



# Scotland Office and Office of the Advocate General for Scotland

**Annual Report and Accounts 2014-15**



Scotland Office  
and  
Office of the Advocate General  
for Scotland

Annual Report and Accounts 2014-15  
(For the year ended 31 March 2015)

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# Chapter 1: Ministerial Foreword

## **Foreword by the Secretary of State for Scotland**

The past year has been an historic one, both for Scotland and for the Scotland Office. It was an honour for me to serve as Parliamentary Under Secretary of State over this period and it was an even greater honour to be appointed as Secretary of State for Scotland in May 2015.

On 18 September last year, Scotland voted to remain part of the United Kingdom family. I am very grateful for the opportunity to lead the Scotland Office as we move forward with the next steps in Scotland's future.

I am proud to say that when people in Scotland made their choice last year, they did so after a well-informed and vigorous debate, to which both the UK and Scottish Governments contributed. The Scotland Office worked closely with other UK Government departments in order to deliver the Scotland analysis programme. This was an in-depth series of publications that set out the facts about what Scotland and the rest United Kingdom gain from being part of the same union and highlighted the choices that Scotland would have faced had we voted to become independent.

On 19 September 2014 the Smith Commission, chaired by Lord Smith of Kelvin, was established as a fully independent body to facilitate talks on the devolution of further powers to the Scottish Parliament. On 27 November 2014 Lord Smith published an agreement reached unanimously between all five main Scottish political parties on more powers for the Scottish Parliament.

The Scotland Office and Office of the Advocate General worked quickly to implement the recommendations set out by the Smith Commission and draft clauses for a new Scotland Bill were published on 22 January. This work made it possible to introduce the Bill at the beginning of this Parliament, which provides the opportunity to translate the Smith Commission's proposals into law as quickly as possible. It will then be for the Scottish Government to decide how to make use of the new powers and so in May 2016, people in Scotland will have an opportunity to vote for a new Scottish Parliament that will be responsible for raising money as well as spending it. Over the year, the Scotland Office also worked with Brian Wilson, Business Ambassador for the UK Government to deliver the Wilson Review, a review of Scottish international trade and the challenges faced by businesses. The Review, published in May 2014, made recommendations on improving support for Scottish businesses seeking to export. The Government's response published in March 2015 highlighted two linked and overarching themes: achieving greater collaboration, co-operation and alignment between the organisations serving Scottish exporters; and delivering simplicity and clarity across the diverse portfolios of high quality public and private export support available to Scotland.

The Scotland Office and Office of the Advocate General also helped fast track legislation that allowed 16 and 17 year olds to vote in the referendum on 18 September and gave further powers to the Scottish Parliament to allow them to independently oversee the operation of the spare room subsidy in Scotland. We worked with the three Scottish island councils and published a 'Framework for the Islands' setting out our commitments

to support Scotland's unique island communities and we supported the Borderlands initiative, helping the councils either side of the border to promote the interests of that region. We also worked with colleagues across the UK Government to support the oil and gas sector, provide a ground-breaking City Deal for Glasgow and help the Scotch Whisky and video games industries.

I would like to thank the excellent teams in the Scotland Office and the Office of the Advocate General for all that they have achieved in the last year and I look forward greatly to continuing to demonstrate to people in Scotland that we made the right choice in deciding to remain part of our United Kingdom.

A handwritten signature in black ink, appearing to read 'David Mundell'. The signature is written in a cursive style with a large initial 'D'.

Rt Hon David Mundell MP  
Secretary of State 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 2014-15. 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. I became Director of the Scotland Office and Principal Accounting Officer for the Scotland Office and the Office of the Advocate General on 1 February 2015 in succession to Alun Evans.

2014-15 was a year of great significance in Scotland's constitutional history and one that produced a substantial workload for all staff in both Offices. Officials rose to the challenges very successfully, supporting Ministers to contribute to the referendum debate with properly researched facts and in depth analysis. They also maintained increased levels of ordinary business in such areas as advising on and scrutinising legislation of both the UK Parliament and the Scottish Parliament, supporting UK departments in litigation in the Scottish courts, briefing Ministers so that they could represent Scotland in the UK Government and the UK Government in Scotland over a wide range of issues, and managing our resources meticulously.

The year 2015-16 largely coincides with the start of a new Parliament. Much of 2015-16 will be occupied with legislating for the recommendations of the Smith Commission, and then overseeing the implementation of those provisions. I am very confident that the staff of both Offices will continue to rise very professionally to the challenge.

**Francesca Osowska**

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

10 July 2015



# Chapter 3: Strategic Report

## Part 1: Scotland Office

### Role and Responsibilities

The Scotland Act 1998 identifies those matters that are reserved to the UK Parliament and where Scotland Office Ministers represent Scotland within the UK Government. Reserved matters include:

- National security;
- Defence;
- Foreign affairs (including the EU);
- The constitution;
- Most taxation (subject to the provisions of the Scotland Act 2012) and economic macro-management;
- Social security and welfare;
- Immigration and nationality;
- UK single market;
- UK and international transport;
- Energy regulation; and
- Broadcasting.

### Objectives in 2014-15

The Scotland Office supports the UK Government's objectives for Scotland and promotes the best interests of Scotland within the United Kingdom. In 2014-15 it sought to achieve this by pursuing the following objectives:

**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.

Performance against the first four objectives is considered below. Performance against objective 5 is described in chapter 4.

## **Objective 1: To inform the debate about Scotland's future in the UK ahead of the 2014 referendum**

2014 was a most important year in Scottish politics. It saw over 2 million people vote to remain part of the United Kingdom, the publication of the Smith Commission Agreement setting out extensive new powers for the Scottish Parliament, and the beginning of the process to devolve those powers.

The work undertaken by the Scotland Office during 2014-15 to support this effort was considerable, and included:

- Supporting Ministers during an intensive period of speeches and other engagements relating to the constitutional question, including a series of “community hall” sessions in communities and towns across Scotland from Aberdeen and Edinburgh to Islay;
- Supporting the UK Government’s Scotland Analysis Programme, an in depth programme of analysis considering the benefits to Scotland and to the UK, of Scotland staying in the UK; and
- A programme of engagement with civic Scotland and the public at large in the run up to the referendum. Among other activities the Government responded to demands from the public for simple, factual information in a clear format by issuing to every household *What Staying in the United Kingdom Means for Scotland*. The Scotland Office delivered a UK Government presence at major events such as the Royal Highland Show (which 180,000 people attended over 4 days), the Perth Show and the Black Isle Show. The Scotland Office also delivered over 10,000 direct mailings to key stakeholders informing them of the factual analysis set out in the Scotland Analysis Programme.

## **Objective 2: To support UK Government work to promote economic growth in Scotland**

### **The Scottish Economy**

During the year to April 2015, the economic recovery in Scotland became more embedded, and, as a result of two years of uninterrupted growth in economic activity, employment reached record highs, unemployment declined, and the number of people claiming job related benefits fell to a 6 year low.

In 2014, global oil prices fell by over 50%. While this brought benefits through lower energy and fuel prices, it had a negative impact on the North Sea oil and gas sector – predominantly located in the North East of Scotland but with a UK-wide supply chain. The Scotland Office engaged extensively with the oil sector to understand their particular concerns and needs, and the UK Government introduced a comprehensive package of measures at the Autumn Statement and the Budget of March 2015 to support the sector. This involved the introduction of a new investment allowance, a reduction in the Supplementary Charge from 30% to 20%, and reduced Petroleum Revenue Tax from 50% to 35%. The UK Government is also providing £20 million funding for a programme of seismic surveys.

The Budget of March 2015 also introduced a range of measures to support key sectors of the Scottish economy. These included a 2% cut in Scotch whisky duty, and a package of measures aimed at the Creative Industries, comprising among other things a new £4 million Video Games Prototype Fund. In addition, the UK government signed an ambitious City Deal for Glasgow and the Clyde Valley and will work with the Scottish Government and local partners towards City Deals for Aberdeen and Inverness.

### **The Scottish Business Board**

The Scottish Business Board was established by the Scotland Office in 2011 and provides the Secretary of State with advice on the effects of UK Government economic policy in Scotland.

The Board has been an invaluable source of advice for Ministers providing business's perspective on economic, constitutional and other policy issues. Members of the Board, supported by Scotland Office officials, have also carried out in depth analysis of key economic issues including:

- In May 2014, former Trade Minister Brian Wilson completed the *Wilson Review of Support for Scottish Exporting*. The findings were discussed at the British Business House in Glasgow during the Commonwealth Games. The UK Government published its response to the Report in March 2015 with the announcement that the Scotland Office, UK Trade and Investment (UKTI), the Scottish Government and Scottish Development International (SDI) would form a Scottish exporting joint working group to propose and deliver a practical, operational response to the recommendations raised in the Review; and
- In March 2015, Business Board member, Professor Lesley Sawers completed her independent review on '*The role and contribution of women in the Scottish economy*'. The Review was supported by the Scotland Office and engaged with individuals, businesses and organisations across Scotland to gain a fuller understanding of the issues and challenges which face women in the workplace. A Government response will be published in due course.

### **International Trade and Investment**

Promoting international trade and investment to support the Scottish economy played a substantial role in Scotland Office Ministers' work and international engagement throughout 2014-15. During the Commonwealth Games in Glasgow the Scotland Office

supported the British Business House, run by UK Trade and Investment (UKTI), and the Commonwealth Business Conference, run jointly by UKTI and Scottish Enterprise.

## **Shipbuilding**

Shipbuilding, particularly naval shipbuilding, continued to play a significant role in the Scottish economy.

On 4 July 2014, Her Majesty the Queen named a Royal Navy warship in Scotland with a bottle of the finest single malt Scotch Whisky. In recognition of the strategic importance of *HMS Queen Elizabeth*, the largest ship ever built for the Royal Navy. The Secretary of State for Scotland was in attendance, alongside the Prime Minister, the First Minister, the Secretary of State for Defence and the First Sea Lord and allies from around the world. Work to assemble the second of the Queen Elizabeth Class Carriers, HMS Prince of Wales, got underway at Rosyth in September 2014. There are currently around 4,000 jobs in shipyards in Scotland directly linked to the Queen Elizabeth Carriers programme, many in specialist manufacturing and engineering roles.

Scotland Office Ministers took a close interest in the Fergusons shipyard when it went in to administration in October, and were ready to help ensure state aids issues were addressed when the yard was rescued with new public sector ferry contracts.

