– a project to build ethane importation and storage facilities, designed to secure the long term future of the Grangemouth petrochemical works.
- The Funding for Lending Scheme which has helped to kick-start mortgage lending to households. The scheme was refocused on Small and Medium Enterprises (SME) lending in November 2013;
 - The Help to Buy Mortgage Guarantee Scheme in Budget 2013, helping make more high loan-to-value mortgages available to potential home-owners unable to save for large deposits. In only three months, the Help to Buy Mortgage Guarantee scheme saw more than 500 applications worth in excess of £50m in Scotland, and helped move around 180 families onto, or up, the housing ladder. (Figures correct as of Feb 2014);
 - The roll out of the Superfast Britain rural broadband programme. The UK Government is providing over £100m to the Scottish Government to support bringing fibre broadband to homes and businesses all over Scotland. Around 95% of premises in Scotland will be covered by superfast broadband by 2017-18. In addition to over £100m committed previously to roll out superfast broadband in Scotland, in 2013 the UK Government announced the Superfast Broadband Extension Programme. As part of this, in February 2014 the Government announced that Scotland will receive an additional £21m for this work. In total this means that Scotland is receiving 15.8% of the UK Government budget for rural broadband: nearly double the proportionate share by population of 8.4%;
 - The Budget 2014 which set out a package of reforms to reduce radically the costs of energy for business, particularly for manufacturing. By 2018–19 the Budget package on business energy costs will save Scottish businesses £500m;
 - A wide range of measures to help improve access to finance for small businesses. The UK Government has made good progress in setting up the British Business Bank, which will benefit from £1bn of new public funding and draw together £2.9bn of existing UK Government schemes. The Scotland Office organised a roundtable with key business groups to help inform its development. The bank will become fully operational later in 2014, but its first phase has already been launched – a £300m Investment Programme. Through that programme, the Government is investing alongside the private sector to provide more diverse sources of debt funding for SMEs. In February 2014, the Parliamentary Under Secretary of State announced the extension of the UK Government’s Start Up Loans scheme to Scotland, providing loans to Scottish entrepreneurs seeking to start up small businesses. And in the Budget 2014 the Chancellor of the Exchequer announced a broad package of measures to improve access to finance for SMEs, including consulting on how to match SMEs rejected for a loan with alternative credit providers;

- The Budget 2014 announced that we would give UK businesses access to the most competitive export finance offer in Europe, doubling the UK's direct lending programme to £3bn, removing restrictions and cutting interest rates. The Government has appointed a Scottish Export Finance Adviser to help make UK Export Finance products and services more widely understood and accessible in Scotland;
- To ensure regulations at the UK level are fair and effective, the Government is controlling the number of new regulations by operating a 'one in, two out' rule for business regulation, and ensuring rigorous assessment of the impact of each regulation. The Government's Red Tape Challenge is reviewing more than 21,000 regulations and rules to see which ones can be scrapped or improved. The intention is to scrap or improve more than 3000 regulations, providing annual savings to business of over £850m; and
- In November 2013 Department for Transport and Scotland Office Ministers jointly announced a study to look at ways to increase the benefits that Scotland gains from High Speed 2 (HS2). The Government instructed HS2 Ltd to identify broad options to make further rail capacity and journey time improvements between northern England and Scotland for both passengers and freight. This included looking to cut journeys from Glasgow and Edinburgh to London to 3 hours or less.

UK Green Investment Bank

The UK Government established the headquarters of the UK Green Investment Bank (GIB) in Edinburgh in 2012, with a transaction team based in London. Since then, the Bank has invested £1.3bn in 27 projects, which will mobilise a total of £4.6bn when fully deployed. In Scotland, investments have included more than half a million pounds towards a new biomass boiler at Tomatin Distillery near Inverness. Combined with private sector funds, that constituted a total investment of £1.2m in a project that will reduce carbon emissions and improve energy efficiency. The Secretary of State also helped launch the UK GIB's Green Loan product in February 2014, which was first made use of by Glasgow City Council to invest in energy efficient street lighting. The Bank hopes that other local authorities across Scotland and the rest of the UK will make similar use of the product.

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. Issues covered by the Board and its Groups have included how to stimulate business investment, access to finance, transport links between Scotland and the rest of the UK, and support for Scottish exporting.

Throughout 2013-14 Brian Wilson, former Trade Minister and now a UK Business Ambassador, has continued to carry out the Wilson Review of Support for Scottish Exporting, commissioned in Autumn 2012 by the then Secretary of State. Mr Wilson

is supported in this work by Scotland Office officials and has been meeting Scottish business people across the UK and in key overseas markets, discussing with them the benefits and challenges they have experienced in working with the export support services currently on offer. The Review reported in May 2014.

Energy

The energy sector is of particular importance in Scotland and both Scotland Office Ministers and officials have been working closely with colleagues in the Department of Energy and Climate Change (DECC) on the delivery of energy policy to ensure that Scotland's needs are fully considered.

With the completion of the Energy Bill this year the UK Government is putting in place the necessary framework to secure the huge investment needed over the coming years as we drive the transition to low carbon energy. Scotland has a major part to play in this and the Scotland Office has facilitated a substantial number of Ministerial and official meetings and other engagement with the energy sector in Scotland throughout the year in collaboration with DECC. This engagement is crucial in ensuring that the needs and aspirations of the sector are fully factored into UK policy. This includes, for the first time, the delivery of a different and higher level of support for renewables on the Scottish Islands.

Both the current and the former Secretary of State hosted a number of meetings throughout the year with the leading trade association, Scottish Renewables, and a wide range of companies involved in the sector both large and small. On 27 November 2013, the Secretary of State delivered the keynote address at the industry's flagship Green Energy Awards in Edinburgh, promoting Scottish successes in the renewables sector and the UK Government efforts to support further growth.

The oil and gas industry, including its world class supply chain, continues to be a vitally important sector of the economy. Scotland Office Ministers have had regular engagement with the industry throughout the year in recognition of its significance in Scotland and across the UK. This included regular discussions with Oil & Gas UK, the sector's main trade body, and with both oil majors and smaller companies involved in the supply chain. This year the UK Cabinet met in Aberdeen for the first time at Shell HQ. The UK Government's support for the sector was demonstrated by the commissioning of the Wood Review of UK offshore oil and gas recovery and its regulation. The Review recommendations were accepted in full by the Government. Throughout this process the Secretary of State and Scotland Office officials held a number of discussions with Sir Ian Wood and his team on the sector and its importance in Scotland. The Secretary of State also attended a roundtable meeting with companies involved in the oil and gas supply chain hosted by AMEC in Aberdeen where they discussed issues such as skills and infrastructure.

The UK Government demonstrated its commitment to the oil and gas industry, with field allowances and decommissioning relief certainty generating record levels of investment last year. At Budget 2014 the UK Government went further, announcing a new allowance for ultra-high pressure, high temperature fields, which will create over 700 new jobs; a commitment to implement quickly the Wood Review recommendations; and a review of the overall oil and gas tax regime. Industry has widely welcomed the package.

Scotland has a single oil refinery at Grangemouth, which, together with the inter-connected petrochemical works and other industries in the area, plays a significant role in the Scottish economy as a whole. Ministers took a close interest in the refinery and petrochemical works, and worked with Scottish Government Ministers to promote their financial viability. The Scotland Office also worked with DECC to ensure that Scottish interests were reflected appropriately in DECC's Review of the Refining and Fuel Import Sectors in the UK.

Fuel Poverty remains a serious concern for many in Scotland and throughout the year Scotland Office Ministers and officials have raised this issue with key companies including the Big Six energy suppliers. The UK Government is taking action to address this and Ministers have responded to fuel poverty concerns in Parliament and in their engagement with organisations across Scotland and will continue to do so.

Defence

Scotland continues to have a large defence footprint with over 11,000 Regular Armed Forces personnel in Scotland, due to rise to over 12,500 by 2020. Over the course of the year, the Scotland Office worked closely with the Defence Infrastructure Organisation, Armed Forces, Scottish Government and local authorities and other stakeholders on implementation of the Basing Review, and engaged regularly with the Armed Forces directly and through the Firm Base forum.

On 3 July 2013, the Ministry of Defence (MOD) published a White Paper on the structure and configuration of Reserves throughout the UK, setting out the new offer the Government will make to Reservists, their families and employers. The Government is committing £1.8bn over ten years to deliver transformation towards a well-trained, well equipped Reserve force. This includes improved training, hundreds of pounds of financial incentives to employers and a £42m package of new kit for Reservists to put them on a par with Regular forces.

The number of major Army Reserve units based in Scotland increased from nine to twelve, with new units moving from England for establishment at East Kilbride, Glasgow and Redford Barracks, Edinburgh. Two new sub-units were also established at Dunfermline and Edinburgh. By 2018, Scotland will be home to 46 Army Reserve Centres, 15% of the UK total. In recognition of the commitment to military service in less populated areas, 20 of Scotland's Army Reserve Centres will be located in the Highlands and Islands, including the retention of smaller centres in Shetland, Orkney and the Western Isles. The Scotland Office has worked with the MOD to offer support in encouraging employer engagement with the Reserves.

In June 2013, the MOD launched the Corporate Covenant, aimed at encouraging businesses to support the Armed Forces, past and present. The Secretary of State has been involved in encouraging companies in Scotland to support the Covenant.

Work continues at RAF Lossiemouth to prepare for arrival of the Typhoon squadrons and at RAF Leuchars to prepare for transition to the Army. On 7 September 2013, the Secretary of State attended the final Leuchars Air Show, ahead of the base's transition to an Army barracks, and he announced the RAF's intention to support other Air Shows throughout Scotland.

The Armed Forces, Veterans and Commemorations

On 25 August 2013, the Defence Secretary announced that Stirling had been selected to host the sixth Armed Forces Day National Event. This will be a major celebration of the Armed Forces past and present, and it is the second time that the national event will take place in Scotland, following Edinburgh in 2011.

The Scotland Office conducts regular engagements to mark Scotland's contribution to past conflicts, and to support organisations offering help to veterans. The Secretary of State hosted Poppy Scotland's annual reception at Dover House, and launched the Poppy Appeal in October.

2013 marked the 60th anniversary of the end of the Korean War and the Scotland Office initiated commemorations of Scotland's contribution to this conflict, hosting a reception for veterans ahead of the main Armed Forces Day activities. The Parliamentary Under Secretary of State attended a Westminster Abbey commemoration to mark the fallen in the Korean War on 11 July, and officiated at a ceremony at the Korean War Memorial in Bathgate on 11 February, delivering a letter from the Prime Minister expressing the country's gratitude to the veterans.

In December 2013, the Chancellor of the Exchequer announced the final tranche of London Interbank Offered Rate (LIBOR) funding which supports the Armed Forces Covenant. 12 Scottish charities are now benefitting from £5.4m of this funding. Both Ministers have carried out a series of engagements to hear first-hand about the invaluable work of these charities, including Veterans First Point Scotland, Houses for Heroes and Dame Agnes Weston's Royal Sailors' Rest.

Defence Industry

The defence industry in Scotland plays a key role in supporting and equipping the UK Armed Forces. It is also a vital sector of the economy, supporting thousands of jobs through a diverse range of projects, for example the Queen Elizabeth carrier, built at Govan and Rosyth (which was formally named in July 2014). The Secretary of State met a number of defence companies with significant presence in Scotland, including BAE Systems, Babcock, Selex and Raytheon.

On 31 July 2013, the Secretary of State visited the Queen Elizabeth carrier being assembled at Rosyth to inspect progress and carry out a series of meetings with the Aircraft Carrier Alliance and with trade unions on the site. On 28 August, the Secretary of State participated in events in Govan to commemorate the 125th anniversary of Thales, formerly Barr & Stroud, established in Glasgow in 1888. On 5 September 2013, he delivered a keynote address to the Future of the Aerospace Industry conference at NATS Prestwick, recognising the importance of the sector in Scotland.

Scottish Islands

In September 2013, the three Scottish islands councils, Shetland, Orkney and the Western Isles, launched a campaign *Our Islands Our Future* to secure greater powers and influence for the islands. The Scotland Office has led engagement with the campaign on behalf of the UK Government and the Secretary of State for Scotland

has met the campaign regularly over the course of the year, with the aim of agreeing a concordat by summer 2014.