In October, the Secretary of State participated in a ceremony at BAE Systems yard in Govan at which the first steel was cut for the building of the first of the UK's Offshore Patrol Vessels (OPV). The ship is expected to be delivered to the Royal Navy in 2017, and forms part of a £348 million contract with BAE Systems for three OPVs. The contract will safeguard approximately 800 Scottish jobs.

The Prime Minister announced in February 2015 that BAE Systems had been awarded a £859 million contract for the Demonstration Phase of the Type 26 Global Combat Ship (GCS). On current planning, and subject to a main gate decision, this will allow the manufacture phase to commence in Scotland in 2016 and maintain scheduled delivery of this new capability to the Royal Navy in 2022. This important contract will safeguard 600 jobs in Scotland.

## **Broadband**

2014-15 saw the continued roll out of the Superfast Britain rural broadband programme. With over £120m of investment the Scotland Office and UK Government continued to support the Scottish Government to bring fibre broadband to homes and businesses all over Scotland. Scotland is receiving 15.8% of the UK Government budget for rural broadband which is nearly double the population share. As a result of this work, around 95% of premises in Scotland will be covered by superfast broadband by 2017-18.

## **Air Connections**

The UK Government has extended and increased the Regional Air Connectivity Fund. This fund was originally announced in the 2013 Spending Round and is used to maintain important regional air connections, where they are in danger of being lost. In the 2014

budget it was extended to include start-up aid for new routes from regional airports and increased to £20 million per annum. The first airport to benefit from the fund was Dundee with air links between Dundee and London secured for two years with funding put in place in June 2014.

### **Objective 3: To ensure the UK Government serves the interests of all people in Scotland through the reserved policies it delivers**

#### **Energy: Renewables**

The Secretary of State visited a range of renewables companies throughout the year to ensure that the needs and aspirations of the sector were taken into full account in the development of UK energy policy. The Scotland Office and the UK Government supported low carbon electricity generation and in February announced support for a major 448 megawatt Scottish offshore wind farm project in the Firth of Forth.

One of the key issues for the renewables industry continued to be grid access for the Scottish Islands where the potential to generate renewable energy is greatest. The Scotland Office led work with the Our Islands Our Future campaign, and as part of this worked with DECC, to provide the Islands with the necessary information to support renewables developments beyond 2019 and the case for grid connections.

#### **Energy: Oil & Gas**

Scotland Office Ministers engaged directly with Oil & Gas UK and the wider industry including oil companies in the supply chain to hear about the contribution the sector makes to the Scottish economy and the issues associated with the fall in the global oil prices.

The Secretary of State attended the industry and Government PILOT meeting in London in January 2015 to discuss the challenges faced by the sector and he also represented the Government at the Oil & Gas summit in Aberdeen in February. In March the Secretary of State welcomed the President of Mexico, President Enrique Peña Nieto, to Aberdeen to sign a landmark Memorandum of Understanding on Oil & Gas cooperation, promoting the significant trade and export opportunities for companies in the North East and across the UK.

Scotland has a single oil refinery at Grangemouth, which, together with the interconnected petrochemical works and other industries in the area, plays a significant role in the Scottish economy as a whole. Ministers continued to take a close interest in the refinery and petrochemical works, and, with other UK Ministers, worked directly with all the main stakeholders at Grangemouth, and with John Swinney MSP, Deputy First Minister, to promote a stable future for the site.

#### **Defence**

There is a significant Defence footprint in Scotland with around 10,000 Regular Armed Forces personnel based here. Throughout the year, the Scotland Office had oversight of the basing review helping to ensure smooth implementation by working closely with the Armed Forces, the Ministry of Defence, and other stakeholders.

Scotland Office Ministers have worked closely with colleagues across UK Government to ensure that Scotland plays a full part in the UK military. As part of the plans to increase the size of the Reserve Forces, by 2018 there will be an estimated 4,250 trained Reserves in Scotland which will represent about 12% of the UK total.

During the summer of 2014 two Typhoon squadrons relocated to RAF Lossiemouth with a third squadron arriving in early 2015. RAF Lossiemouth is now primarily responsible for providing crews and aircraft at high states of readiness to police UK airspace and to intercept unidentified aircraft.

Scotland Office Ministers also supported MoD colleagues in the work at RAF Leuchars preparing for the station to be formally handed over to the Army. It will be home to the Royal Scots Dragoon Guards, 2 Close Support Battalion of the Royal Electrical and Mechanical Engineers, and 110 Provost Company of the Royal Military Police. It will also remain home to No 612 Squadron, 71 Engineer Regiment, the East of Scotland Universities Air Squadron and Number 12 Air Experience Flight.

On 28 June 2014, Stirling hosted the sixth Armed Forces Day National Event. This was a major celebration of the Armed Forces past and present, and was the second time that the national event had taken place in Scotland. The Parliamentary Under Secretary of State worked closely with Stirling Council and the Ministry of Defence to ensure that all necessary planning and marketing arrangements were in place to secure the success of the event.

On 4 August 2014 a special service was held at Glasgow Cathedral to commemorate the contribution of Commonwealth nations to the First World War. Following the end of the Glasgow Commonwealth Games it was attended by many delegations from across the Commonwealth. The service, the opening event in the UK Government's First World War commemorative event programme, and its delivery was led by the Scotland Office.

The contribution of naval shipbuilding to the Scottish economy during 2014-15 is described above under objective 2.

## **Welfare and Employment**

The Scotland Office continued to support the UK Government's work to promote economic growth in Scotland through Welfare Reform.

The Parliamentary Under Secretary visited all 32 Scottish local authorities and a number of Third Sector Interface groups to discuss the implications of welfare reform. These discussions helped to inform policy, including policy on foodbanks and the devolution of aspects of Discretionary Housing Payments (DHPs).

Ministers also appeared before Scottish Parliament Committees. The Parliamentary Under Secretary gave evidence to the Welfare Reform Committee in June 2014 and February 2015. Following the first of these appearances the Minister embarked on a series of meetings with all those witnesses that had previously given evidence to the Committee. He presented his findings on foodbanks to the Committee in February 2015.

Scotland Office officials worked to help turn the welfare recommendations of the Smith Commission Agreement into law. As set out in the draft Bill, the Scottish Parliament will be given significant powers to create new benefits in areas of devolved responsibility and to top up reserved benefits.

In December 2014 the Prime Minister announced the establishment of a Joint Ministerial Working Group on Welfare, co-chaired by the Parliamentary Under Secretary and Alex Neil MSP, Cabinet Secretary for Social Justice, Communities and Pensioners' Rights. It was established to provide a forum for discussion and decision-making to ensure the implementation of the welfare-related aspects of the Smith Commission Agreement, and brought together Ministers and officials from Department of Work and Pensions, HM Treasury, the Scotland Office and the Scottish Government.

The Secretary of State was joint Chair of the Scottish Employability Forum (SEF), alongside the Scottish Government and COSLA. SEF comprises key stakeholders and delivery bodies and takes forward work to address unemployment in order to support economic recovery.

### **Agriculture, Fisheries, Food and Drink and European Union Regulation**

The Scotland Office maintained regular contact with representatives from the agriculture, fisheries, food and drink sectors in order to represent their interests across the UK Government and within the European Union.

In June 2014, the Secretary of State for Scotland held discussions with the Shetland Fishermen's Association on the reformed Common Fisheries Policy and particularly on measures that can be taken to help fishermen meet the new EU landing obligations. In August 2014, the Scotland Office facilitated a visit by the DEFRA Secretary of State to Peterhead where she discussed how the UK Government could support the mackerel sector in the face of the Russian food import ban.

The Scotland Office contributed to the preparations for the negotiations on annual fisheries quotas which this year helped Ministers secure sustainable increases to quotas for many of Scotland's whitefish and prawns fleets at the December 2014 Council.

At the Royal Highland Show in June 2014 the Parliamentary Under Secretary accompanied the DEFRA Secretary of State. As well as meeting Scottish framers and food producers, the Ministers met Scottish food and drink businesses wanting to expand into international export markets. The Parliamentary Under Secretary also held meetings with Scottish dairy farmers to discuss the proposal to create a Scottish dairy farming college.

The Scotland Office maintained close links with the wider food and drink sector, through bodies such as the Scottish Food and Drink Federation. The Secretary of State also met regularly with the Whisky sector to discuss issues such as taxation and trade - an important consideration for an industry which accounts for a quarter of all UK food and drink exports. Budget 2015 saw the first cut in spirits duty in 20 years, a move widely welcomed by the industry.

## **The Islands**

The Scotland Office has led discussions with the 'Our Islands Our Future' campaign which was formed in September 2013. The campaign is about ensuring greater powers and influence for Shetland, Orkney and Comhairle nan Eilean Siar (Western Isles).

In August 2014, the Scotland Office delivered an agreement between the campaign and the UK Government on a 'Framework for the Islands', which sets out a series of commitments to ensure that the unique challenges associated with island life, such as their geographical remoteness, are considered within UK Government policy making.

## **National Security and Civil Contingencies**

The Scotland Office continued to fulfil its responsibilities in relation to national security and civil contingencies, working 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 at the Glasgow 2014 Commonwealth Games.

The Commonwealth Games' security arrangements were led by the Chief Constable of Police Scotland, but were dependent upon large numbers of military, police and other personnel drawn from across the UK. The success of the arrangements reflected the benefits of pooling resources and expertise across the UK within the framework of the devolution settlement.

The Scotland Office also worked with other UK departments, the Scottish Government and other responders on a range of civil contingencies, including preparing for the impact of industrial action in various sectors and domestic preparedness for Ebola.

## **International Relations and Development**

Scotland Office Ministers met a number of visiting Ministers and foreign diplomats in Edinburgh, London and, during the Commonwealth Games in Glasgow. In April 2014, the Secretary of State undertook a visit to Canada where he promoted economic growth, trade and cultural links between the UK and Canada and discussed the implementation of the Canada-EU Comprehensive Economic Trade Agreement (CETA). In March 2015, the Secretary of State visited the Faroe Islands where he discussed a range of bilateral UK/Faroe Islands issues, including broader energy, trade, fisheries and transport priorities.

The Secretary of State visited a number of organisations based in Scotland which have received funding from the Department for International Development. He also co-hosted, alongside DFID Parliamentary Under-Secretary of State, events to examine DFID's work in putting the issue of disability at the centre of international development, and to recognise the work of NHS volunteers, charities, DFID staff and UK military personnel in tackling the outbreak of Ebola in West Africa.

The Parliamentary Under Secretary maintained his interest in relation to development in Malawi, and took part in events organised by the Scotland-Malawi Partnership. The Advocate General for Scotland spoke on devolution in Scotland and the rest of the UK at the March 2015 session of the Council of Europe – Congress of Local and Regional Authorities in Strasbourg, France.



## **Objective 4: To maintain the devolution settlement by ensuring that devolution respects the needs of Scotland and the rest of the UK**

### **Scotland Act 2012**

The Scotland Act 2012 received Royal Assent on 1 May 2012 and the majority of the powers contained within it have already been implemented. During 2014-15 the Scotland Office co-ordinated work to implement the remaining provisions, including the tax-raising powers that are due to commence in April 2015 and April 2016.

The third annual report on the implementation of Part 3 (finance provisions) of the Scotland Act 2012, was published on 23 March 2015. The report sets out in detail the progress made since May 2014 to devolve the remaining financial provisions of the Scotland Act 2012.

The Scotland Office and HMRC continued to work with the Scottish Government to improve the identification of Scottish taxpayers in preparation for the introduction of the Scottish rate of income tax in 2016 and the Scotland Office will continue to work with HMRC, HM Treasury and the Scottish Government to ensure that the financial powers in the Scotland Act 2012 can be implemented. During the course of the year the Parliamentary Under Secretary visited HMRC offices in Cumbernauld and Aberdeen to examine at first hand the operational issues relating to the creation of Revenue Scotland and the devolution of tax raising powers under the Scotland Act 2012.

### **The Smith Commission**

Following the referendum, the Prime Minister asked Lord Smith of Kelvin to convene all five of Scotland's main political parties and reach a consensus on which additional powers should be devolved in order to improve the devolution settlement.

The Smith Commission Agreement was published on 27 November 2014 and recommended a significant package of new powers for the Scottish Parliament. The UK Government agreed to implement the Agreement in full and committed to publishing draft clauses setting out how this would be achieved by Burns Night (25 January 2015).

The Scotland Office led the cross-departmental effort to prepare the legislative provisions necessary to deliver the Agreement and the draft clauses were published on 22 January 2015 in the Command Paper *Scotland in the United Kingdom: An enduring settlement*. The forty-four clauses covered a broad range of powers, including constitutional matters, tax, welfare, transport and energy and will mean that, for the first time, over 50% of the public money spent in Scotland will be raised by the Scottish Parliament.

The Scotland Office delivered a programme of engagements after publication of the draft legislation, including events in Inverness, Aberdeen, Glasgow, Edinburgh and the Scottish Borders. The events were attended by over 500 people from the business and employment fields, third sector, public sector, schools and colleges, public health, as well as wider Civic Scotland. The feedback from these events was used to help revise the clauses that will form the Bill to be taken forward by the next Parliament.

In addition to the programme of public engagement, officials have worked directly with stakeholder contacts on a one-to-one basis to keep them apprised of the Smith Commission work.

The Scotland Office also led the effort to better explain the devolution settlement and how it is changing through the Scotland Act 2012 and the Smith Commission Agreement. The campaign used social media and local media, and distributed a booklet *Scotland's Changing* to every household to help raise awareness of the new powers.

### **Legislative Work to Maintain the Settlement**

The Scotland 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 in 2014-15 continued to work with counterparts in 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 2015 a total of 6 Government Bills contained elements which triggered the Sewel Convention and required the consent of the Scottish Parliament. A total of 9 LCMs were secured across the 6 Bills. Individual LCMs were required for the Criminal Justice and Courts Bill, the Infrastructure Bill and the Modern Slavery Bill. Additionally, an LCM was secured for the Health and Social Care (Safety and Quality) Private Members' Bill.

The Scotland Office took forward 20 Scotland Act Orders in 2014-15. The orders were taken through the House of Commons by the Parliamentary Under Secretary and through the House of Lords by the Advocate General for Scotland. The key orders delivered in 2014-2015 included devolving the power to Scottish ministers to manage the level of Discretionary Housing Payments provided by Scottish local authorities; the Same Sex Marriage Order which was delivered in time to allow the first same sex marriages to take place in Scotland at the end of 2014; and the Variation of Borrowing Powers which provided the Scottish Government with the power to issue bonds. Other Orders related to Children's Hearings, elections, the security of reservoirs and food safety.

### **UK Parliamentary Select Committees**

The Scotland Office performs a liaison function in relation to Parliamentary Select Committees, in particular with the Scottish Affairs Committee.

Scotland Office Ministers appeared before the Scottish Affairs Committee as part of their inquiries into The Referendum on Separation for Scotland and the Implementation of the Smith Commission Agreement. The Secretary of State gave evidence to the Committee on 5 November 2014 in respect of the Office's work in 2013-14 and its annual report and accounts for that year.

Scotland Office Ministers also appeared before the Lords' Constitution Committee as part of their inquiry into Inter-governmental relations in the UK and the Commons' Political and Constitutional Reform Committee as part of their inquiry into the future of devolution after the referendum and the constitutional implications of draft Scotland clauses.

Officials from the Scotland Office provided an informal briefing to the Scottish Affairs Committee and Political and Constitutional Reform Committee, at the request of the committees, following the publication of the draft Smith clauses

### **Elections and Boundaries**

The Scotland Office worked closely with the Cabinet Office to legislate for the continued introduction of individual electoral registration in Scotland. The Scotland Office was also involved in the development of legislation required for the Parliamentary general elections held in May 2015, particularly in ensuring that the regulations take account of specific Scottish circumstances.

## Part 2: Office of the Advocate General for Scotland

### Delivery of Objectives in 2014-15

The Office of the Advocate General (OAG) set the following strategic objectives for 2014-2015:

**Objective 1. Advice on Policy and Legislation Affecting Scotland.** We will advise UK government departments on the implications of their policies for Scotland and work with them to ensure UK legislation works for Scotland. We will review Scottish Parliament legislation in support of the Advocate General's statutory function under section 33 of the Scotland Act and engage with UK government departments and the Scottish Government to ensure implications of Scottish legislation are understood and competence issues are addressed.

**Objective 2. Protecting the UK Government's Interests in the Courts.** We will continue to discharge effectively litigation in the Scottish courts and tribunals and in the UK Supreme Court for departments such as Home Office, Department of Work and Pensions and HM Revenue & Customs. We will support the Advocate General in discharging his statutory functions under Schedule 6 to the Scotland Act.

**Objective 3. Scotland's Place Within the UK.** We will work to support Scotland's continuing place within the UK, including contributing to the cross-government Scotland Analysis programme.

**Objective 4. Helping to Ensure that Devolution Works.** We will work to ensure that the UK government operates effectively for Scotland in reserved areas and facilitate cooperation between Scotland's two administrations.

**Objective 5. Supporting Ministers.** We will work to ensure that UK government Ministers achieve their objectives in Scotland, and, in particular, support the Advocate General for Scotland and the Secretary of State for Scotland.

The activity which OAG undertook in 2014-15 to meet each of these objectives is summarised below.

### Objective 1: Advice on Policy and Legislation affecting Scotland

A fundamental aspect of OAG's work in 2014-15 was the provision of advice on Scots law to UK Government departments and agencies, including working with Bill teams on all Westminster legislation affecting Scotland. 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 instructed Scottish Parliamentary Counsel (UK) in the drafting of provisions for Scotland in Bills before the UK Parliament, drafted subordinate legislation on behalf of

UK Departments, and provided legal advice to UK Departments on Bills and subordinate legislation. In 2014-15, OAG was involved in instructing or advising on a wide range of UK Bills which have been consulted on in draft or introduced to Parliament, including:

- Consumer Rights Bill;
- Counter-Terrorism and Security Bill;
- Criminal Justice and Courts Bill;
- Deregulation Bill;
- Finance Bills;
- Health and Social Care (Safety and Quality) Bill;
- Insurance Bill;
- Modern Slavery Bill;
- National Insurance Contributions Bill;
- Pension Schemes Bill;
- Recall of MPs Bill;
- Serious Crime Bill;
- Small Business, Enterprise and Employment Bill; and
- Specialist Printing Equipment and Materials (Offences) Bill.

OAG also played a central role in preparing the draft clauses published by the UK Government in January 2015 following the Smith Commission Agreement, acting as lead lawyers. Work continued after publication of the clauses to prepare a Bill capable of introduction by an incoming administration after the General Election in May 2015.

As far as subordinate legislation is concerned, OAG was responsible for advising on the 20 Scotland Act Orders referred to in Part 1 of this report, covering a range of subjects including Children's Hearing, Elections, Reservoirs and Food. OAG also contributed to the preparation of a wide range of secondary legislation prepared by UK Government Departments.

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

During 2014-15, OAG was again involved in a wide variety of litigation on behalf of the UK Government and considered 33 civil devolution and 73 criminal 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

involves a challenge to the Scottish Government's legislation relating to minimum alcohol pricing and the appeal has now been referred to the European Court of Justice in Luxembourg for a preliminary ruling on EU law issues.

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 335 new cases were dealt with comprising 311 petitions for judicial review and 24 statutory applications for leave to appeal and statutory appeals. This represented a 15% increase in this work overall. There were also 20 reclaiming motions (appeals to the Inner House of the Court of Session). The immigration cases which OAG deals with on behalf of the Home Secretary, consistently comprise almost 80% of all the judicial review petitions before the Court of Session. The significant themes in 2014-15 were: claims challenging Home Office decisions relating to family life (Article 8 ECHR,); 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; challenges to Home Office decisions to remove students who were found to have cheated in their English Language test; challenges to immigration detention. In 2014-15 OAG also represented the Home Secretary in 3 appeals to the Supreme Court.

The Secretary of State for Work and Pensions was represented by OAG in more than 40 appeals to the Upper Tribunal, in 1 judicial review and in 2 statutory appeals to the Inner House of the Court of Session. A large number of this year's appeals related to the removal of spare room subsidy.

OAG's dedicated HMRC Division handled a high volume of litigation in 2014-15 on behalf of HM Revenue & Customs. A total of 66 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.