The Scotland Office has led a programme of activity to support the campaign to identify and examine its priorities, including two visits to London to meet UK Government Ministers and officials, and a visit to Brussels to meet representatives of the EU institutions and UK Government. Work continues with the campaign on the drafting of a concordat.

Agriculture, Fisheries, Food and Drink, and the Environment

On 26 June 2013, political agreement was reached on reform of the EU Common Agricultural Policy (CAP) which will set the agricultural policy framework across the EU up to 2020.

Scotland Office Ministers worked closely with counterparts in Department for Environment and Rural Affairs (DEFRA) and the Scottish Government, as well as with the National Farmers' Union of Scotland, to ensure that the interests of farmers in Scotland were reflected in the UK Government's negotiating position throughout the CAP reform process. The UK Government successfully argued for an amendment that clarifies that the CAP can be fully implemented at a regional level in line with our constitutional arrangements. This will ensure that the Scottish Government has the flexibility to implement policy that reflects the specific needs of producers in Scotland.

Both Scotland Office Ministers engaged frequently with stakeholders in the agriculture, fisheries, and food and drink sectors. In October 2013, the Secretary of State and George Eustice MP, the UK Minister for Farming, Food and Fisheries, visited Peterhead, the UK's largest white fish and pelagic (mackerel and herring) port. They discussed the future of fishing with the Scottish Fishermen's Federation, as well as with skippers and industry representatives from the whitefish, shellfish and pelagic sectors. In February 2014, the same two Ministers addressed the Annual General Meeting of the National Farmers' Union of Scotland in St Andrews.

The Parliamentary Under-Secretary of State met the newly appointed Groceries Code Adjudicator during her visit to Edinburgh in December 2013 to discuss her role in ensuring that the UK's large retailers treat their direct suppliers lawfully and fairly. He also held a number of meetings with producers in the dairy industry in Scotland, and with processors to discuss the impact of the dairy industry code that was introduced in 2012 to ensure that contracts between farmers and dairy processors are fair, transparent and freely negotiated.

Scotland Office and other UK Government Ministers continue to meet regularly with representatives of the wider food and drink industry in Scotland as part of the UK wide Food and Drink Action Plan which aims to further open export opportunities and build on the success of the Scotch Whisky industry which currently accounts for around 85% of Scottish food and drink exports.

Welfare and Employability

The Scotland Office has continued to engage on the issues of employment and welfare to fulfil its objective to support the UK Government's work to promote economic growth

in Scotland. The Secretary of State is joint chair of the Scottish Employability Forum alongside the Scottish Government's Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney MSP, and the Convention of Scottish Local Authorities representative for Community Wellbeing, Cllr Harry McGuigan. The Forum continues to take forward its work to address unemployment in the context of economic recovery, drawing together all three levels of Government as well as key stakeholders and delivery bodies.

The Forum has now met three times, most recently on 6 March, where it was chaired by the Secretary of State. At this meeting members discussed progress on its key priorities, including research into the allocation of resources across priority groups and how to better link economic development and employability at a local level.

2013 continued the roll out of a wide range of welfare reform policies, including Universal Credit where 300,000 households in Scotland will be better off. Scotland Office Ministers have continued to engage with local authorities and other stakeholders in Scotland to understand the benefits and challenges of implementing welfare reform. This has resulted in the UK Government taking a number of important actions, including providing extra funding to assist rural areas; making changes to address concerns about direct payments and digital access to benefits; and making an additional £40m funding available for Discretionary Housing Payments in both 2014-15 and 2015-16.

National Security and Civil Contingencies

The Scotland Office continued to fulfil its important responsibilities in relation to national security and civil contingencies. The Office worked with the Scottish Government, Police Scotland, and other UK departments on the delivery of CONTEST, the UK Government's counter terrorism strategy, and the security preparations for the Glasgow 2014 Commonwealth Games. The Commonwealth Games' security arrangements are being led by the Chief Constable of Police Scotland, but are dependent upon large numbers of military, police and other personnel drawn from across the UK. The Scotland Office also worked with the Scottish Government and other UK departments on a range of civil contingencies, primarily relating to the impact of industrial action and severe weather. The most prominent of these related to fuel supplies in the autumn when there was both industrial action at Grangemouth and a management decision to close the petrochemical works. The Secretary of State, in partnership with John Swinney MSP, played an important brokering role in the dispute and in communications with the local business and civic community.

Promoting Scotland Internationally

United States

In December 2013, the Parliamentary Under Secretary of State visited Washington DC to mark the 25th anniversary ceremony of the Lockerbie bombing. The ceremony was held at Arlington National Cemetery on 21 December, and the Minister delivered a message from the Prime Minister conveying the country's sympathy and solidarity with the victims' families who were present at the service. The Minister also held a series of meetings with US Government officials and business representatives to discuss the on-going aftermath of the bombings.

During the visit, the Minister hosted a Taste of Scotland reception in Washington DC to promote Scotland's food and drink industry, aimed at US business representatives with Scottish links.

Brussels

The Secretary of State visited Brussels in January 2014. The Secretary of State addressed the Centre for European Policy Studies setting out the benefits of Scotland remaining within the UK and the implications of independence for Scotland's European Union (EU) membership.

The Secretary of State also met the Deputy Secretary General of the North Atlantic Treaty Organisation (NATO), EU Energy Commissioner Oettinger, senior European Commission officials, other European decision-makers and business representatives. The visit was an opportunity to promote Scottish interests in trade and investment links, EU regional policy, tidal energy and fibre optic broadband.

The Secretary of State was accompanied by a delegation from Orkney Islands Council, Shetland Islands Council and Comhairle nan Eilean Siar, who conducted a programme of visits facilitated by the Scotland Office and the Foreign and Commonwealth Office (FCO) to promote the interests of the islands amongst European decision-makers.

Denmark

The Secretary of State visited Denmark in March 2014. He addressed the North Sea Commission 25th Anniversary Stakeholder Conference in Aalborg where he delivered a keynote speech, promoting the links between Scotland and other North Sea communities.

The Secretary of State travelled to Copenhagen where he met key political, official and business representatives. The Secretary of State used this visit to outline the UK position and the current status of the referendum debate in Scotland, and to promote trade and investment links. The visit included a public lecture at the University of Copenhagen and a number of media engagements. The Secretary of State also focussed on trade relations between Denmark, Scotland and the wider UK and also discussed existing Danish-Scottish engagement on oil, gas and heating projects.

Culture, Media and Sport

The Scotland Office has taken a leading role in a number of the high profile cultural and sporting events that are taking place in Scotland in 2014. With regards to the Glasgow Commonwealth Games, the Scotland Office has continued to play a central role in the planning and co-ordination of the reserved aspects. This has included the national security and international relations aspects of the Games and managing the Government's Ministerial engagement in and around Glasgow during the Games, as well as managing the accreditation process for UK Ministers.

The Government had already arranged for tax exemptions at the Commonwealth Games for visiting athletes (as was applied at the London Olympics), and HM Treasury has agreed that there should be a one off tax exemption for international athletes at the International Association of Athletics Federations (IAAF) Diamond League athletics

meeting in Glasgow in early July 2014. This will further encourage the world's leading athletes to come to Glasgow in 2014.

In addition to the Commonwealth Games, the First World War commemorative event taking place in Glasgow on 4 August is a high profile event that is the responsibility of the UK Government. The event is the focal point of the UK's and Commonwealth's activities to mark the centenary of the outbreak of the First World War. The Scotland Office has taken the lead in overseeing the planning and co-ordination of this event to ensure a fitting programme of commemoration. The Glasgow Service is the first of three commemorative services being organised on that day by the UK Government.

In liaison with the Department for Culture, Media and Sport (DCMS), Scotland Office Ministers and officials have also made an important contribution to the planning for the 2014 International Culture Summit which is to be held in Edinburgh in August as part of the Edinburgh International Festival.

On broadcasting, appointments to the Board of MG Alba were approved by the Secretary of State. Ministers also welcomed Ofcom's renewal of Channel 4's licence for a further ten years, along with the condition requiring an increase in its out of England production levels.

Promoting and Maintaining the Devolution Settlement

The Scotland Office promotes the devolution settlement within the UK Government and is committed to ensuring that devolution is understood across the civil service. The Office also promotes the interests of Scotland in the formation of UK Government legislation.

The Office regularly provides guidance and advice to other Departments especially with regard to policy measures which may trigger the Sewel Convention, and assists bill teams with regard to the Legislative Consent Motion (LCM) process. As part of the legislative process Scotland Office Ministers are part of the Parliamentary Business and Legislation Committee and they use that forum to raise areas of interest or concern in relation to Bills and amendments to Bills.

As part of 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 LCMs, where required under the Sewel Convention, were sought and secured from the Scottish Parliament.

In the year to 31 March 2014 a total of nine Government Bills which triggered the Sewel Convention secured the consent of the Scottish Parliament. A total of 12 LCMs were secured across the nine Bills. These included three LCMs for the Anti-Social Behaviour, Crime and Policing Bill and two LCMs for the Children and Families Bill, as well as one LCM for each of the following:

- Care Bill;
- Energy Bill;
- High Speed Rail (Preparation) Bill;

- High Speed Rail (London - West Midlands) Bill;
- Marriage (Same Sex Couples) Bill;
- Offender Rehabilitation Bill; and
- Water Bill.

Additionally, an LCM was secured for the Deep Sea Mining Private Members' Bill.

Statutory Instruments

The co-ordination and delivery of subordinate legislation made under the Scotland Act 1998 also continued to be a key part of our business. During the course of this reporting year, the Scotland Office delivered three Scotland Act Orders.

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. Two of the three 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 provision in connection to Children's Hearings in Scotland. By amending existing UK legislation this power ensured that children involved in the Children's Hearings system were dealt with appropriately if moving to other parts of the United Kingdom. Various cross-border provisions within the Order ensured that existing UK laws continued to operate effectively when relevant sections of the Children's Hearings (Scotland) Act 2011 came into force in June 2013.

The power at section 93 of the Scotland Act 1998 allows for the Scottish Ministers to make arrangements for any of their specified functions to be exercised on their behalf by a Minister of the Crown. This power at section 93 was used to specify functions of the Scottish Ministers relating to animal health and welfare to be exercised on their behalf by Ministers of the Crown, whilst retaining legal responsibility for the development of policy in these areas.

The list of Scotland Act Orders taken forward by the Scotland Office in 2013-14 is as follows:

- SI 2013/1465 The Children's Hearings (Scotland) Act 2011 (Consequential and Transitional Provisions and Savings) Order 2013;
- SI 2013/3157 The Scotland Act 1998 (Agency Arrangements) (Specification) Order 2013; and
- SI 2014/513 The Social Care (Self-directed Support) (Scotland) Act 2013 (Consequential Modifications and Savings) Order 2014.

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

UK 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 in the House of Commons.

Scotland Office Ministers appeared before the Committee seven times as part of the Committee's inquiry into the Referendum on Separation for Scotland, once in relation to their inquiry into the impact of the Bedroom Tax and other changes to housing benefit in Scotland and once on the Scotland Office Annual Report 2012-13. Scotland Office Ministers also appeared before the Lords Constitution Committee as part of their inquiry into the constitutional implications for the rest of the UK of Scottish independence.

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 with a range of Departments, bodies and organisations. These include the Cabinet Office, the Electoral Commission, the Electoral Management Board for Scotland, other bodies representing electoral administrators in Scotland, and the Scottish Government. This is particularly important in the run up to the European and UK parliamentary elections in Scotland in 2014 and 2015 respectively.

During the year, the Scotland Office worked closely with the Cabinet Office to amend the rules for parliamentary elections and to legislate for the introduction of individual electoral registration in Scotland. The Representation of the People (Scotland) (Description of Electoral Registers and Amendment) Regulations 2013 (SI 2013/3206) made changes, enabled by the Electoral Registration and Administration Act 2013, relating to the introduction of individual electoral registration, in place of household registration, and changes relating to the conduct of elections. They also provide revised text describing the open-access and edited versions of the electoral register. The Cabinet Office also made a number of other orders relating to the introduction of individual electoral registration which had effect across Great Britain.

The Scotland Office has also been involved in the development of legislation required for the European Parliament elections to be held in May 2014, in particular in ensuring that the regulations take account of the views of election administrators 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.

The Boundary Commission for Scotland submitted its report on the interim review of the boundary between the Glasgow Provan and Strathkelvin and Bearsden constituencies and the Glasgow and West Scotland regions of the Scottish Parliament to Ministers on 30 October 2013. The Secretary of State laid a copy of the report before Parliament as required by the Scotland Act 1998 the same day.

The draft Scottish Parliament (Constituencies and Regions) Order 2014, which gave effect to the recommendations contained in the Boundary Commission's report, was laid before Parliament on 18 December 2014. The Order was made by Her Majesty, by and with the advice of Her Privy Council, on 5 March 2014.

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

Scotland Office Objectives 2014-15

The Scotland Office's Business Plan for 2014-15 is published on www.gov.uk. It sets out five objectives, which remain unchanged from 2013-14.

Part 2: Office of the Advocate General for Scotland

Delivery of Objectives in 2013-14

The Office of the Advocate General (OAG) set the following strategic objectives for 2013-2014:

Objective 1. Advising on Policy and Legislation Affecting Scotland. To advise UK Government departments on the implications of their policies for Scotland and to 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. To continue to discharge effectively litigation in the Scottish courts and tribunals and in the UK Supreme Court for departments such as the Home Office, the 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. To 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. To work to ensure that the UK Government operates effectively for Scotland in reserved areas and facilitate cooperation between Scotland's two administrations.

Objective 5. Supporting Ministers. To 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.

The Office of the Advocate General's objectives are closely inter-related. Objectives 1 and 2 relate to the Office's specific legal functions. Objectives 3, 4 and 5 inform all aspects of the Office's work. Below objectives 1, 2 and 5 are discussed separately, objectives 4 and 5 are discussed together, while objectives 3 and 4 permeates all the Office's work. The actions taken to run the Scotland Office and the Office of the Advocate General effectively, efficiently and economically are described in part 3 of this chapter and elsewhere in the report.

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.

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).

OAG is also involved in the preparation of the UK Government's legislative programme for the forthcoming Parliamentary session.

As far as subordinate legislation is concerned, OAG was responsible for advising on Scotland Act Orders listed in part 1 of this chapter. 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 to the relevant UK Government department on a number of UK Parliament Bills that were consulted on in draft or introduced to Parliament. These included:

- Anti-Social Behaviour, Crime and Policy Bill;
- Care Bill;
- Children and Families Bill;
- Communications Data Bill;
- Consumer Rights Bill;
- Co-operative and Community Benefit Societies Bill;
- Criminal Justice and Courts Bill;
- Deep Sea Mining Bill;
- Energy Bill;
- Finance Bills;
- Gambling (Licensing and Advertising) Bill;
- High Speed Rail (Preparation) Bill;
- Immigration Bill;

- Intellectual Property Bill;
- Modern Slavery Bill;
- Mesothelioma Bill;
- Offender Rehabilitation Bill;
- Pensions Bill;
- Specialist Printing Equipment and Materials (Offences) Bill; and
- Water Bill

Litigation

During 2013-14, OAG was again involved in a wide variety of litigation and considered 152 devolution/compatibility issues.

The Advocate General maintained his intervention at appeal stage in the significant devolution challenge raised by the Scotch Whisky Association and others. This involved a challenge to the Scottish Government's legislation relating to minimum alcohol pricing. He also intervened in the appeal by the Liquidators of Scottish Coal Company Ltd (In Liquidation) in which they invited the Court to hold that the position with regard to liquidators disclaiming property and onerous liabilities was the same throughout the UK.

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 291 new cases were dealt with comprising 254 petitions for judicial review and 37 statutory applications for leave to appeal and statutory appeals. There was a 25% increase in this work overall. The immigration cases which OAG deal with on behalf of the Home Secretary, comprised almost 80% of all the judicial review petitions before the Court of Session. The three significant themes which emerged last year have continued: 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 2013-14 OAG also represented the Home Secretary in five appeals to the Supreme Court.

The Secretary of State for Work and Pensions was represented by OAG in 14 appeals to the Upper Tribunal and one statutory appeal to the Inner House of the Court of Session.

OAG has also represented the interests of the Secretary of State for Justice both in a judicial review which attempted to prevent the making of a UK order introducing fees in Employment Tribunals throughout the UK and in the Supreme Court where the

appeals of both a Scottish prisoner and English prisoner challenging their inability to vote were heard. A number of other UK departments were represented by OAG over the last year.

OAG's dedicated 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 on any matter, or the content of such advice. Accordingly, no details of this significant aspect of OAG's work are disclosed in this report.

OAG also 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 which manages the UK Government's legislative programme.

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 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.

OAG has continued its involvement in the Plan for Growth of UK Legal Services, a project supported by the Advocate General since 2012. Its aim is to promote UK legal services and the rule of law to an international market and OAG has continued to work closely with Ministry of Justice and UK Trade and Investment as well as key stakeholders to facilitate the promotion of Scottish legal services to the international market. In June 2013 OAG set up a Scottish Co-ordination Group that included representatives from the Law Society of Scotland, the Faculty of Advocates, the Scottish Government, and the Scottish Arbitration Centre. The Group has provided a focus for activities, such as the hosting of a meeting with the Lord Mayor of the City of London in February 2014. In September 2013, OAG also worked with the Law Society of Scotland to host an international event, *Growing your business internationally*, to assist businesses who wanted to learn more about generating new international opportunities.

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 2013-14 session the Advocate General had responsibility in the House of Lords for the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Bill; and assisted in the passage of the Marriage (Same Sex Couples) Bill and the Immigration Bill as

well as helping other Departments with legislation and taking Statutory Instruments for the Scotland Office through the House of Lords.

Engagement

Our efforts to build stronger networks with Whitehall Departments continue to pay dividends, especially with Bill teams from across Whitehall and our biggest litigation clients, such as HMRC and Home Office. OAG also 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 2014-2015

In the coming year, the strategic objectives for OAG will continue to be:

Objective 1: Advising on Policy and Legislation Affecting Scotland;

Objective 2: Protecting the UK Government's Interests in the Courts;

Objective 3: Scotland's Place Within the UK;

Objective 4: Helping to Ensure that Devolution Works; and

Objective 5: Supporting Ministers.

Part 3: Sustainable Development

The data in this report is in accordance with 2013–14 guidelines laid down by HM Treasury in 'Public Sector Annual Reports: Sustainability Reporting' published at: www.hm-treasury.gov.uk/frem_sustainability.htm

Sustainability focus is on achieving government targets, reducing environmental impact and reducing costs. Priorities include reducing carbon emissions, water consumption and waste to landfill.

The Scotland Office and Office of the Advocate General does not solely occupy any of its buildings in Edinburgh or London. Dover House in London is shared with other government bodies, to a total of about 45% and Melville Crescent in Edinburgh is also shared with other government bodies to a total of about 28%. The Office of the Advocate General uses space in Victoria Quay, Edinburgh, which is managed by the Scottish Government. It is not possible to distinguish each occupant's responsibility to the overall sustainability picture for each building. Shared occupations are not accounted for due to the limitations of extrapolating reliable sustainability data from service charges.

Greening Government Commitments

The Greening Government Commitments launched on 1 April 2011 require Departments to take action to reduce significantly environmental impact by 2014–15 (compared to a 2009–10 baseline). These commitments can be found at: <http://sd.defra.gov.uk/gov/green-government/commitments>

Climate Change Adaptation and Mitigation

The Scotland Office and Office of the Advocate General has put in place the following measures necessary to adapt to future climate change:

- In Dover House this has been achieved by fitting further PIR sensor lights in rooms that have been decorated recently;
- In Melville Crescent as part of the external decoration of the building all windows have been repaired to reduce heat loss and by improving the efficiency of the central heating system by undertaking a major service of the equipment; and
- We have increased the usage of both buildings significantly by letting space to other government bodies and increasing the number of users per room by such things as converting and modifying rooms and using smaller furniture. The Scotland Office has therefore contributed to the overall reduction in the size of the UK Government estate and the amount of carbon emissions for which the UK Government as a whole is responsible.

Carbon Reduction Commitment

The Scotland Office and Office of the Advocate General are committed to reducing their environmental impact by:

- Encouraging the use of video conferencing rather than travelling to meetings;
- Using recycled paper; and
- Using public transport rather than cars when travelling to meetings.

Where the Scotland Office draws on services supplied by the Ministry of Justice or under contract to them, our contribution to Government commitments on environmental impact and sustainability are met within those wider frameworks. The Scotland Office has a continuing programme of work to reduce its environmental impact, including:

- Increasing the range of items that can be collected for recycling in both of our buildings;
- Encouraging the use of video conferencing rather than travelling to meetings; and
- Replacing printers with more energy efficient models.

Part 4: Financial Commentary for the Scotland Office and Office of the Advocate General

In 2013-14 within the Parliamentary Supply Estimates (Supplementary Estimate) for the Scotland Office and the Office of the Advocate General the spend totalled £27.2bn, 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 February.

Movements in Estimate Provision During 2013–14

At the start of the year the Scotland Office and the Office of the Advocate General were voted £27.896bn in its Main Estimate. By the final Single Supplementary Estimate, this had increased to £28.018bn, primarily due to an increase in the grant to the Scottish Consolidated Fund of £122,525,000.

Explanation of Variances between Estimate and Net Resource Outturn

The Statement of Parliamentary Supply demonstrates that overall there was an underspend of 2.98% (£835,003m) on the estimate provision of £28.018bn. The Statement of Parliamentary Supply 2.1 - Analysis of net resource outturn by section - 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.

Scotland Office and Office of the Advocate General

The Scotland Office and the Office of the Advocate General underspend on its provision 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	7,219	7,379	160	2.17%

Boundary Commission for Scotland

The underspend on the Boundary Commission for Scotland's allocation for 2013-14 was mainly due to the Commission not being required to contribute to the Scottish Government's One Scotland Mapping agreement and an underspend on the staff budget due to delays in filling staff vacancies. There were also a number of small underspends in

Commissioners' fees and expenses; accommodation costs; travel and subsistence; and review costs. The very small size of the Commission's budget means that unexpected in year changes can have a disproportionate impact in percentage terms.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Boundary Commission for Scotland	132	211	79	37.44%

Grant payable to the Scottish Consolidated Fund

The sum of £834.748m described as an underspend in the grant payable to the Scottish Consolidated Fund indicates an underspend in relation to the amount of actual cash that the Scottish Government did not draw down in 2013-14. It is the responsibility of the Scotland Office to transfer funding from the Consolidated Fund to the Scottish Consolidated Fund on a monthly basis ensuring that the Scottish Government does not draw down funding in advance of need. Information on the Scottish Government's actual expenditure in resource terms can be found in the Scottish Government's consolidated accounts and the accounts of its arm length bodies. The Scotland Office is responsible for ensuring that funds are transferred appropriately and that transfers are recorded correctly in our accounts. It is for the Scottish Parliament to determine how the funds are spent and for the Scottish Government to account for the expenditure.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Grant payable to the Scottish Consolidated Fund	27,176,083	28,010,831	834,748	2.98%

Reconciliation of Resource Expenditure between Estimate, Accounts and Budgets

	Estimate £000	Outturn £000
Net Resource Outturn (Estimates)	28,018,421	27,183,434
Net Operating Cost (Accounts)	28,018,421	27,184,017
Voted expenditure outside the budget	(28,010,831)	(27,176,083)
Resource Budget Outturn (Budget)	7,590	7,351

Alun Evans

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

11 July 2014

Chapter 4: Director's Report

Scotland Office and Office of the Advocate General: Ministers and Directors

The Ministers and Directors of the Scotland Office and Office of the Advocate General who were members of the Ministerial Joint Management Board at various times during 2013-14 are shown below:

The Rt Hon Alistair Carmichael MP Secretary of State for Scotland (from 7 October 2013);

The Rt Hon Michael Moore MP Secretary of State for Scotland (until 6 October 2013);

The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland;

The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland;

Alun Evans Scotland Office Director and Principal Accounting Officer;

Michael Chalmers Office of the Advocate General Director;

Chris Flatt Scotland Office Deputy Director, Corporate Services and Policy;

Colin Faulkner Scotland Office Deputy Director, Private Office;

Margaret Porteous Scotland Office Deputy Director, Policy;

Glenn Preston Scotland Office Deputy Director (from July 2013), Policy;

Ruaraidh MacNiven Office of the Advocate General Deputy Director (from July 2013), Legal Secretary; and

Jan Marshall Office of the Advocate General Deputy Director (until June 2013) Legal Secretary.