### **Objective 3: Scotland's Place Within the UK**

OAG undertook a variety of work in 2014-15 to support Scotland's continuing place within the UK. This included the work OAG undertook on legislation and litigation outlined above to help ensure the UK government takes proper account of the Scottish legal system and Scottish devolution in all of its activity, but in addition OAG played a central part in the UK government's work leading up to the independence referendum. This included a key role in preparation of the UK government's Scotland analysis programme and supporting the Advocate General's engagement with the legal community, for example, through a series of Advocate General forums to discuss constitutional matters attended by leading legal academics and practitioners. OAG also supported the Advocate General in his engagements in the run-up to the referendum, including giving various speeches and participating in debates.

## **Objective 4: Helping to ensure that Devolution Works**

OAG's legislative, advisory and litigation work was critical to meeting this objective in 2014-15. OAG's day-to-day work advising UK government departments to help ensure their policies and legislation take proper account of Scots law and the devolution settlement helped ensure that all of the primary Westminster legislation mentioned above operates effectively within the devolution settlement. Additionally, OAG played a leading role, in close conjunction with Scotland Office, in delivering the Scotland Act Orders referred to in part 1 of this chapter. Such orders are one of the key mechanisms by which the Scotland Act ensures continuing coherence of the settlement.

To support the meeting of this objective of 2014-15, we maintained our efforts to build networks with Whitehall Departments and this paid dividends, especially with Bill teams from across Whitehall and our biggest litigation clients, such as HMRC and Home Office. This activity included provision of a wide variety of seminars, training on devolution and other engagement with "client" departments throughout the year. OAG also maintained its well established strong links with the Attorney General's Office, Cabinet Office and Scotland Office, together with a range of other departments. Throughout 2014-15 we continued to engage with the Scottish Government to secure the delivery of common objectives and to resolve areas of disagreement in a proactive way.

## **Objective 5: 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. In 2014-15 the Advocate General was a member of a number of Ministerial Cabinet Committees including the Parliamentary Business and Legislation Committee which managed 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 advised and supported the Advocate General in relation to this statutory function, which is one of the fundamental checks and balances of devolution. OAG ensured that the relevant UK Government Departments were consulted in relation to the Advocate General's role under section 33 as regards particular Bills passed in 2014-15.

The Advocate General was also the official spokesperson in the House of Lords for the Scotland Office and the Attorney General's Office. He answered oral questions and steered certain legislation through the House on behalf of the UK Government. In the 2014-2015 session the Advocate General led for the Government in the House of Lords in the debate on the Queen's speech and on aspects of the Immigration Act 2014 and the Deregulation Act 2015 as well as taking Statutory Instruments for the Scotland Office through the House of Lords.

## Part 3: Sustainability Report

The data in this report is in accordance with the guidelines laid down by HM Treasury in the Government Financial Reporting Manual 2014-15 published at: <https://www.gov.uk/government/publications/government-financial-reporting-manual>

The Scotland Office and Office of the Advocate General do not solely occupy any of their 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 difficulties 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 significantly reduce environmental impact by 2014–15 (compared with a 2009–10 baseline). These commitments can be found at: <http://sd.defra.gov.uk/gov/green-government/commitments>.

### Carbon Reduction Commitment

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 and Melville Crescent the number of LED and PIR sensor lights has been increased as necessary repairs are undertaken;
- In Melville Crescent we have replaced all the valves on the radiators thus reducing unnecessary heating;
- We have continued to ensure that both buildings are used to their maximum extent by letting space to other departments. The Scotland Office and the Office of the Advocate General have therefore continued to contribute 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; and
- In the parts of Dover House used by Scotland Office and OAG staff we have increased the occupancy of rooms by installing smaller furniture.

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 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 other stationery; and
- Using public transport rather than cars when travelling to meetings.

In 2014-15 we have wherever feasible acquired new mobile video conference equipment to facilitate reduced travel and we have continued to replace printers and photocopiers with energy efficient models which reduce paper wastage.

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

In 2014-15 within the Parliamentary Supply Estimates (Supplementary Estimate) for the Scotland Office and the Office of the Advocate General the spend totalled £28.2 billion. The Scotland Office and Office of the Advocate General voted provision was £7.793 million and the grant to the Scottish Consolidated Fund totalled £28.191 billion.

### 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 2014–15

At the start of the year the Scotland Office and the Office of the Advocate General were voted £27.990 billion in its Main Estimate. By the final Single Supplementary Estimate, this had increased to £28.199 billion, primarily due an increase in the grant to the Scottish Consolidated Fund of £0.2 billion.

### Explanation of Variances between Estimate and Net Resource Outturn

The Statement of Parliamentary Supply demonstrates that overall there was an underspend of 0.15% (£41,629 million) on the estimate provision of £28.199 billion. 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 specific provision is mainly attributable to planned efficiencies within the Offices.

### Scotland Office and Office of the Advocate General – Resource

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Scotland Office and Office of the Advocate General	7,771	7,793	22	0.28%

### Boundary Commission for Scotland

The underspend on the Boundary Commission for Scotland's allocation for 2014-15 was mainly due to a reduction in the Commission's payments to the Scottish Government's One Scotland Mapping Agreement and an underspend on the staff budget due to delays in filling vacancies. The Commission also spent less than expected on their information technology maintenance budget and there was a delay in the planned upgrade of their information technology system. There were also a number of small underspends in Commissioners' fees and expenses; accommodation costs; travel and subsistence; and review costs.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Boundary Commission for Scotland	80	150	70	46.67%

## Grant payable to the Scottish Consolidated Fund

The sum of £41.353 million 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 2014-15. 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	28,149,910	28,191,445	41,535	0.001%

## Scotland Office and Office of the Advocate General - Capital

The under-spend on capital is attributable to unused contingency funds.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Capital	53	55	2	3.64%

## Reconciliation of Resource Expenditure between Estimate, Accounts and Budgets

	Estimate £000	Outturn £000
Net Resource Outturn (Estimates)	28,210,625	28,168,913
Net Operating Cost (Accounts)	28,210,625	28,168,913
Voted expenditure outside the budget	(28,191,445)	(28,149,910)
Resource Budget Outturn (Budget)	7,943	7,851

**Francesca Osowska**

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

10 July 2015

# Chapter 4: Director's Report

## **Scotland Office and Office of the Advocate General Ministers and Directors**

The Ministers and officials of the Scotland Office and Office of the Advocate General who were members of the Joint Management Board at various times during 2014-15 are shown below:

- The Rt Hon Alistair Carmichael MP, Secretary of State for Scotland;
- 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;
- Francesca Osowska, Scotland Office Director and Accounting Officer (from January 2015)
- Alun Evans, Scotland Office Director and Accounting Officer (until January 2015);
- Michael Chalmers, Office of the Advocate General Director;
- Margaret Porteous Scotland Office Scotland Office Deputy Director for Policy and Corporate Services (until February 2015);
- Helena Gray Scotland Office Deputy Director for Strategy, stakeholder engagement and corporate services (from March 2015);
- Glenn Preston Scotland Office Deputy Director for Policy (until February 2015); and
- Ruairaidh Macniven, Legal Secretary to the Advocate General.

Further information about the Offices' non-executive directors is given in chapter 7.

### **Our Corporate Performance**

The Scotland Office's fifth objective is to ensure continuous improvement in running the Office effectively, efficiently and economically, delivering on all internal targets.

### **Performance Targets**

In 2014-15, the three main indicators, adopted by both 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 2014-15
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 2,965 (1,738 in 2013-14) pieces of correspondence and replied to 84.1% (86.7% in 2013-14) of ministerial correspondence within the target time. The Office of the Advocate General answered 53 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 170 FOI requests in 2014-15 and replied to 93% within 20 working days either substantively or explaining the reason for an extension. The Office of the Advocate General received 41 FOI requests in 2014-15 and replied to 100% within 20 working days.
We will ensure that accounts are paid promptly. We will pay 80% of accounts within 5 days of receipt of a valid invoice.	Percentage of payments made within target time.	The Scotland Office paid 94.6% of invoices within 5 days. The Office of the Advocate General paid 97.2% of invoices within 5 days.

## Ministerial correspondence

The Scotland Office received an exceptional volume of correspondence in 2014-15. There were 2965 items, compared to 1738 in 2013-14. The overwhelming part of the increase was attributable to letters from members of the public about issues related to the referendum. Notwithstanding the very significant increase in volume performance in answering letters to target was maintained.

## 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, 80% 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 in the House of Commons on six occasions during the reporting year: on 7th May 2014, 2nd July 2014, 15th October 2014, 26th November 2014, 14th January 2015 and 25th February 2015.

	Ordinary Written Questions		Named Day Questions	
	Total Received	Answered on Time	Total Received	Answered on Time
House of Commons	123	82%	23	65%
House of Lords	7	86%	n/a	n/a
Total	130	82%	23	65%

## 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. The volume of FOI requests that the Scotland Office received also increased from 151 in 2013-14 to 170 in 2014-15.

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, but if it is not properly safeguarded represents a risk to both 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 assess risk in this area. In general the risk carried by the Offices in this area is slight since neither Office handles significant quantities of personal or security information. Assurance is provided by periodic reports to the Offices' Audit Committee. 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 do not directly employ any staff. Instead, staff are seconded or loaned by other Civil Service bodies, mainly the Scottish Government and the Ministry of Justice (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 tables show the breakdown of staff in the two offices at 31 March 2015:

### Number of Staff in the Scotland Office at 31 March 2015

	Headcount	FTE
Scotland Office, London	27	27.0
<i>of which Ministerial Private Office (London)</i>	8	8.0
Scotland Office, Edinburgh	40	38.5
<i>of which Ministerial Private Office (Edinburgh)</i>	1	1
<b>Total</b>	<b>67</b>	<b>65.5</b>