Our Corporate Performance

Performance Targets

In 2013-14, the three main indicators, adopted by the Scotland Office and the Office of the Advocate General, aimed at ensuring the provision of high quality and efficient services in dealings with the public, were as follows:

Target	Indicator	Performance in 2013-14
We will respond to Ministerial correspondence within 15 working days of receipt or we will send an interim reply explaining the reasons for the delay and indicating when a full reply will be sent.	Percentage of correspondence replied to within 15 days.	The Scotland Office answered 1,738 pieces of correspondence and replied to 86.7% of Ministerial correspondence within the target time. The Office of the Advocate General answered 57 pieces of correspondence and replied to 95% 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 151 FOI requests in 2013-14 and replied to 95% within 20 working days either substantively or explaining the reason for an extension. The Office of the Advocate General received 51 FOI requests in 2012-13 and replied to 96% 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 96.4% of invoices within 5 days. The Office of the Advocate General paid 97.2% of invoices within 5 days.

Parliamentary Questions

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 that named day. In total, 86% of written Parliamentary Questions tabled to the department were answered on time.

Ministers have also answered oral questions on a number of occasions in both Houses. The Scotland Office responded to Oral Questions on seven occasions during the reporting year on 17 April 2013, 26 June 2013, 11 September 2013, 6 November 2013, 18 December 2013, 5 February 2014 and 19 March 2014.

	Ordinary Written Questions		Named Day Questions	
	Total Received	Answered on Time	Total Received	Answered on Time
House of Commons	207	89%	59	76%
House of Lords	11	82%	n/a	n/a
Total	218	89%	59	76%

The Offices have adopted the same performance indicators for 2014-15.

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 UK 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 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. Both Offices comply with Government standards on information assurance and specific requirements are 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 does not directly employ any staff. Instead, staff are seconded or loaned from other Civil Service bodies, mainly the Scottish Government and the Ministry of Justice (MoJ). 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 2014:

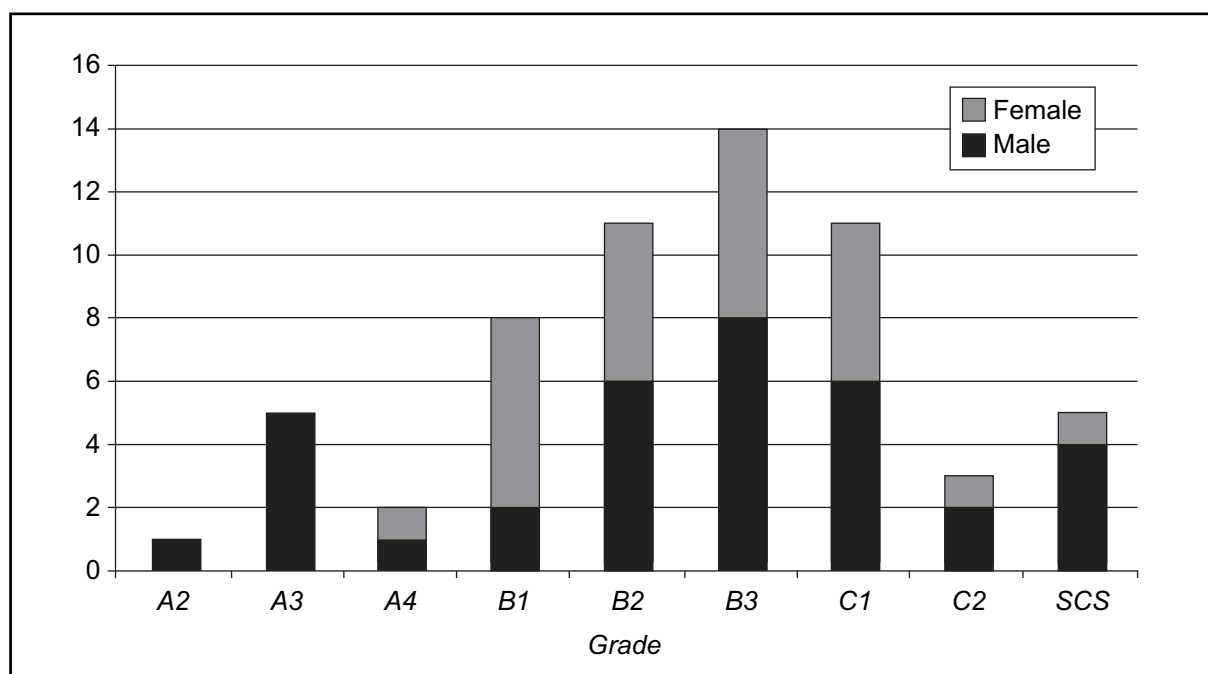
	Actual	Full Time Equivalent
Scotland Office, London	19	19
<i>of which Ministerial Private Offices</i>	6	6
Scotland Office, Edinburgh	41	39.3
<i>of which Ministerial Private Offices</i>	1	1
Total	60	58.3

Office of the Advocate General, London	6	6
<i>of which Ministerial Private Office</i>	2	2
<i>of which Legal Secretariat to the Advocate General</i>	4	4
Office of the Advocate General, Edinburgh – Office of the Solicitor to the Advocate General	39	38.8
Total	45	44.8

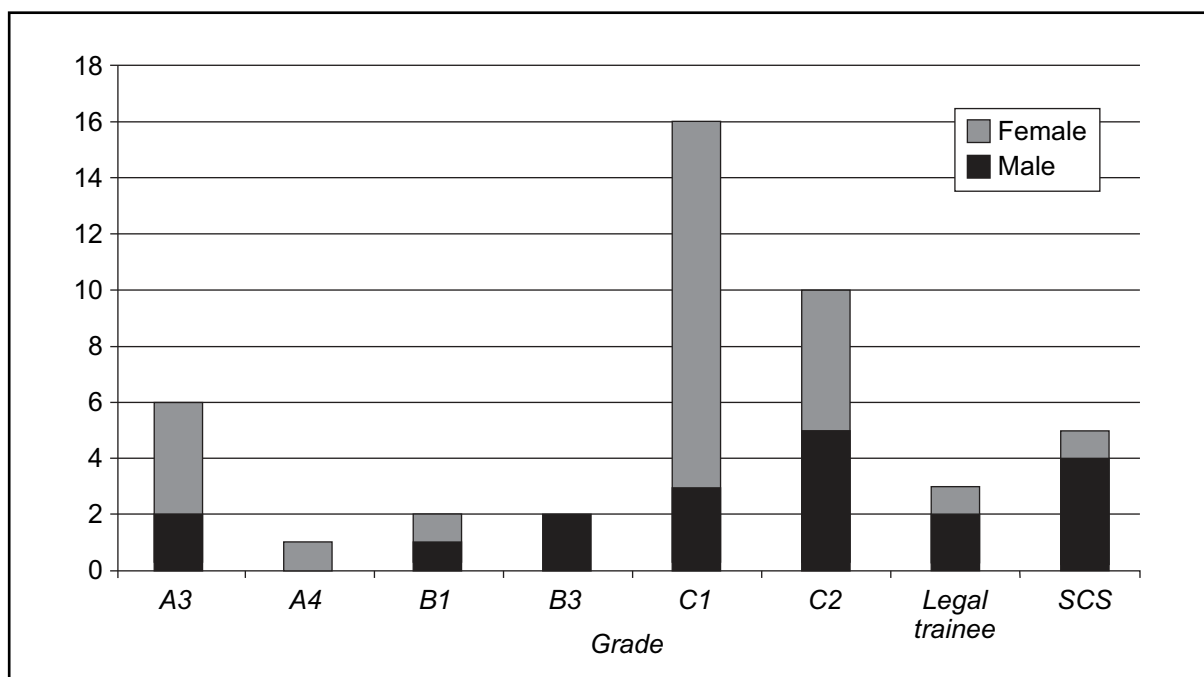
Diversity

Women make up 41.7% of staff in the Scotland Office and 57.8% 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 2014



Gender in the Office of the Advocate General at 31 March 2014



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

At 31 March 2014 there were five substantive senior civil service posts in both the Scotland Office and the Office of the Advocate General.

Government Funding in Scotland

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 from 2015-16. The financial relationship is set out in the Statement of Funding Policy.²

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 for Scotland, who, in turn, makes grants to the Scottish Government

² The most recent edition was published in October 2010 and is available at: http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/sr2010_fundingpolicy.pdf

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 in Scotland 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 2013-14 was £ £27,176,082,965.02.

The Scottish Government published details of how it has allocated its budget for 2013-14; these are contained in Scotland's Draft Budget 2013-14 and the Budget (Scotland) Bill 2013-14.

Efficient Use of Resources

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. We are committed to achieving efficiency and effectiveness in all areas of our activities. Throughout 2013-14 the Offices have sought ways of making more efficient use of resources and reducing costs. These include making more efficient use of accommodation and sub-letting more space in our premises to other UK Government bodies.

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. 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 Ministry of Justice's services are regulated by a portfolio of service level agreements with the Territorial Offices and the Ministry's Arms-Length Bodies division takes responsibility for overseeing the relationship. The Scotland Office and the Office of the Advocate General 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 Government Procurement Service, 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.

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.

Audit

The financial statements are audited by the Comptroller and Auditor General (C&AG), who is appointed under statute and reports to Parliament on the audit examination. Auditors' remuneration is disclosed at Note 7 to the accounts. During the reporting year no payment was made to the auditors for non-audit work (2012-13: £nil).

To the best of the Accounting Officer and Director's knowledge, there is no relevant audit information of which the Scotland Office's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Scotland Office's auditors are aware of that information.

Alun Evans

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

11 July 2014

Chapter 5: Departmental Remuneration Report

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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 Commission can be found at www.civilservicecommission.org.uk

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's 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 <https://www.gov.uk/government/organisations/review-body-on-senior-salaries>

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 the line manager at the start of the reporting year. Performance will also have an effect on any bonus element awarded.

Remuneration (Including Salary) and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior management (i.e. Board members) of the department.

Remuneration (Salary, Benefits in Kind and Pensions)

Ministers

Single total figure of remuneration								
Ministers	Salary (£)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000) ⁽¹⁾		Total (to nearest £1,000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
The Rt Hon Alastair Carmichael MP Secretary of State for Scotland (from 7 October 2013)	32,985 (2)	-	-	-	12,000	7,000	45,000	7,000
The Rt Hon Michael Moore MP Secretary of State for Scotland (until 6 October 2013)	52,226 (2) (3)	68,169 (2)	-	-	13,000	25,000	65,000	94,000
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland	23,039 (4)	23,039 (4)	-	-	8,000	9,000	31,000	32,000
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland	128,121 (5)	128,121	-	-	33,000	33,000	161,000	161,000

- (1) The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase due to a transfer of pension rights.
- (2) Full year equivalent £68,827 (both ministers waived their increase and claimed £68,169).
- (3) Includes £17,042 severance payment.
- (4) The entitled salary was £23,697 however the minister waived his increase and claimed £23,039.
- (5) Includes £36,366 House of Lords Office Holders Allowance.

Board Members and Senior Civil Servants

Single total figure of remuneration										
Officials	Salary (£'000)		Bonus payments (£,000)		Benefits in kind (to nearest £100)		Pension benefits (£'000) ⁽⁸⁾		Total (£'000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Alun Evans Director (from July 2012)	115-120	85-90 (1)	-	-	-	-	(88,000)	7,000	30-35	90-95
Michael Chalmers Director (from December 2012)	90-95	30-35 (2)	-	-	-	-	72,000	11,000	160-165	40-45
Chris Flatt Deputy Director	60-65	60-65	5-10	-	-	-	15,000	12,000	75-80	75-80
Colin Faulkner Deputy Director	70-75 (3)	70-75 (3)	-	-	-	-	18,000	80,000	90-95	150-155
Margaret Porteous Deputy Director	60-65	60-65	-	-	-	-	(2,000)	3,000	60-65	65-70
Glenn Preston Deputy Director (from July 2013)	40-45 (4)	-	-	-	-	-	11,000	-	55-60	-
Ruaraidh MacNiven Deputy Director (from July 2013)	50-55 (5)	-	-	-	-	-	12,000	-	65-70	-
Jan Marshall Deputy Director (until June 2013)	20-25 (6)	70-75	-	-	5,600 (7)	22,300	-8,000	10,000	20-25	105-110

(1) full time equivalent 115-120

(2) full time equivalent 90-95

(3) includes Private Secretary Allowance of £10,098

(4) full time equivalent 60-65

(5) full time equivalent 70-75

(6) full time equivalent 70-75

(7) part year

(8) The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional Ministerial remuneration; the salary for their services as an MP (£65,738 from 1 April 2010, £66,396 from 1 April 2013) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Benefits in Kind

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

Marshall was on loan from the Scottish Government; the Scotland Office met her accommodation and utilities costs in London.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2013-14 relate to performance in 2013-14 and the comparative bonuses reported for 2012-13 relate to the performance in 2012-13.