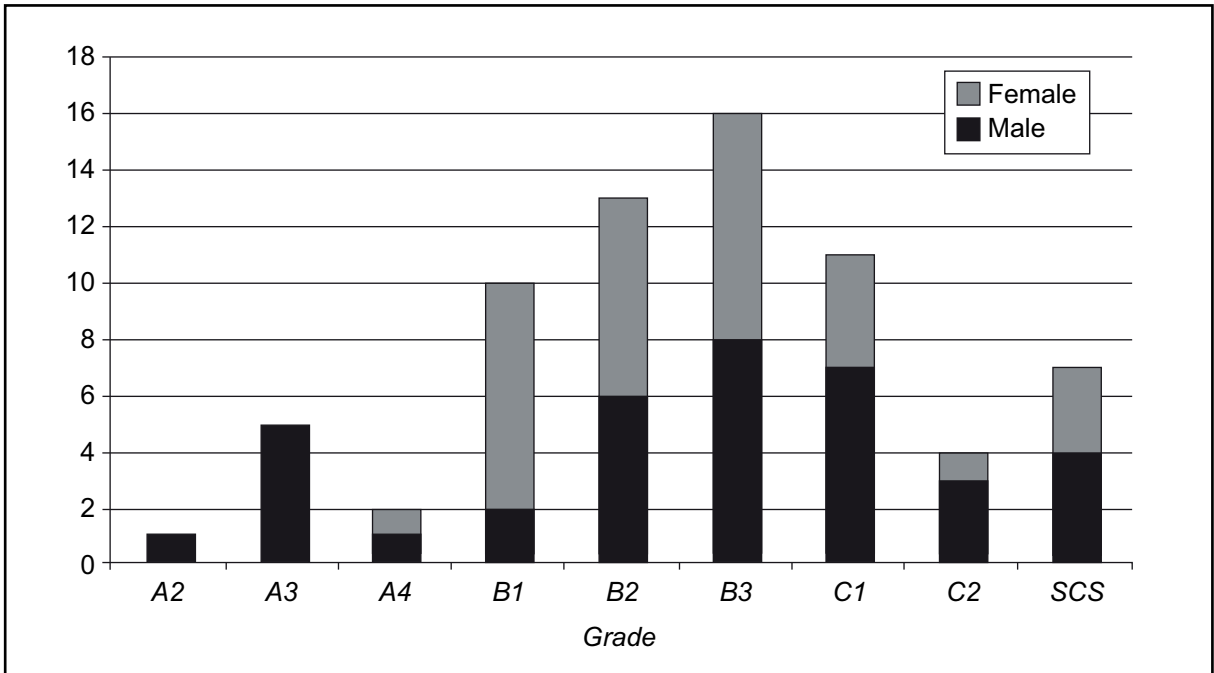
### Number of staff in the Office of the Advocate General at 31 March 2015

	Headcount	FTE
Ministerial Private Office	3	3.0
Legal Secretariat to the Advocate General	3	3.0
Office of the Solicitor to the Advocate General	45	41.3
<b>Total</b>	<b>51</b>	<b>47.3</b>

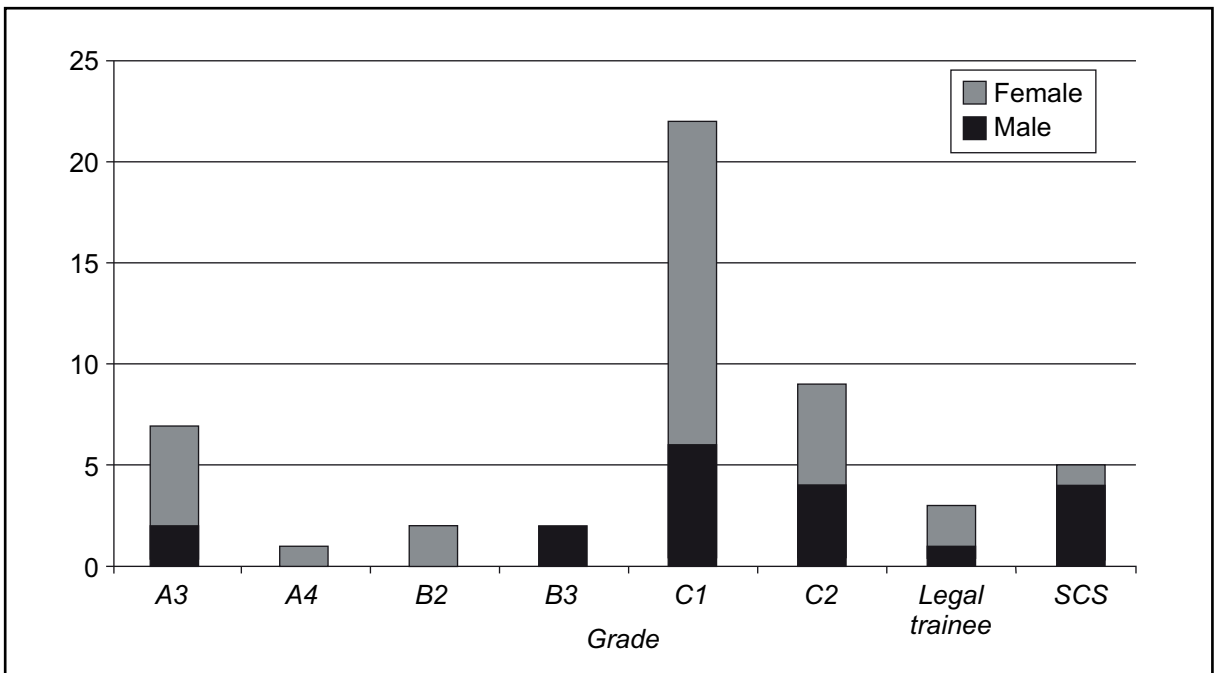
## Diversity

Women make up 44.8% of staff in the Scotland Office and 62.7% of staff in the Office of the Advocate General. The following charts show the number of women and men in each grade in the two Offices.

### Gender in the Scotland Office at 31 March 2015



### Gender in the Office of the Advocate General at 31 March 2015



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 2015 there were 7 substantive senior civil servants in the Scotland Office and 5 in the Office of the Advocate General.

## **Scottish Government Funding**

Responsibility for fiscal and macroeconomic policy across the United Kingdom is reserved, with the Scottish Government's block grant determined within the UK Government's framework of public expenditure control. The financial relationship is set out in the Statement of Funding Policy.<sup>1</sup>

Changes to the Scottish Government's block grant are determined by means of a population based formula, the Barnett formula. All spending by the Scottish Government is charged to the Scottish Consolidated Fund. The UK Parliament votes the necessary cash provision to the Secretary of State for Scotland, who, in turn, makes payments into the Scottish Consolidated Fund as set out in the Scotland Act 1998. Details of the cash grant paid in 2014-15 (together with data for 2013-14 and 2015-16) can be found in chapter 9. The cash grant paid in 2014-15 was £28.1 billion.

Alongside this grant, the Scottish Government's funding in 2014-15 also included business rates revenues. The Scottish Government makes its own spending decisions on devolved programmes within its overall budget totals, subject to approval by the Scottish Parliament.

The Scottish Government published details of how it allocated its budget for 2014-15; these are contained in Scotland's Draft Budget 2014-15 and the Budget (Scotland) Act 2014.

## **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 2014-15 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 and also to the Scottish Government. In the latter part of 2014-15 the Scotland Office undertook a review of its objectives and structure to ensure that its resources were aligned properly with its objectives and the Office was prepared and organised to deliver for the new Parliament.

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<sup>1</sup> 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](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/sr2010_fundingpolicy.pdf)

## **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. 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 generally use framework contracts negotiated by the Crown Commercial 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. Wherever appropriate the Scotland Office and the Office of the Advocate General work with the Northern Ireland Office and the Wales Office to share expertise and provide cover for one another. Most significantly the Northern Ireland Office, the Scotland Office and the Office of the Advocate General, and the Wales Office use a shared Parliamentary service which enables them to have a greater resilience in this essential function and to draw upon expertise they could not otherwise build up.

## **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 4 to the accounts. During the reporting year no payment was made to the auditors for non-audit work (2013-14: £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 she ought to have taken to make herself aware of any relevant audit information and to establish that the Scotland Office's auditors are aware of that information.

**Francesca Osowska**

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

10 July 2015

# 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](http://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.

## **Ministers' Salaries and Pension Entitlements**

The salaries, taxable benefits in kind and pension entitlements for Ministers are shown in the following tables. Salary figures include all allowances payable by the Scotland Office, whereas full-year equivalents are calculated net of allowances, bonuses and ex gratia payments.

In respect of Ministers in the House of Commons, Departments bear only the cost of the additional ministerial remuneration, the salary for services as an MP and various allowances to which they are entitled are borne centrally.

## **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) <sup>(1)</sup>		Total (to nearest £1,000)	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
The Rt Hon Alastair Carmichael MP Secretary of State for Scotland (from 7 October 2013)	67,505 (2)	32,985 (2)	-	-	22,000	12,000	90,000	45,000
The Rt Hon Michael Moore MP Secretary of State for Scotland (until 6 October 2013)	-	52,226 (2) (3)	-	-	-	13,000	-	65,000
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland	22,375 (4)	23,039 (4)	-	-	8,000	8,000	30,000	31,000
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland	128,121 (5)	128,121 (5)	-	-	8,000	33,000	31,000	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 in 2013-14 and £67,505 in 2014-15).

(3) Includes £17,042 severance payment.

(4) The entitled salary was £23,697 however the minister waived his increase and claimed £23,039 in 2013-14 and £22,375 in 2014-15.

(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) <sup>(1)</sup>		Total (£'000)	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Francesca Osowska Director (from January 2015)	20-25 (2)	-	-	-	-	-	4,000	-	25-30	-
Alun Evans Director (until March 2015)	120-125	115-120	-	-	-	-	18,000	(88,000)	140-145	30-35
Michael Chalmers Director (from December 2012)	90-95	90-95	-	-	-	-	75,000	72,000	165-170	160-165
Chris Flatt Deputy Director	-	60-65	-	5-10	-	-	-	15,000	-	75-80
Colin Faulkner Deputy Director	-	70-75 (3)	-	-	-	-	-	18,000	-	90-95
Margaret Porteous Deputy Director (until February 2015)	55-60 (4)	60-65	-	-	-	-	6,000	(2,000)	65-70	60-65
Helena Gray Deputy Director (from March 2015)	5-10 (4)	-	-	-	-	-	4,000	-	10-15	-
Glenn Preston Deputy Director (from July 2013)	65-70	40-45 (5)	-	-	-	-	24,000	11,000	85-90	55-60
Ruaraidh MacNiven Deputy Director (from July 2013)	75-80	50-55 (6)	-	-	-	-	26,000	12,000	100-105	65-70
Jan Marshall Deputy Director (until June 2013)	-	20-25 (6)	-	-	-	5,600 (7)	-	(8,000)	-	20-25

(1) 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.

(2) full time equivalent 90-95

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

(4) full time equivalent 65-70

(5) full time equivalent 60-65

(6) full time equivalent 70-75

(7) part year

## 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 as of 1 April 2010), 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 Department and treated by HM Revenue and Customs as a taxable emolument. Minister 1 received living accommodation provided at public expense and chargeable to tax under s163 of the Income and Corporation Taxes Act 1988. The Permanent Secretary had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

## 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 2014-15 relate to performance in 2013-14 and the comparative bonuses reported for 2013-14 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 2014-2015 was in the range £120,000-£125,000. This was 2.72 times the median salary of the workforce, which was £44,174.

	2014-15		2013-14	
	Number	£000	Number	£000
Total Remuneration Permanent staff		4,549		4,284
Total Permanent staff	106		100	
Median Pay of Permanent Staff		44.2		44.2
Highest Paid Director of Pay Band		120.1		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 31/3/15	Real increase in pension at age 65	CETV at 31/3/15	CETV at 31/3/14	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
The Rt Hon Alastair Carmichael MP Secretary of State for Scotland (from 7 October 2013)	0-5	0-2.5	56	33	9
The Rt Hon Michael Moore MP Secretary of State for Scotland (until 6 October 2013)	-	-	-	67	-
The Rt Hon David Mundell MP Parliamentary Under Secretary of State for Scotland	0-5	0-2.5	43	34	5
The Rt Hon The Lord Wallace of Tankerness QC Advocate General for Scotland	10-15	0-2.5	197	152	24

### 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 new scheme will be a Career Average pension scheme, have an accrual rate of 1.775%, revaluation based on the change in prices, a Normal Pension age equal to State Pension age and a member contribution rate of 11.1%.

## 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 31/3/15 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/15	CETV at 31/3/14	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Francesca Osowska Director (from January 2015)	20-25	0-2.5 Plus lump sum of 0-2.5	341	336	2	-
Alun Evans Director (until March 2015)	45-50	0-2.5 Plus lump sum of 2.5-5	971	909	15	-
Michael Chalmers Director	15-20	2.5-5	172	120 <sup>(1)</sup>	38	-
Helena Gray Deputy Director	5-10	0-2.5	72	74	1	-
Margaret Porteous Deputy Director	25-30	0-2.5 Plus lump sum of 0-2.5	597	563 <sup>(1)</sup>	6	-
Glenn Preston Deputy Director (from July 2013)	15-20	0-2.5	175	153	10	-
Ruaraidh MacNiven Deputy Director (from July 2013)	15-20	0-2.5 Plus lump sum of 2.5-5	234	207	14	-

(1) These figures have been restated due to a recalculation of the pension information.



## Non-Executive Directors

The chairperson of the Scotland Office and 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.

## 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 6.85% of pensionable earnings for **classic** and 3.5% and 8.85% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. 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 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 [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

New Career Average pension arrangements will be introduced from 1st April 2015 and the majority of **classic** , **premium** , **classic plus** and **nuvos** members will join the new scheme. Further details of this new scheme are available at <http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/>

## **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 2014-15 or 2013-14.

The remuneration report is subject to National Audit Office scrutiny.

**Francesca Osowska**

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

10 July 2015

# 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. I was appointed the Accounting Officer on 1 February 2015 in succession to Alun Evans who had served since July 2012. 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.

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.

This governance statement covers the whole of the period from 1 April 2014 to 31 March 2015, although I was only Accounting Officer for the final two months of it. Prior to assuming responsibility for the Offices I had a detailed and extensive handover from my predecessor so that I could be assured about the corporate governance of both Offices during the first ten months of the year. I also sought assurance from Ministers, the Audit Committee, Internal Audit and senior staff in both Offices, and I am confident that I can in turn provide assurance to Parliament and others about the good governance of the Offices and the stewardship of public resources for the whole of the year 2014-15.

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

## Corporate Governance Structures

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 is at the apex of the Offices' corporate governance. Since 2012-13 the Board has met three times a year. In 2014-15 the Board decided to review and revise its composition and relationship to the Audit Committee, with the intention of broadening the range of expertise and experience among its members and achieving an appropriate balance among its membership. Changed arrangements were implemented at the end of 2014-15 and are described below. An account of the Offices' compliance with the Corporate Governance Code was published in full in the annual report and accounts for 2012-13, and it is summarised in Annex A to this chapter taking into account the changes made at the end of 2014-15.

After the meeting of the Joint Management Board in October 2014 John Aldridge stood down as a non-executive member of the Board and as chair of the Audit Committee. Mr Aldridge had served as the chair of the Audit Committee since 2009 and as a non-executive board member since 2012. I know that successive Ministers, Accounting Officers and other officials were extremely grateful to him for his long service to the Offices. He exemplified the highest standards of integrity and provided constructive advice and guidance on a wide range of subjects with unfailing courtesy and punctiliousness. Edward Adams who had served as member of the Audit Committee since 2009 and as non-executive board member since 2012 agreed to serve as the chair of the Audit Committee and to continue to serve as a non-executive Board member.

After careful consideration the Board made several decisions about its non-executive membership. It decided that it would advertise separately for (a) new non-executives members with prominent experience of public life in Scotland who could give Ministers and senior officials expert advice to help the Board to develop and implement the Government's objectives in Scotland, and (b) new Audit Committee members with expertise in audit and accounting to provide specific advice to me as Accounting Officer. In acting as a non-executive board member the Chair of the Audit Committee would act as the essential link between the Board and the Audit Committee. In advertising for new non-executive Board members and for new Audit Committee members the Offices would encourage applications from persons with background in the private legal sector, thus enabling them to ensure that the Board had the benefit of private sector experience, as required by the Government's Corporate Governance Code, and that the Office of the Advocate General in particular had advice from persons with experience of leading legal businesses.

In the latter part of 2014-15 the Offices advertised for new non-executives members and Audit Committee members on the public appointments' website. There was a wide range of high quality applications and a selection board, chaired by Sir John Elvidge, made recommendations to the Secretary of State. In March the Secretary of State decided to appoint Graeme Bissett, Joyce Cullen and Shonaig Macpherson as new non-executive board members. Further information about their backgrounds and experience is given below. The Offices decided at that stage that it would not ask any non-executive member to act as a lead non-executive but instead ask the non-executive members to share the responsibility among them. The new Audit Committee members were appointed in early 2015-16 and the matter will be discussed in the Offices' annual report for that year.

Under the Corporate Governance Code departments should have a near equal number of Ministers, non-executive members and official members of the Board. For the greater part of 2014-15 the Board comprised three ministerial members, two non-executive members and five official members. The five official members comprised the Directors of both Offices, two Scotland Office Deputy Directors, and one OAG Deputy Director. With the appointment of three new non-executive members the number of non-executives was increased to four. At the same time the decision was taken to reduce the number of official members to four, thus producing a better balance between the three different types of board member. Full details of the Board membership during 2014-15 are given below.

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. That right of direct access was not exercised during 2014-15.

In addition to formal corporate governance structure I and my predecessor met regularly with the Advocate General about the Office's business and risk management. My contact with the Director of the Office of the Advocate General was frequent and routine and provided an invaluable vehicle for giving me assurance so that I could fulfil my responsibilities as Principal Accounting Officer in respect of the Office of the Advocate General as well as the Scotland Office.

Various means are available to me to provide me with assurance about the Boundary Commission for Scotland's management of public resources. A member of Scotland Office staff is in regular contact with the Secretary to the Commission. The Secretary to the Commission attended a meeting of the Audit Committee in February 2015 so that the Committee could review risk management within the Commission. Internal Audit started an audit of the sponsorship arrangements and controls and processes within the Commission; that audit will be completed during 2015-16.

## **Membership and business of the Joint Management Board**

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;
- three senior officials, reduced from March to two (one each from the Scotland Office and the Office of the Advocate General); and
- two non-executive members, increased from March, to four, and including the current chair of the Audit Committee.

The membership of the Board and members' attendance at meetings is shown in the table below.

## Joint Management Board 2014-15

Joint Management Board 2014-15	Number of meetings attended (there were 3 in total)
Rt Hon Alistair Carmichael, Secretary of State for Scotland	3
Rt Hon David Mundell, Parliamentary Under Secretary of State	1
Rt Hon Lord Wallace of Tankerness QC, Advocate General for Scotland	3
Alun Evans, Director of the Scotland Office and Principal Accounting Officer, (April 2014 to January 2015)	2
Francesca Osowska, Director of the Scotland Office and Principal Accounting Officer, (February 2015 to date)	1
Michael Chalmers, Director of the Office of the Advocate General	3
Margaret Porteous, Deputy Director, Scotland Office (until February 2015)	0
Glenn Preston, Deputy Director, Scotland Office (until February 2015)	1
Helena Gray Deputy Director, Scotland Office (from March 2015)	1
Ruaraidh Macniven, Legal Secretary to the Advocate General	3
John Aldridge, Lead non-executive member and Chair of the Audit Committee to October 2014	2
Edward Adams, Non-executive member and Chair of the Audit Committee from October 2014	3
Graeme Bissett, Non-executive member (from March 2015)	0
Joyce Cullen Non-executive member (from March 2015)	1
Shonaig Macpherson Non-executive member (from March 2015)	1

John Aldridge was formerly a senior official in the Scottish Office and latterly Finance Director in the Scottish Executive. Edward Adams was formerly a senior official in the Ministry of Justice and its predecessor departments, and ended his career in various NHS bodies in London where he had responsibility for corporate governance. Among Graeme Bissett's current appointments he is chairman of Macfarlane Group plc, Curo Compensation Limited and Children 1st. He is also a member of the Court of Glasgow University. Joyce Cullen was chair of Brodies LLP from 2004 to 2013, and has been a Commissioner of the WS Society since 2012. Shonaig Macpherson's current appointments include membership of the BT plc Scottish management board, chair of the Royal Edinburgh Military Tattoo Finance, Risk and Audit Committee, and Council member of the Open University.

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

- strategy and business planning, including for the new Parliament starting in May 2015, and the achievement of objectives;
- measurement of performance in both Offices; and
- the Offices' financial settlements for 2014-15 and for 2015-16;

## **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 2014-15 is annexed to this governance statement.

During 2014-15 the Audit Committee had three members: John Aldridge (chair to October 2014), Edward Adams (chair from October 2014), 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. John Aldridge attended all of the first four meetings of the Committee until he stood down after the October meeting. Edwards Adams and Charlotte Barbour attended all five of the Committee's meetings.