Pay Multiples

The salary of the most-highly paid individual in Scotland Office and the Office of the Advocate General in the financial year 2013-2014 was in the range £115,000-£120,000. This was 2.71 times the median salary of the workforce, which was £44,174.

	2013-14		2012-13	
	Number	£000	Number	£000
Total Remuneration Permanent staff		4284		4136
Total Permanent staff	100		96	
Median Pay of Permanent Staff		44.2		43.7
Highest Paid Director of Pay Band		119.7		119.7
As a Multiple of Permanent Staff Median Pay		2.7		2.7

Pension Benefits

Ministers

Minister	Accrued pension at age 65 as at 31/3/14	Real increase in pension at age 65	CETV at 31/3/14	CETV at 31/3/13	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
The Rt Hon Alistair Carmichael MP Secretary of State for Scotland (from 7 October 2013)	0-5	0-2.5	33	23	6
The Rt Hon Michael Moore MP Secretary of State for Scotland (until 6 October 2013)	5-10	0-2.5	67	54	6
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland	0-5	0-2.5	34	25	5
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland	5-10	0-2.5	152	110	25

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 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 2013 members paid contributions between 7.9% and 16.7% depending on their level of seniority and chosen accrual rate. The contribution rates will increase from April 2014.

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.

In line with reforms to other public service pension schemes, it is intended to reform the Ministerial Pension Scheme in 2015.

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.

Board Members and Senior Civil Servants

Officials	Accrued pension at pension age as at 31/3/14 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/14	CETV at 31/3/13	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Alun Evans Director (from July 2012)	45-50 Plus lump sum of 135-140	(2.5-5) Plus lump sum of (10-15)	909	926	(78)	-
Michael Chalmers Director (from December 2012)	10-15	2.5-5	153	105	35	-
Chris Flatt Deputy Director	5-10 Plus lump sum of 25-30	0-2.5 Plus lump sum of 0-2.5	109	94	6	-
Colin Faulkner Deputy Director	10-15 Plus lump sum of 30-35	0-2.5 Plus lump sum of 2.5-5	136	117	8	-
Margaret Porteous Deputy Director	25-30 Plus lump sum of 80-85	0-2.5 Plus lump sum of 0-2.5	571	538	-	-
Glenn Preston Deputy Director (from July 2013)	10-15	0-2.5	153	139	4	-
Ruaraidh MacNiven Deputy Director (from July 2013)	15-20 Plus lump sum of 45-50	0-2.5 Plus lump sum 0-2.5	207	189	6	-
Jan Marshall Deputy Director (until June 2013)	15-20 Plus lump sum of 55-60	0-2.5 Plus lump sum 0-2.5	345	342	1	-

Non-Executive Directors

The chairperson of the Scotland Office and the Office of the Advocate General audit committee and lead non-executive member of the Offices' Joint Management Board receives a fee of £300 for each meeting attended. Other non-executive members of the Audit Committee and Joint Management Board receive £200 per meeting attended. No such payments were made in 2012-13.

Civil Service Pensions

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

arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 1.5% and 6.25% of pensionable earnings for **classic** and 3.5% and 8.25% for **premium, classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2014. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also

include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

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

Compensation for Loss of Office

No senior managers received compensatory payments in 2012-13 or 2013-14.

Alun Evans

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

11 July 2014

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)

Introduction

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 Public Accounts Committee of the House of Commons to account to Parliament for the stewardship of the resources within the Offices' control and for their management.

The governance framework describes the systems and processes 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.

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

Corporate Governance Structures

In 2012-13 the Joint Management Board decided that it would meet three times a year and that every meeting of the Board would be a ministerial meeting. The three meetings would be in the autumn, before the Easter recess, and before the summer recess. That change was maintained in 2013-14. During 2013-14 it was also decided to reduce the number of officials on the Board. Other than that there were no new changes to the Offices' corporate governance in 2013-14. Accordingly the Offices' compliance with the corporate governance code for central government departments has not changed

since 2012-13. An account of that compliance was published in full in the annual report and accounts for 2012-13, and it is summarised succinctly in Annex A to this chapter.

Under the Offices' corporate governance 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. After the appointment of Alistair Carmichael MP as Secretary of State the non-executive members of the Board had a private introductory meeting with him to share with him their views of the Offices' management.

In addition to formal corporate governance structure I am in regular contact 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. A member of Scotland Office staff is in regular contact with the Secretary to the Boundary Commission for Scotland to provide me with assurance in respect of the Commission's management of public funds.

As reported in the Offices' annual report for 2012-13 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.

These recommendations were reviewed with the Audit Committee. The first new annual evaluation of Board effectiveness was carried out in the last quarter of 2013-14 and is discussed below. It was agreed that the Offices would not seek a non-executive member who also sat on the Audit Committees of the other Territorial Offices, but nor would it reject a suitable candidate on those grounds; that it would invite applications from non-executive members with legal skills; and that new non-executive members would indeed receive formal induction. The Committee also developed a risk management policy which is discussed below. Some assurance mapping was carried out in drawing up the governance statement for 2012-13 but was found to be of limited use for organisations as small as the Scotland Office and the Office of the Advocate General.

Joint Management Board

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, and including non-executive members.

The Board in 2013-14 comprised:

- the Secretary of State for Scotland, the Parliamentary Under Secretary of State, and the Advocate General for Scotland;
- the Director of the Scotland Office and Principal Accounting Officer for both Offices;
- the Director of the Office of the Advocate General;
- four senior officials, reduced from November to three (two from the Scotland Office and one from the Office of the Advocate General); and
- two non-executive members: the chairman of the Audit Committee and another member of the Audit Committee.

The Chairman of the Audit Committee and lead non-executive member 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. Mr Adams has a long career in public service. During 2013-14 he was Director of Corporate Governance in the Croydon NHS Health Services Trust. He had previously served in the Ministry of Justice and its predecessor departments, and in NHS London where he was Secretary of the Board and Head of Corporate Governance.

The membership of the Board and members' attendance at meetings is shown in the table below. There were several changes of membership among Scotland Office officials, but there were no apologies for absence at any of the three meetings held during 2013-14.

Joint Management Board 2013-14	Number of meetings attended in 2013-14. (there were 3 in total)
Rt Hon Michael Moore, Secretary of State for Scotland (until October 2013)	1
Rt Hon Alistair Carmichael, Secretary of State for Scotland (from October 2013)	2
Rt Hon David Mundell, Parliamentary Under Secretary of State	3
Rt Hon Lord Wallace of Tankerness QC, Advocate General for Scotland	3
Alun Evans, Director of the Scotland Office and Principal Accounting Officer	3
Michael Chalmers, Director of the Office of the Advocate General	3
Colin Faulkner Deputy Director Private Office and Communications, Scotland Office	1
Chris Flat, Deputy Director Corporate and Constitution Division, Scotland Office	3
Margaret Porteous, Deputy Director, Economic, Defence and International Affairs Division, Scotland Office	2
Glenn Preston, Deputy Director, Home, Social and Domestic Affairs Division, Scotland Office	1
Ruaraidh Macniven, Legal Secretary to the Advocate General	3
John Aldridge, Lead non-executive member and Chair of the Audit Committee	3
Edward Adams, Non-executive member and member of the Audit Committee	3

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 both for the current spending review period and for 2015-16;
- financial controls;
- business planning and achievement of objectives; and
- performance against targets.

Review of Board Effectiveness

At the Joint Management Board's meeting in March 2014 the lead non-executive member led an evaluation of the Board's effectiveness, informed by guidance produced

both by the National Audit Office, and jointly by the Cabinet Office and HM Treasury. The evaluation consider the Board's effectiveness under several headings:

- objectives, strategy and remit;
- performance measurement;
- relationships with key stakeholders;
- propriety, fraud and other leakage;
- project management;
- risk management;
- relationship with the Audit Committee; and
- the functioning of Board meetings.

The overall assessment was that the Board functioned effectively with high quality involvement of Ministers.

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 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 are responsible for the 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 at least quarterly. A separate report by the chairman of the Audit Committee on the Committee's work in 2013-14 is annexed to this governance statement.

The Audit Committee in 2013-14 had three members: John Aldridge (chair), Edward Adams, and Charlotte Barbour. Charlotte Barbour is Head of Taxation (Private Clients and Small Business) at the Institute of Chartered Accountants of Scotland. There were five meetings during the year. Each member of the Committee attended all of the Committee's meetings.

The National Audit Office and the Internal Audit Directorate of the Ministry of Justice attend the Audit Committee. (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.

Risk Management

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 its regular 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 maintains its own risk register and the Scotland Office officials responsible for sponsoring the Commission routinely review risk with the Commission's Secretary; and
- 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.

In addition to formal risk management processes, risk identification and management form an integral part of the Offices' day to day work in providing policy and legal advice to Ministers and are routinely discussed in submissions and other briefings.

Additionally the Offices produced a risk management policy which was reviewed by the Audit Committee and refined in the light of its advice. The policy provided an additional tool to assist senior managers in assessing the risks carried by the two Offices.

The risk registers cover policy, communications and corporate matters. The Offices did not have any risks assessed as high risk. Risks which were consistently assessed as very low were removed from the registers.

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 and the provision of services by others to the Offices. Policy risks largely related to the successful management of the devolution settlement. During the course of SR 2010 (financial years 2011-12 to 2014-15) the policy challenges facing the Offices have increased very significantly but financial provision has declined, and risk management has revolved around reconciling these opposing pressures.

Review of effectiveness

As Accounting Officer I have a number of sources of assurance, some internal to the Offices and some external. In this statement I have already described the assurance that is provided to me by the regular contact I have with the Director of the Office of the Advocate General, and the Scotland Office's Deputy Directors, both through the regular meetings of the Scotland Office Senior Management Team and through the close contact I have with all of them which is greatly facilitated by the sizes of the two Offices.

The most important external source of assurance is provided by the Offices' non-executive directors and the Audit Committee. The chair of the Audit Committee's report on its work in 2013-14 is in Annex B to this chapter.

Internal Audit services are provided to the Scotland Office and the Office of the Advocate General by the Ministry of Justice. Our auditors in the Ministry of Justice and in the National Audit Office also provide internal audit services to the Northern Ireland Office and the Wales Office and their analysis and opinion is therefore informed by their knowledge of our closest comparators in government.

During 2013-14 Internal Audit reports were produced on the following subjects and made available to the Audit Committee:

- Gifts and hospitality policy and procedures;
- Travel and subsistence policy and procedures; and
- The use of Government procurement cards.

Our Internal Auditors also did the fieldwork for an audit of whistleblowing procedures, but did not complete their report on this subject in 2013-14.

Internal Audit uses a four levels rating for systems (green, amber-green, amber-red, red). All three audit reports produced in 2013-14 were rated green.

External audit is provided by the National Audit Office on behalf of the Comptroller and Auditor General. His certificate and report on these accounts is at chapter 8. I am very grateful to his staff for the advice they have given to the Audit Committee throughout the year. In addition to these departmental accounts the National Audit Office also audited:

- the National Loan Fund accounts 2013-14, and
- the Scottish returning officers accounts for expenses in UK, Scottish and EU parliamentary elections for 2013-14.

Propriety and Assurance

In my governance statement for 2012-13 I reported that in January 2013 an examination was carried out into transactions that had been entered into using Government Procurement Cards (GPCs). I also reported a number of new controls on the use of Government Procurement Cards had been instituted and that the Offices' hospitality policy had been clarified. Our Internal Auditors were asked to investigate if there any further measures that should be taken, and all their investigations during 2013-14 were designed to test the adequacy of our new controls and procedures. These audits are described above.

In the Scotland Office, the Office of the Advocate General, and the Boundary Commission for Scotland, during 2013-14, 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 2013-14, I can report that there were no significant weaknesses in the systems of internal controls operated by the Offices and the Boundary Commission which affected the achievement of their policies, aims and objectives.