Officials of 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. The intention is to ensure that 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 reviews both registers together at all its regular meetings. In addition to general overviews of both registers the Audit Committee examines in depth one or more particular risk at each meeting to assure itself both as to the management of the risk (or risks) 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 Secretary to the Commission maintains a risk register which the Audit Committee discussed at its February 2015 meeting. 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.

In 2013-14 the Offices produced a risk management policy which was reviewed by the Audit Committee and refined in the light of its advice. The policy introduced the concept of risk tolerance into the Offices' risk management providing an additional tool to assist senior managers in assessing the risks carried by the two Offices. That tool continued to be used in 2014-15.

The risk registers classify risks as high, medium, or low. Risks, which although initially rated more highly, 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, but particular attention during 2014-15 was given to the risks associated with the Scotland Office's objective of informing the debate about Scotland's future in the UK ahead of the referendum. During the course of the Spending Review 2010 (financial years 2011-12 to 2014-15) the policy challenges and consequently related risks facing the Offices increased very significantly and risk management centred on reconciling demands with resources. The Offices' risk identification and assessment processes were kept under continual review within the Offices and by the Audit Committee to ensure that they were fit for purpose.

## **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 was provided to me and my predecessor during the year by the regular contact we both had with the Director of the Office of the Advocate General, and with the Scotland Office's Deputy Directors, both through the regular meetings of the Scotland Office Senior Management Team and through the close and routine contact with all of them which is greatly facilitated by the small 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 audit services to the Northern Ireland Office and the Wales Office and their analysis and opinion is therefore informed very usefully by their knowledge of our closest comparators in government.

During 2014-15 Internal Audit reports were produced on the following subjects and made available to the Audit Committee:

- Whistleblowing procedures;
- Payroll management;
- Business continuity planning; and
- Sponsorship of the Boundary Commission for Scotland

(The fieldwork for the first of these audits was undertaken in 2013-14, but the report was not made available to the Audit Committee until 2014-15.)

Internal Audit uses a four levels system for rating levels of assurance provided by its audits. Of the four audits conducted in 2014-15 one was given the highest level of assurance and three the second highest level. Overall our Internal Auditors identified a good level of control and found no significant control issues, and were able to give a moderate level of assurance – the second highest level - that the Offices' overall risk, control and governance framework is adequate to enable the achievement of objectives and that the key risks are being effectively managed.

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 their independent scrutiny of our accounts and processes and for their authoritative reports to the Offices and to the Audit Committee throughout the year. In addition to these departmental accounts the National Audit Office also audited:

- the National Loan Fund accounts 2014-15; and
- the Scottish returning officers accounts for expenses in UK, Scottish and EU parliamentary elections for 2014-15.

## **Propriety and Assurance**

In the Scotland Office, the Office of the Advocate General, and the Boundary Commission for Scotland, during 2014-15, 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 2014-15, I can report, in the light of the assurances I have received from my predecessor and from others, 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.

**Francesca Osowska**

Director of the Scotland Office and Principal Accounting Officer

10 July 2015

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

*Corporate governance in central government departments: code of good practice* and *Corporate governance in central government departments: code of good practice 2011 – guidance note* were both published in 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 choose at that point to depart from the code. The purpose of this annex is to summarise those differences at the end of 2014-15 taking account of changes made to corporate governance arrangements in the course of the year.

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

- The Offices ceased to have a lead non-executive during the course of the year. The intention is to ask the non-executives to share the functions that would ordinarily fall to a lead non-executive among all the non-executives with a view to seeing if this arrangement adds value to the particular circumstances of the two Offices.
- The Directors of the Offices do not set out management structures formally for the Board each year
- The Board does not include a professionally qualified finance director, but the Offices' finance manager routinely attends board meetings.
- 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.
- The Offices have not thought it necessary to have a documented de minimis threshold for seeking board advice on policy proposals.
- The Offices do not have a nominations and governance committee. 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.

# Annex B: Annual Report of the Audit Committee

## Scotland Office/Office of The Advocate General Audit Committee

### Report for the year 2014-2015 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 2014-15, 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, she 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 policies and procedures in place.

The Accounting Officer seeks to use all the available evidence to give her the confidence she 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 this process by providing independent scrutiny and advice. Specifically, it considers the arrangements 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 her senior colleagues with a forum where they can test assumptions and decisions in these areas.

#### **Activity**

The Audit Committee met formally 4 times during 2014-15. 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**

This has been a year of change for the Committee. John Aldridge retired as Chairman in December, having been a member of the Committee since May 2006 (and Chairman since March 2009), with Edward Adams taking over as Chair in January (and continuing to act as a non executive member of the Offices' Joint Management Board). Also in January, Alun Evans was replaced as Accounting Officer by Francesca Osowska. Charlotte Barbour has continued as an independent member, though at the time of writing, recruitment processes are in hand to appoint new members of the Committee.

Members continued to be paid a daily rate for their duties.

## **Main Issues**

The Committee was satisfied that the systems in place in the SO and OAG over 2014-15 were sound and appropriate for the purposes they were required to support. The Committee was conscious that the Offices had coped with an extraordinarily high level of activity over this period, not only in connection with the production of the [14] Research and Analysis papers prior to the Independence Referendum, but also with the agreement of the UK Government's speedy response to the Smith Commission report (including draft clauses to give its recommendations legislative effect). The OAG had not only to provide the legal support necessary for these, but also to deal with its regular caseload in the shape of litigation work on behalf of other Government Departments, notably immigration related cases.

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 was pleased to note that issues of corporate governance continued to receive an appropriately high level of attention [and that officials of both Offices had consistently had regard to their obligations under the Civil Service Code to observe political neutrality].

The Committee kept the risk registers under review, continuing with the practice of considering one risk in depth at each meeting. Risks examined in this way over this period included: Failure to engage with Service Providers; Recruitment and Retention of Staff; Information Assurance; and Risk of Fraud. In addition, the Committee received at its February meeting a presentation on risk from the Secretary to the Boundary Commission for Scotland.

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 risk management processes appeared to be working well, and welcomed the addition of risk tolerance scores which had been made in advance of the July meeting. Risk management and use of the risk registers has clearly been given more consistent priority over the last few years.

The Committee reviewed at each meeting the Offices' financial performance and management systems. The Committee noted with approval that SO/OAG had not in the event needed to make a claim on the Reserve in respect of 2013-14, but that such a claim had been made (and approved) in respect of 2014-15 because of the exceptional pressures attributable to the Referendum and its aftermath. Financing for future years will fall to be considered by the incoming Administration, though the Committee has noted with approval the early commencement of work to overhaul the Offices' Business Planning systems, which will also involve a review of their Risk Registers.

## **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. The Committee noted with sadness the death of Duncan Russell of the NAO.

## **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**

The immediate priority for the Committee in 2015-16 will be the successful induction of its new members, including communication of its functions (not least in relation to whistleblowing) to the staff of both Offices. Once the outcome of the General Election is clear, the major task will be providing assurance to JMB and the Accounting Officer over the new Business Planning process, and the revised Risk Registers.

Finally, I would – as incoming Chairman – wish to pay tribute to the way my predecessor undertook his responsibilities both to the Committee and to the two Offices.

**Edward Adams**

April 2015

# 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 2015 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 Strategic Report, Directors' Report and Governance Statement 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 2015 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 2015 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Strategic Report, Directors' Report and Governance Statement 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**

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

13 July 2015

# Chapter 9: Public Expenditure Financial Tables

## TABLE 1: The Scottish Block 2010-11 to 2015-16

	2010-11 outturn £'000	2011-12 outturn £'000	2012-13 outturn £'000	2013-14 outturn £'000	2014-15 plans £'000	2014-15 outturn <sup>(9)</sup> £'000	2015-16 plans £'000
<b>Scotland Office and Office of the Advocate General<sup>(1) (2)</sup></b>							
<b>Scotland Office and Office of the Advocate General<sup>(3)</sup></b>							
Scotland Office and Office of the Advocate General Administration Costs	7,688	6,833	7,083	7,219	7,793	7,771	8,780
Scotland Office and Office of the Advocate General - other <sup>(3)</sup>	188	298	281	132	150	80	200
Scotland Office and Office of the Advocate General - non-voted election costs	10,703	13,777	(90)	583	11,387	11,152	-
<b>Scotland Office and Office of the Advocate General Resource<sup>(3)</sup></b>	<b>18,579</b>	<b>20,908</b>	<b>7,274</b>	<b>7,934</b>	<b>19,330</b>	<b>19,003</b>	<b>8,980</b>
Scotland Office and Office of the Advocate General Capital	-	-	68	-	55	53	25
<b>Scotland Office and Office of the Advocate General Resource + Capital DEL<sup>(3)</sup></b>	<b>18,579</b>	<b>20,908</b>	<b>7,342</b>	<b>7,934</b>	<b>19,385</b>	<b>19,056</b>	<b>9,005</b>
<i>less depreciation &amp; impairments</i>	<i>(16)</i>	<i>(14)</i>	<i>(12)</i>	<i>(19)</i>	<i>(30)</i>	<i>(20)</i>	<i>(30)</i>
<b>Scotland Office and Office of the Advocate General DEL<sup>(4)</sup></b>	<b>18,563</b>	<b>20,894</b>	<b>7,330</b>	<b>7,915</b>	<b>19,355</b>	<b>19,036</b>	<b>8,975</b>

### Table 1b - Scottish Government DEL & Total Scottish Block

<b>Scottish Government<sup>(1) (2) (7)</sup></b>							
Scottish Government Resource <sup>(3)</sup>	25,775,504	25,437,148	25,750,738	26,129,014	26,723,200	26,419,503	26,563,793
Scottish Government Capital <sup>(8)</sup>	3,283,549	2,731,882	2,938,891	2,879,375	3,196,669	3,143,304	3,072,908
<b>Scottish Government DEL<sup>(3) (7)</sup></b>	<b>29,059,053</b>	<b>28,169,030</b>	<b>28,689,629</b>	<b>29,008,389</b>	<b>29,919,869</b>	<b>29,562,807</b>	<b>29,636,701</b>
<i>less depreciation &amp; impairments</i>	<i>(564,468)</i>	<i>(623,149)</i>	<i>(782,955)</i>	<i>(663,154)</i>	<i>(912,485)</i>	<i>(759,667)</i>	<i>(1,031,307)</i>
<b>Scottish Government DEL<sup>(4) (7)</sup></b>	<b>28,494,585</b>	<b>27,545,881</b>	<b>27,906,674</b>	<b>28,345,235</b>	<b>29,007,384</b>	<b>28,803,140</b>	<b>28,605,394</b>
<b>Scotland Office and Office of the Advocate General DEL<sup>(4)</sup></b>	<b>18,563</b>	<b>20,894</b>	<b>7,330</b>	<b>7,915</b>	<b>19,355</b>	<b>19,036</b>	<b>8,975</b>
<b>Total Scottish Block<sup>(4) (5) (6)</sup></b>	<b>28,513,148</b>	<b>27,566,775</b>	<b>27,914,004</b>	<b>28,353,150</b>	<b>29,026,739</b>	<b>28,822,176</b>	<b>28,614,369</b>