Alun Evans

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

11 July 2014

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

Corporate governance in central government departments: code of good practice was published in July 2011. The code sets out the principles and provisions relating to the role and responsibilities, composition, and functions of departmental boards. In the Offices' annual report for 2012-13 there is a detailed description of the areas where the Scotland Office and the Office of the Advocate General have chosen to depart from the code so as to ensure that corporate governance in the Offices is fit for purpose. The purpose of this annex is to summarise those differences.

Where the Offices have chosen not to comply with the code this is because their small size and limited resources make some of the provisions in the code unnecessary or disproportionate.

- The Directors of the Offices do not set out management structures formally for the Board each year (paragraph 2.15).
- The Board does not include a professionally qualified finance director, but the Offices' finance manager routinely attends board meetings (paragraph 3.3).
- The Board is not comprised of approximately equal numbers of ministers, officials and non-executive members (paragraph 3.3). The Offices considered it unnecessary to have more than two non-executive members and has more officials than ministers among its members. However in 2013-14 the number of senior officials, other than the Directors of the two Offices, was reduced to three.
- Since the Offices do not have a Permanent Secretary, but separate directors accountable to the Director General, Deputy Prime Minister's Office, the provision in the code under which the non-executive members can recommend the Permanent Secretary's removal are not strictly relevant to the Offices' circumstances (paragraph 3.6).
- The Offices have not thought it necessary to have a documented de minimis threshold for seeking board advice on policy proposals (paragraph 3.10).
- The Offices do not have a nominations and governance committee (paragraph 2.5, 4.3 to 4.5). The small size of the Offices and their use of staff on assignment and secondment from other government bodies makes a nominations committee unnecessary, and the Joint Management Board oversees governance in the Offices.
- 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 (paragraph 4.11).

Annex B: Annual Report of the Audit Committee

Scotland Office/Office of The Advocate General Audit Committee

Report for the year 2013-2014 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 2013-14, 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 2013-14. One meeting was held in London, with the others taking place in Edinburgh. In addition a short meeting facilitated by video conference was held to look at the resource accounts.

Membership

The members of the Committee in post as at 1 April 2013 – 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. The terms of office of all three members are due to expire at the same time. In order to promote continuity it was agreed that those dates should be staggered. New appointments will be subject to more objective recruitment arrangements; and to give time for them to be developed, the process is expected to start in the autumn of 2014. In seeking to refresh the

Committee, it was agreed that it would be helpful to recruit someone with professional experience of Scots law. Members continued to be paid a daily rate for their duties.

Terms of Reference and Self-Assessment

The Committee's Terms of Reference were kept under review during the year. The Committee intends to review its own performance – including a formal review of its terms of reference, during the early part of 2014-15. 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 Committee were conscious that the Offices coped with an extraordinarily high level of activity, not only in connection with the planned referendum on Scottish Independence, but also – perhaps less predictably - in the shape of litigation work on behalf of other Government Departments, notably immigration related cases, while also continuing to deal with more routine work. During the year the Committee sought to ensure that it paid appropriate attention to all these aspects of the work of the Offices. We were satisfied with the way they were handled, while noting the constraints imposed by the constant pressure to constrain 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 kept the risk registers under review, continuing with the practice introduced the previous year of considering one risk in depth at each meeting. Our consideration consisted in receiving a report on how the risk was managed and what steps were being taken to mitigate it. We found these sessions useful in exploring the issues faced by the Offices. In general we were satisfied that the risk management process appeared to be working well.

We noted with pleasure the conclusion of the preparation stage of the business continuity planning arrangements which we had been pursuing for some time. We now look forward to them being tested regularly to ensure they remain fit for purpose.

The Committee took an interest in revised procedures designed to reduce the risk of the possible misuse of Government procurement cards. As a result, the Committee will now review each year the gift and hospitality registers of the offices. The Committee will also be part of new whistleblowing arrangements designed to reassure staff who wish to raise an issue that they will be able to do so without their name being available to the person about whom the concern is raised. In short, Audit Committee members' contact details are available to all staff should they wish to raise an issue and for whatever reason do not wish to do so through official channels. Committee members attended meetings in each of the three buildings occupied by the Offices' staff to explain the new arrangements and to answer any questions.

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, and offering helpful advice. 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 in connection with the Independence referendum. We were pleased to note the awareness of both senior staff and Ministers of the risks to propriety in the hectic months of campaigning. The Committee will also seek to develop its own effectiveness, particularly in connection with the welcoming of new members to the Committee during the year.

April 2014

Chapter 8: 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 the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my 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 2014 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 2014 and of the Department's 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 the Strategic Report and the Directors' 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.

Sir Amyas C E Morse
Comptroller and Auditor General

14 July 2014

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

Chapter 9: Public Expenditure Financial Tables

TABLE 1: The Scottish Block 2009-10 to 2015-16

	2009-10 outturn £'000	2010-11 outturn £'000	2011-12 outturn £'000	2012-13 outturn £'000	2013-14 Provisional outturn £'000	2014-15 plans £'000	2015-16 plans £'000
Scotland Office & Office of the Advocate General (OAG) ^{(1) (2)}							
Scotland Office & OAG ⁽³⁾							
Scotland Office & OAG Administration Costs	7,530	7,688	6,833	7,083	7,219	6,193	5,697
Scotland Office & OAG - Other ⁽³⁾	557	188	298	281	132	235	187
Scotland Office & OAG - Non-voted election costs	10,237	10,703	13,777	(90)	583	-	-
Scotland Office & OAG Resource⁽³⁾	18,324	18,579	20,908	7,274	7,934	6,428	5,884
Scotland Office & OAG Capital	-	-	-	68	-	55	25
Scotland Office & OAG Resource + Capital DEL⁽³⁾	18,324	18,579	20,908	7,342	7,934	6,483	5,909
<i>less depreciation & impairments</i>	(20)	(16)	(14)	(12)	(19)	(30)	(30)
Scotland Office & OAG DEL⁽⁴⁾	18,304	18,563	20,894	7,330	7,915	6,453	5,879

Table 1b - Scottish Government DEL & Total Scottish Block

Scottish Government ^{(1) (2) (7)}							
Scottish Government Resource ⁽³⁾	25,488,688	26,151,241	25,812,097	26,123,684	26,136,359	26,628,649	26,817,660
Scottish Government Capital	3,926,513	3,283,549	2,731,882	2,938,891	2,882,735	2,900,538	3,041,056
Scottish Government DEL ^{(3) (7)}	29,415,201	29,434,790	28,543,979	29,062,575	29,019,094	29,529,187	29,858,716
<i>less depreciation & impairments</i>	(636,802)	(564,468)	(623,149)	(782,955)	(672,372)	(820,285)	(1,031,307)
Scottish Government DEL ^{(4) (7)}	28,778,399	28,870,322	27,920,830	28,279,620	28,346,722	28,708,902	28,827,409
Scotland Office DEL ⁽⁴⁾	18,304	18,563	20,894	7,330	7,915	6,453	5,879
Total Scottish Block ^{(4) (5) (6)}	28,796,703	28,888,885	27,941,724	28,286,950	28,354,637	28,715,355	28,833,288

⁽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 2011-12 to 2015-16 since publication of 2012-13 Report & Accounts

	2011-12 Outturn	2012-13 Outturn	2013-14 Provisional Outturn	2014-15 Plans	2015-16 Plans
	£m	£m	£m	£m	£m
Capital DEL plus Resource DEL: June 2013	28,544.0	29,156.5	29,075.4	29,370.9	-
Interdepartmental transfers					
from MOJ: Administrative Justice Tribunal Council	-	-	-	0.1	-
from DWP: Council Tax Support Administration	-	-	-	7.1	-
from DCMS: Broadband	-	-	7.7	-	-
From DECC: Green Deal	-	-	14.0	-	-
Spending Policy					
2013 Spending Round outcome	-	-	-	-	29,670.6
Budget Exchange	-	-	186.3	-	-
Coastal Communities Fund	-	-	2.1	-	-
Student Loan Impairment	-	-	49.0	-	-
Forth Replacement Crossing	-	-	-	-	(21.0)
G8 Policing	-	-	2.4	-	-
Scottish Cultural Collections Reserves	-	-	10.0	-	-
Barnett Consequentials					
Autumn Statement 2013	-	-	1.0	114.5	182.4
Budget 2014	-	-	-	36.5	26.7
Departmental outturn (underspend compared to final plans)					
Provisional Outturn 2012-13	-	(93.9)	-	-	-
Final Outturn 2012-13	-	-	-	-	-
Estimated Outturn 2013-14	-	-	(328.8)	-	-
Budgeting Changes					
Record non cash expenditure of Police & Fire	-	-	-	-	-
Subtotal	-	(93.9)	(56.3)	158.2	29,858.7
Capital DEL plus Resource DEL: June 2014	28,544.0	29,062.6	29,019.1	29,529.2	29,858.7

TABLE 3: Cash grant paid to the Scottish Consolidated Fund 2012-13: Provision and Final Outturn

	Original Provision £m	Final Provision £m	Final Outturn £m
Expenditure Classified as Departmental Expenditure Limit ^{(1) (2)}	28,445.325	28,980.149	28,689.629
Expenditure Classified as Annually Managed Expenditure	3,116.812	3,148.317	2,948.090
Non Domestic Rates	2,263.000	2,263.000	2,263.000
Total Managed Expenditure	33,825.137	34,391.466	33,900.719
Adjustments to cash requirement			
Non-budgetary cash items	284.000	284.000	283.154
Depreciation and Impairments	(730.222)	(1,050.613)	(1,011.878)
Other Cash to accruals adjustments	(2,218.275)	(2,155.645)	(2,866.285)
Non Domestic Rates Income	(2,263.000)	(2,263.000)	(2,263.000)
National Insurance Fund Payments towards Scottish NHS	(1,724.076)	(1,724.076)	(1,904.746)
Other items including non-voted expenditure	(11.500)	(11.500)	(24.928)
Fossil Fuel Levy cash transfer of funds	-	(206.000)	(206.000)
Closing balance in Scottish Consolidated Fund	-	-	205.364
Cash grant paid to Scottish Consolidated Fund	27,162.064	27,264.632	26,112.400

⁽¹⁾ Resource and capital DEL including depreciation.

⁽²⁾ DEL figure does not reflect the Machinery of Government transfer from DWP: Council Tax Benefit effective from 2013-14 onwards.

TABLE 4: Cash grant paid to the Scottish Consolidated Fund 2013-14: Provision & Provisional Outturn

	Original Provision £m	Final Provision £m	Provisional Outturn £m
Expenditure Classified as Departmental Expenditure Limit ⁽¹⁾	29,075.382	29,347.852	29,019.094
Expenditure Classified as Annually Managed Expenditure	3,081.456	3,218.884	3,027.991
Non Domestic Rates	2,435.000	2,435.000	2,435.000
Total Managed Expenditure	34,591.838	35,001.736	34,482.085
Adjustments to cash requirement			
Non-budgetary cash items	280.812	280.812	280.812
Depreciation and Impairments	(871.213)	(1,025.409)	(848.273)
Other Cash to accruals adjustments	(1,942.555)	(2,075.732)	(2,637.158)
Non Domestic Rates Income	(2,435.000)	(2,435.000)	(2,435.000)
National Insurance Fund Payments towards Scottish NHS	(1,724.076)	(1,724.076)	(1,841.194)
Other items including non-voted expenditure	(11.500)	(11.500)	(31.296)
Closing balance in Scottish Consolidated Fund	–	–	206.107
Cash grant paid to Scottish Consolidated Fund	27,888.306	28,010.831	27,176.083

⁽¹⁾ Resource and capital DEL including depreciation.

**TABLE 5: Cash grant paid to the Scottish Consolidated Fund 2014-15:
Provision**

	Original Provision £m
Expenditure Classified as Departmental Expenditure Limit ⁽¹⁾	29,529.187
Expenditure Classified as Annually Managed Expenditure	4,155.528
Non Domestic Rates	2,649.500
Total Managed Expenditure	<u>36,334.215</u>
Adjustments to cash requirement	
Non-budgetary cash items	130.404
Depreciation and Impairments	(920.285)
Other Cash to accruals adjustments	(3,168.844)
Non Domestic Rates Income	(2,649.500)
National Insurance Fund Payments towards Scottish NHS	(1,724.076)
Other items including non-voted expenditure	(11.500)
Cash grant paid to Scottish Consolidated Fund	<u>27,990.414</u>

⁽¹⁾ Resource and capital DEL including depreciation.

Chapter 10: Financial Statements

Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) requires the Scotland Office to prepare a Statement of Parliamentary Supply and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

Summary of Resources and Capital Outturn 2013-14

	£000	2013-14							2012-13
		Estimate			Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Total	
Note	£000	£000	£000	£000	£000	£000	£000	£000	
Departmental Expenditure Limit									
- Resource	SOPS 2.1	7,590	-	7,590	7,351	583	7,934	239	7,274
- Capital	SOPS 2.2	16	-	16	-	-	-	16	68
Annually Managed Expenditure									
- Resource	SOPS 2.1	-	-	-	-	-	-	-	-
- Capital	SOPS 2.2	-	-	-	-	-	-	-	-
Total Budget		7,606	-	7,606	7,351	583	7,934	255	7,342
Non-Budget									
- Resource	SOPS 2.1	28,010,831	-	28,010,831	27,176,083	-	27,176,083	834,748	26,112,400
Total		28,018,437	-	28,018,437	27,183,434	583	27,184,017	835,003	26,119,742
Total Resource		28,018,421	-	28,018,421	27,183,434	583	27,184,017	834,987	26,119,674
Total Capital		16	-	16	-	-	-	16	68
Total		28,018,437	-	28,018,437	27,183,434	583	27,184,017	835,003	26,119,742

Net Cash Requirement 2013-14

£000	Note	2013-14 Estimate	2013-14		2012-13
			Outturn	Outturn compared with Estimate: saving/ (excess)	
Net Cash Requirement	SOPS 4	28,018,376	27,183,424	834,952	26,120,016

Administration Costs 2013-14

		Estimate 2013-14	Outturn 2013-14	Outturn 2012-13
Administration Costs	SOPS 3	7,379	7,219	7,083

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate limit, any breach of the administration budget will also result in an excess vote.

Explanations of variances between Estimate and outturn are given in the Financial Commentary.

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

The notes on pages 80 to 95 form part of these accounts.

Notes to the Departmental Resource Accounts (Statement of Parliamentary Supply)

SOPS1. Statement of Accounting Policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting Convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system, and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness,
- and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS Based Accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences.

SOPS1.3 Prior Period Adjustments (PPAs)

PPAs resulting from an error in previous recording, or from an accounting policy change initiated by the department, need to be voted by Parliament in the current year, whereas in IFRS-based accounts (IAS 8) they are treated as adjustments to previous years. (PPAs resulting from a change in accounting policy brought in by a

new or modified accounting standard are not included in Estimates, so there is no misalignment.)

SOPS1.4 Receipts in Excess of HM Treasury Agreement

This applies where HM Treasury has agreed a limit to income retainable by the department, with any excess income scoring outside of budgets, and consequently outside of the Statement of Parliamentary Supply. IFRS-based accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas:

- (i) profit/loss on disposal of assets;
- (ii) income generation above department Spending Review settlements; and
- (iii) income received above netting-off agreements.

SOPS1.5 Provisions - Administration and Programme Expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for national accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the Statement of Parliamentary Supply across AME and DEL control totals, which do not affect the Statement of Comprehensive Net Expenditure. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply differ from that reported in the IFRS-based accounts. A reconciliation is provided in SoPS note 3.2.

The notes on pages 80 to 95 form part of these accounts.

SOPS 2. Net Outturn

SOPS 2.1 Analysis of Net Resource Outturn by Section

2013-14											2012-13
Outturn							Estimate			Outturn	
Administration			Programme			Total	Net total	Net total compared to Estimate	Net total compared to Estimate adjusted for virements	Net Total	
Gross	Income	Net Total	Gross	Income	Net Total	Net Total					
£000	£000	£000	£000	£000	£000	£000	£000	£000		£000	

Spending in Departmental Expenditure Limit (DEL)

Voted											
A - Scotland Office & Office of the Advocate General	10,868	3,649	7,219	-	-	-	7,219	7,379	160	160	7,083
B - Boundary Commission for Scotland				132	-	132	132	211	79	79	281
Total Voted Expenditure in DEL	10,868	3,649	7,219	132	-	132	7,351	7,590	239	239	7,364
Non-Voted											
C - Election Expenses	-	-	-	583	-	583	583	-	(583)	(583)	(90)
Total Non-Voted	-	-	-	583	-	583	583	-	(583)	(583)	(90)
Non-Budget											
D - Grant to the Scottish Consolidated Fund	-	-	-	27,176,083	-	27,176,083	27,176,083	28,010,831	834,748	834,748	26,112,400
Total Non-Budget	-	-	-	27,176,083	-	27,176,083	27,176,083	28,010,831	834,748	834,748	26,112,400
Total	10,868	3,649	7,219	27,176,798	-	27,176,798	27,184,017	28,018,421	834,404	834,404	26,119,674

2.2 Analysis of net capital outturn by section

2013-14					2012-13
Outturn			Estimate		Outturn
Gross	Income	Net Total	Net total	Net total compared to Estimate	
£000	£000	£000	£000	£000	£000

Spending in Departmental Expenditure Limit (DEL)

Voted Expenditure						
A - Scotland Office & Office of the Advocate General	-	-	-	16	16	68
Total Voted Expenditure in DEL	-	-	-	16	16	68
Total for Estimate	-	-	-	16	16	68
of which:						
Total Voted in Estimate	-	-	-	16	16	68

The notes on pages 80 to 95 form part of these accounts.

SOPS 3. Reconciliation of Outturn to Net Operating Cost and Against Administration Budget

SOPS 3.1 Reconciliation of Resource Outturn to Net Operating Cost

		2013-14 £000	2012-13 £000
	Note	Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply			
Budget	SOPS 2.1	7,934	7,274
Non-Budget	SOPS 2.1	27,176,083	26,112,400
		<u>27,184,017</u>	<u>26,119,674</u>
Add:			
Capital grants		-	-
Other		-	-
		<u>27,184,017</u>	<u>26,119,674</u>
Less:			
Income payable to the Consolidated Fund		-	-
Other		-	-
		<u>27,184,017</u>	<u>26,119,674</u>
Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure		<u>27,184,017</u>	<u>26,119,674</u>

3.2 Outturn Against Final Administration Budget

		2013-14 £000	2012-13 £000
	Note	Outturn	Outturn
Estimate - Administration costs limit		7,379	7,303
Outturn - Gross administration costs		10,868	9,865
Outturn - Gross income relating to administration costs		(3,649)	(2,782)
Outturn - Net administration costs		<u>7,219</u>	<u>7,083</u>
Reconciliation to operating costs:			
Less: Provisions utilised (transfer from programme)		-	-
Less: Other		-	-
Administration Net Operating Costs		<u>7,219</u>	<u>7,083</u>

The Parliamentary control on administrative costs applies to departments as per FReM chapter 11.

The notes on pages 80 to 95 form part of these accounts.

SOPS 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	SOPS 2.1	28,018,421	27,183,434	834,987
Capital Outturn	SOPS 2.1	16	-	16
Accruals to cash adjustment				
Adjustments to remove non-cash items:				
Depreciation		(20)	(19)	(1)
New provisions and adjustments to previous provisions		-	-	-
Department unallocated provision		-	-	-
Supported capital expenditure		-	-	-
Prior period adjustments		-	-	-
Other non-cash items		(41)	(41)	-
Adjustments for NDPBs:				
Remove voted resource and capital		-	-	-
Add cash grant in-aid		-	-	-
Adjustments to reflect movements in working balances:				
Increase/(decrease) in stock		-	-	-
Increase/(decrease) in receivables		-	(1,688)	1,688
Increase/(decrease) in payables		-	1,738	(1,738)
Use of provisions		-	-	-
Removal of non-voted budget items:				
Consolidated Fund Standing Services		-	-	-
Other adjustments		-	-	-
Net cash requirement		28,018,376	27,183,424	834,952

The notes on pages 80 to 95 form part of these accounts.

SOPS 5. Income Payable to the Consolidated Fund

5.1 Analysis of Income Payable to the Consolidated Fund

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

	2013-14	2012-13
	£000	£000
Operating income outside the ambit of the Estimate	-	-
Excess cash surrenderable to the Consolidated Fund	-	-
Total income payable to the Consolidated Fund	-	-

5.2 Consolidated Fund Income

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

	2013-14	2012-13
	£000	£000
Forfeited election deposits and interest	(6)	(3)
Fines and penalties	(31,347)	(26,310)
Other income	(1,116)	(568)
Less:		
Costs of collection - where deductible	-	-
Uncollectible debts	-	-
Amount payable to the Consolidated Fund	(32,469)	(26,881)
Balance held at the start of the year	-	-
Payments into the Consolidated Fund	32,469	26,881
Balance held on trust at the end of the year		

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.

The notes on pages 80 to 95 form part of these accounts.

Statement of Comprehensive Net Expenditure

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

for the year ended 31 March 2014

		2013-14	2012-13
		£000	£000
	Note	<u> </u>	<u> </u>
Administration Costs			
Staff Costs	3	6,215	5,765
Other Costs	4	4,653	4,100
Income	6	(3,649)	(2,782)
Programme Costs			
Staff Costs	3	101	160
Other Costs	5	31	121
Grant to the Scottish Consolidated Fund	5	27,176,083	26,112,400
Election Expenses	5	583	(90)
NLF interest payable		46,521	48,997
NLF interest receivable		(46,521)	(48,997)
Net Operating Costs for the year ended 31 March 2014		<u>27,184,017</u>	<u>26,119,674</u>
Total Expenditure		27,234,187	26,171,453
Total Income		(50,170)	(51,779)
Net Operating Costs for the year ended 31 March 2014		<u>27,184,017</u>	<u>26,119,674</u>
Other Comprehensive Net Expenditure		1	-
Total comprehensive expenditure for the year ended 31 March 2014		<u>27,184,018</u>	<u>26,119,674</u>

The notes on pages 80 to 95 form part of these accounts.

Statement of Financial Position

This Statement presents the financial position of the Scotland Office and Office of the Advocate General. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

as at 31 March 2014

		31 March 2014	31 March 2013
		£000	£000
	Note	<u> </u>	<u> </u>
Non-current assets:			
Property, plant and equipment	7	100	118
Financial assets (NLF)	9	692,175	697,281
Total non-current assets		692,275	697,399
Current Assets:			
Trade and other receivables	12	1,354	955
NLF receivables	12	14,864	16,952
Cash and cash equivalents	11	131	172
Total current assets		16,349	18,079
Total Assets		708,624	715,478
Current liabilities			
Trade and other payables	13	(1,761)	(1,453)
NLF payables	13	(14,864)	(16,952)
Total current liabilities		(16,625)	(18,405)
Non-current assets plus/less net current assets/liabilities		691,999	697,073
Non-current liabilities			
Other payables (NLF)	13	(692,175)	(697,281)
Total non-current liabilities		(692,175)	(697,281)
Assets less liabilities		(176)	(208)
Taxpayers' Equity and other reserves			
General fund		(177)	(208)
Revaluation Reserve		1	-
Total equity		(176)	(208)

The notes on pages 80 to 95 form part of these accounts.

Alun Evans

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

11 July 2014

Statement of Cash Flows

The Statement of Cash Flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the departments' future public service delivery. Cash flows arising from financing activities include Parliamentary Supply and other cash flows, including borrowing.

for the period ended 31 March 2014

		2013-14	2012-13
		£000	£000
	Note		
Cash flows from operating activities			
Net operating cost		(27,184,017)	(26,119,674)
Adjustments for non-cash transactions	4	60	53
(Increase)/Decrease in trade and other receivables		1,688	27,380
Less: Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		(2,088)	(27,456)
Increase/(Decrease) in trade payables		(1,779)	(28,789)
Less: Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		2,712	27,617
Closing account in year movement			
Net cash outflow from operating activities		(27,183,424)	(26,120,869)
Cash flows from investing activities			
Purchase of Plant & Machinery and Fixtures and Furnishings	7	-	(16)
(Repayments) from other bodies	10	7,106	34,106
Net cash outflow from investing activities		7,106	34,090
Cash flows from financing activities			
From the Consolidated Fund (Supply) - Current Year		27,183,383	26,119,800
From the Consolidated Fund (Non-supply)		-	-
Repayment of loans from the National Loans Fund		(7,106)	(34,106)
Repayment of unspent election funding		-	(3,393)
Net financing		27,176,277	26,082,301
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(41)	(4,478)
Income payable to the Consolidated Fund		(32,469)	(26,881)
Income paid to the Consolidated Fund		32,469	26,881
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(41)	(4,478)
Cash and cash equivalents at the beginning of the period	11	172	4,650
Cash and cash equivalents at the end of the period	11	131	172

The notes on pages 80 to 95 form part of these accounts.

Statement of Changes in Taxpayer's Equity

This statement shows the movement in the year on the different reserves held by the Scotland Office and Office of the Advocate General, analysed into 'general fund reserves' i.e. those reserves that reflect a contribution from the Consolidated Fund. Financing and the balance from the provision of services are recorded here. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. Other earmarked reserves are shown separately where there are statutory restrictions of their use.

for the year ended 31 March 2014

	General Fund £000	Revaluation Reserve	Total Reserves £000
Balance as at 31 March 2012	(2,805)	-	(2,805)
Net Parliamentary Funding - draw down	(26,119,800)	-	(26,119,800)
Consolidated Fund Standing Services	3,393	-	3,393
Deemed Supply	(385)	-	(385)
Supply Payable	172	-	172
Closing account in year movement	-	-	-
Comprehensive Spending for the year	26,119,674	-	26,119,674
Non-Cash Adjustments:			
Non-cash charges - auditor's remuneration	(41)	-	(41)
Balance as at 31 March 2013	208	-	208
Net Parliamentary Funding - drawdown	(27,183,966)	-	(27,183,966)
Consolidated Fund Standing Services repaid	-	-	-
Deemed Supply	(172)	-	(172)
Supply Payable	131	-	131
Closing account in year movement	-	-	-
Comprehensive Spending for the year	27,184,017	-	27,184,017
Non-Cash Adjustments:			
Non-cash charges - auditor's remuneration	(41)	-	(41)
Other Reserve Movements:			
Fixed Assets	-	(1)	(1)
Balance as at 31 March 2014	177	(1)	176

The notes on pages 80 to 95 form part of these accounts.

Notes to the Accounts for the Year Ended 31 March 2014

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 2013-14 (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 Operating Segments

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

1.4 Property, Plant and Equipment

Valuation Basis

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

Valuation Method

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

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

Revaluation

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

Capitalisation Threshold – Individual Assets

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

Capitalisation Threshold – Grouped Assets

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

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

Depreciation

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

Estimated useful asset lives are within the following ranges:

- Freehold land Not depreciated;
- Grouped assets Various depending on individual asset types;
- Information technology Shorter of remaining lease period or 3 to 15 years;
- Plant and equipment Shorter of remaining lease period or 3 to 20 years;
- Furniture and fittings Shorter of remaining lease period or 5 to 20 years;
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 re-valued assets are sold, the amounts included in the Revaluation reserve are transferred to the General Fund.

Assets Under Construction

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

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

1.5 Intangible Assets

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

1.6 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.

1.7 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.

1.8 Employee Benefits

Employee Leave Accruals

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

Pensions

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

1.9 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.

1.10 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.

1.11 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.

1.12 Non-Cash Costs

Other

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

1.13 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% (2012–13: 2.2%).

1.14 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.

1.15 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.

1.16 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.

1.17 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 under the circumstances.

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

Lease Accounting

Judgement is required in the initial classification of leases as either operating leases or finance leases. Where a lease is taken out for land and buildings combined, both the building and the land elements may be capitalised as separate finance leases if they meet the criteria for a finance lease. If the contracted lease payments are not split between land and buildings in the lease contract the split is made based on the market values of the land and buildings at the inception of the lease.

1.18 Impending Application of Newly Issued Accounting Standards not yet Effective

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

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

HM Treasury will review the impact of this IAS on government departments when a final IAS has been issued.

IFRS 13 - Fair Value Measurement (effective from 1 January 2013). This standard has been prepared to provide consistent guidance on fair values measurement for all relevant balances and transactions covered by IFRS (except where IFRS 13 states otherwise).

The application of IFRS 13 is subject to further review by HM Treasury.

IAS 18 Replacement - Revenue Recognition and Liabilities Recognition (effective no later than 1 January 2015 as per Exposure Draft). This standard was reissued in November 2011, the Exposure Draft sought to develop a single conceptual model, and general principles, for determining when revenue should be recognised in the financial statements - replacing IAS 18 and IAS 11.

HM Treasury will consider the full impact of this IFRS when it has been issued.

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

2. Statement of Operating Costs by Operating Segment

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 Board 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.

	2013-14 £000					
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses	Total
Gross Expenditure	5,331	5,537	132	27,176,083	583	27,187,666
Income	(382)	(3,267)	-	-	-	(3,649)
Net Expenditure	4,949	2,270	132	27,176,083	583	27,184,017

	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)	-	-	-	(2,782)
Net Expenditure	4,566	2,517	281	26,112,400	(90)	26,119,674

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.

3. Staff Numbers and Related Costs

Staff costs comprise:

	2013-14				2012-13	
	£000				£000	
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Wages and salaries	-	4,665	237	60	4,962	4,661
Social security costs	-	400	24	6	430	409
Other pension costs	-	911	-	13	924	855
Sub Total	-	5,976	261	79	6,316	5,925
Less recoveries in respect of outward secondments	-	-	-	-	-	-
Total net costs	-	5,976	261	79	6,316	5,925

	2013-14		2012-13	
	Charged to Admin budgets	Charged to Programme budgets	Charged to Admin budgets	Charged to Programme budgets
Of which:				
Core Department	6,215	-	5,765	-
Other designated bodies (Boundary Commission)	-	101	-	160

The Scotland Office and the Office of the Advocate General does 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	2013-14				2012-13	
	Number				Number	
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Scotland Office	-	58	2	1	61	61
Office of the Advocate General	-	45	1	-	46	43
Boundary Commission	-	3	-	-	3	4
Total	-	106	3	1	110	108

The total number of staff in post as at 31st March 2014 of 105 (103.1 FTE) includes 4 agency member(s) of staff. All other staff are loaned or seconded from other Government bodies.

4. Other Administration Costs

	2013-14 £000	2012-13 £000
Rentals under operating leases	293	297
Accommodation Costs	1,238	1,169
Legal Costs	2,218	1,739
Travel and Subsistence Costs	526	552
Other Administrative Expenditure	318	290
Non-cash items:		
Depreciation	19	12
Auditors' remuneration and expenses	41	41
Total	4,653	4,100

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

This note relates to the expenditure of the Scotland Office and Office of the Advocate General. The total will normally be consistent with the costs included in the Administration costs in the Statement of Parliamentary Supply. Differences may arise due to treatment of provisions.

5. Programme Costs

	2013-14 £000	2012-13 £000
Grant paid to Scottish Consolidated Fund	27,176,083	26,112,400
Boundary Commission Operating Costs	31	121
Election expenses	583	(90)
Total	27,176,697	26,112,431

6. Income

	2013-14 £000	2012-13 £000
Hire of Office Facilities	(382)	(306)
Legal fees and charges to clients	(1,292)	(975)
Recovery of legal outlays from other Government Bodies	(1,975)	(1,501)
Total	(3,649)	(2,782)

7. Property, Plant and Equipment

2013-14	Leasehold improvements £000	Plant machinery & Equipment £000	Furniture & fittings £000	Total £000
Cost or valuation				
At 1 April 2013	52	92	63	207
Additions	-	-	-	-
Revaluation	1	-	-	1
Disposals	-	-	(17)	(17)
At 31 March 2014	53	92	46	191
Depreciation				
At 1 April 2013	-	(39)	(50)	(89)
Charged in year	(5)	(9)	(5)	(19)
Disposals	-	-	17	17
Revaluation	-	-	-	-
At 31 March 2014	(5)	(48)	(38)	(91)
Carrying amount at 31 March 2014	48	44	8	100
Carrying amount at 31 March 2013	52	54	12	118
2012-13	Leasehold improvements £000	Plant & machinery £000	Furniture & fittings £000	Total £000
Cost or valuation				
At 1 April 2012	-	80	59	139
Additions	52	12	4	68
At 31 March 2013	52	92	63	207
Depreciation				
At 1 April 2012	-	(31)	(46)	(77)
Charged in year	-	(7)	(5)	(12)
At 31 March 2013	-	(38)	(51)	(89)
Carrying amount at 31 March 2013	52	54	12	118
Carrying amount at 31 March 2012	-	49	13	62

8. Capital and Other Commitments

8.1 Operating Leases

	2013-14	2012-13
	£000	£000
Buildings		
Not later than one year	157	189
Later than one year and not later than five years	558	70
Later than five years	984	-
Total	1,699	259

9. Financial Instruments

9.1 Categories of Financial Instruments

		31st March	31 March
	Note	2014	2013
		£'000	£'000
Financial Assets			
Cash	11	131	172
<i>Loans and Receivables < 1 year</i>			
Receivables for goods and services (gross)			
Other receivables (gross)	12	11,111	10,801
National Loans Fund (Capital)		5,106	7,106
<i>Loans and Receivables > 1 year</i>			
National Loans Fund (Capital)	10	692,175	697,281
Carrying amount of Financial Assets		708,523	715,360
Financial Liabilities			
<i>Financial Liabilities at amortised cost</i>			
National Loans Fund (Capital)	10	(697,281)	(704,387)
Carrying amount of Financial Liabilities		(697,281)	(704,387)

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.

Advances from the National Loan 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 prior to devolution in 1999. Outstanding balances are included within Trade and Other payables.

10. Investments in Other Public Sector Bodies

	Loans funded from National Loans Fund
	£000
Cost or valuation	
At 1 April 2012	704,387
Adjustment	
Loans repayable within 12 months transferred to debtors	(7,106)
Balance at 31 March 2013	697,281
Loans repayable within 12 months transferred to debtors	(5,106)
Balance at 31 March 2014	692,175

History of Accounts

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

The National Loan Fund (NLF) outstanding balances at 31 March 2014 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.

11. Cash and Cash Equivalents

	2013-14	2012-13
	£000	£000
Balance at 1 April 2013	172	4,650
Net change in cash and cash	(41)	(4,478)
Balance at 31 March 2014	131	172
The following balances at 31 March 2014 were held at:		
Government Banking Service	131	172
Balance 31 March 2014	131	172

12. Trade Receivables Financial and Other Assets

	2013-14 £000	2012-13 £000
Amounts falling due within one year:		
VAT	69	124
Trade receivables	1,002	724
Deposits and advances	-	-
NLF interest receivables	9,757	9,846
Prepayments and accrued income	283	107
Current part of NLF loan	5,106	7,106
Total	16,217	17,907
	2013-14 £000	2012-13 £000
Amounts falling due after more than one year:		
Instalments due on NLF loans	692,175	697,281
Total	692,175	697,281

12.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14 £000	2012-13 £000	2013-14 £000	2012-13 £000
Balances with other central government bodies	15,944	17,834	692,175	697,281
Balances with local authorities	12	-	-	-
Balances with bodies external to government	261	73	-	-
Total receivable at 31 March	16,217	17,907	692,175	697,281

13. Trade Payables and Other Current Liabilities

	2013-14 £000	2012-13 £000
Amounts falling due within one year:		
Trade payables	22	120
NLF interest payable	9,757	9,846
Accruals and deferred income	1,608	1,161
Current part of NLF loans	5,106	7,106
Amounts issued from the Consolidated Fund for supply but not spent at year end	131	172
Total	16,624	18,405
Amounts falling due after more than one year:		
NLF loans	692,175	697,281
Total	692,175	697,281

13.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14 £000	2012-13 £000	2013-14 £000	2012-13 £000
Balances with other central government bodies	16,095	17,838	692,175	697,281
Balances with local authorities	130	-	-	-
Balances with bodies external to government	399	567	-	-
Total payable at 31 March	16,624	18,405	692,175	697,281

14. Contingent Liabilities disclosed under IAS 37

The Scotland Office and the Office of the Advocate General does not have any contingent liabilities.

15. 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, was a partner in Anderson Strathern until February 2014, 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 Government Departments have access. OAG has a role in administering the outsourcing arrangements for the 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 2013-14 totalled £281,500.

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

16. Entities within the Departmental Boundary

The entities within the boundary during 2013–14 were as follows:

List of entities analysed between:

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

17. 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 by the Accounting Officer.

This is interpreted as the same date the Accounts are certified by the Comptroller and Auditor General.

There are no material events to report.



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