(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

(8) 2014-15 Capital DEL figures exclude £300 million Reserve Support in respect of PFI deals coming on balance sheet pending classification decision from ONS

(9) Scotland Office outturn data represent final outturn and will accord with the accounts published elsewhere in this document. The Scottish Government data shows provisional outturn as the Scottish Government have yet to finalise their accounts

**TABLE 2: Changes to Scottish Government Departmental Expenditure Limit for 2010-11 to 2015-16 since publication of 2013-14 Report & Accounts**

	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Provisional Outturn	2015-16 Plans
	£m	£m	£m	£m	£m
<b>Capital DEL plus Resource DEL: June 2014</b>	28,543.979	29,062.575	29,019.094	29,529.187	29,858.716
Interdepartmental transfers					
from DfT: Dundee PSO	-	-	-	1.121	1.639
from DWP: Fit for Work	-	-	-	1.568	-
from DWP: Fraud Investigation Service	-	-	-	0.600	0.200
from DWP: Council Tax	-	-	-	-	6.460
to DWP: Independent Living Fund	-	-	-	-	(11.900)
to DWP: Council Tax Benefit	(374.949)	(372.946)	-	-	-
from DCMS: Broadband	-	-	-	70.830	-
from Home Office: Health Migrant Levy	-	-	-	-	10.267
from HMRC: Reduced Costs of Tax Collection	-	-	-	-	0.257
from Home Office: Marriage/Civil Partnership Changes	-	-	-	-	0.085
from DECC: Energy Agreement	-	-	-	17.596	-
Spending Policy <sup>(1)</sup>					
Budget Exchange	-	-	-	219.248	-
Coastal Communities Fund	-	-	-	4.083	-
Cash Management Rebate	-	-	-	0.379	-
Glasgow School of Art	-	-	-	5.000	5.000
G8 Policing	-	-	-	0.847	-
Non Cash Costs of HE/FE Colleges	-	-	-	50.000	-
Redistribution of LIBOR Fines to Blue Lights Charities	-	-	-	0.832	-
Glasgow City Deal	-	-	-	-	15.000
Forth Replacement Crossing Prepayments	-	-	-	(24.000)	-
Scottish Cultural Reserves	-	-	-	2.900	-
Shetland Isles	-	-	-	5.000	-
Barnett Consequentials					
Autumn Statement 2014	-	-	-	2.324	211.072
2014-15 Council Tax Freeze	-	-	-	32.538	-
Budget 2015	-	-	-	-	34.467
Departmental outturn (underspend compared to final plans)					
Final Outturn 2013-14	-	-	(10.705)	-	-
Estimated Outturn 2014-15	-	-	-	(248.900)	-
Provisional Outturn 2014-15	-	-	-	(108.162)	-
Budgeting Changes					
VAT on Legal Services	-	-	-	(0.184)	(0.562)
Block Grant Adjustment for SDLT & Landfill Tax	-	-	-	-	(494.000)
<b>Subtotal</b>	<b>(374.949)</b>	<b>(372.946)</b>	<b>(10.705)</b>	<b>33.620</b>	<b>(222.015)</b>
<b>Capital DEL plus Resource DEL: June 2015</b>	<b>28,169.030</b>	<b>28,689.629</b>	<b>29,008.389</b>	<b>29,562.807</b>	<b>29,636.701</b>

<sup>(1)</sup> 2014-15 figures exclude £300 million Reserve Support in respect of PFI deals coming on balance sheet pending classification decision from ONS

**TABLE 3: Cash grant paid to the Scottish Consolidated Fund 2013-14: Provision and Final Outturn**

	<b>Original Provision £m</b>	<b>Final Provision £m</b>	<b>Final Outturn £m</b>
Expenditure Classified as Departmental Expenditure Limit <sup>(1)</sup>	29,075.382	29,347.852	29,008.389
Expenditure Classified as Annually Managed Expenditure	3,081.456	3,218.884	3,004.866
Non Domestic Rates	2,435.000	2,435.000	2,435.000
<b>Total Managed Expenditure</b>	<b>34,591.838</b>	<b>35,001.736</b>	<b>34,448.255</b>
<b>Adjustments to cash requirement</b>			
Non-budgetary cash items	280.812	280.812	280.812
Depreciation and Impairments	(871.213)	(1,025.409)	(780.844)
Other Cash to accruals adjustments	(1,942.555)	(2,075.732)	(2,670.757)
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
<b>Cash grant paid to Scottish Consolidated Fund</b>	<b>27,888.306</b>	<b>28,010.831</b>	<b>27,176.083</b>

<sup>(1)</sup> Resource and capital DEL including depreciation

**TABLE 4: Cash grant paid to the Scottish Consolidated Fund 2014-15: Provision & Estimated/Provisional Outturn**

	Original Provision £m	Final Provision £m	Provisional Outturn £m
Expenditure Classified as Departmental Expenditure Limit <sup>(1) (2)</sup>	29,529.187	29,919.869	29,562.807
Expenditure Classified as Annually Managed Expenditure	4,155.528	4,363.717	4,277.446
Non Domestic Rates	2,649.500	2,649.500	2,649.500
<b>Total Managed Expenditure</b>	<b>36,334.215</b>	<b>36,933.086</b>	<b>36,489.753</b>
<b>Adjustments to cash requirement</b>			
Non-budgetary cash items	130.404	130.404	130.404
Depreciation and Impairments	(920.285)	(1,103.176)	(920.239)
Other cash to accruals adjustments	(3,168.844)	(3,383.793)	(3,121.704)
Non Domestic Rates Income	(2,649.500)	(2,649.500)	(2,649.500)
National Insurance Fund Payments towards Scottish NHS	(1,724.076)	(1,724.076)	(1,968.400)
Other items including non-voted expenditure	(11.500)	(11.500)	(30.545)
<b>Closing balance in Scottish Consolidated Fund</b>	<b>-</b>	<b>-</b>	<b>220.141</b>
<b>Cash grant paid to Scottish Consolidated Fund</b>	<b>27,990.414</b>	<b>28,191.445</b>	<b>28,149.910</b>

<sup>(1)</sup> Resource and capital DEL including depreciation

<sup>(2)</sup> DEL excludes £300 million Reserve Support in respect of PFI deals coming on balance sheet pending classification decision from ONS

**TABLE 5: Cash grant paid to the Scottish Consolidated Fund 2015-16:  
Provision**

	<b>Original Provision £m</b>
Expenditure Classified as Departmental Expenditure Limit (1)	29,636.701
Expenditure Classified as Annually Managed Expenditure	4,016.318
Expenditure Financed by Scottish Taxes	498.000
Expenditure Financed by Capital Borrowing	<u>304.000</u>
Non Domestic Rates	<u>2,799.500</u>
<b>Total Managed Expenditure</b>	<b><u>37,254.519</u></b>
<b>Adjustments to cash requirement</b>	
Non-budgetary cash items	119.404
Depreciation and Impairments	(1,031.307)
Other Cash to accruals adjustments	(3,062.566)
Non Domestic Rates Income	(2,799.500)
National Insurance Fund Payments towards Scottish NHS	(1,724.076)
Other items including non-voted expenditure	(11.500)
Income from Scottish Taxes	(498.000)
Capital Borrowing	(304.000)
<b>Cash grant paid to Scottish Consolidated Fund</b>	<b><u>27,942.974</u></b>

<sup>(1)</sup> 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 2014-15

	£000	2014-15							2013-14
		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	
<b>Departmental Expenditure Limit</b>									
- Resource	SOPS 2.1	7,943	11,237	19,180	7,851	11,152	19,003	92	7,934
- Capital	SOPS 2.2	55	-	55	53	-	53	2	-
<b>Annually Managed Expenditure</b>									
- Resource	SOPS 2.1	-	-	-	-	-	-	-	-
- Capital	SOPS 2.2	-	-	-	-	-	-	-	-
<b>Total Budget</b>		<b>7,998</b>	<b>11,237</b>	<b>19,235</b>	<b>7,904</b>	<b>11,152</b>	<b>19,056</b>	<b>94</b>	<b>7,934</b>
<b>Non-Budget</b>									
- Resource	SOPS 2.1	28,191,445	-	28,191,445	28,149,910	-	28,149,910	41,535	27,176,083
<b>Total</b>		<b>28,199,443</b>	<b>11,237</b>	<b>28,210,680</b>	<b>28,157,814</b>	<b>11,152</b>	<b>28,168,966</b>	<b>41,629</b>	<b>27,184,017</b>
<b>Total Resource</b>		<b>28,199,388</b>	<b>11,237</b>	<b>28,210,625</b>	<b>28,157,761</b>	<b>11,152</b>	<b>28,168,913</b>	<b>41,627</b>	<b>27,184,017</b>
<b>Total Capital</b>		<b>55</b>	<b>-</b>	<b>55</b>	<b>53</b>	<b>-</b>	<b>53</b>	<b>2</b>	<b>-</b>
<b>Total</b>		<b>28,199,443</b>	<b>11,237</b>	<b>28,210,680</b>	<b>28,157,814</b>	<b>11,152</b>	<b>28,168,966</b>	<b>41,629</b>	<b>27,184,017</b>

### Net Cash Requirement 2014-15

£000	Note	2014-15 Estimate	2014-15		2013-14
			Outturn	Outturn compared with Estimate: saving/ (excess)	
Net Cash Requirement	SOPS 4	<b>28,210,609</b>	<b>28,167,780</b>	<b>42,829</b>	<b>27,183,424</b>

### Administration Costs 2014-15

		Estimate 2014-15	Outturn 2014-15	Outturn 2013-14
Administration Costs	SOPS 3	<b>7,793</b>	<b>7,771</b>	<b>7,219</b>

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 Note 2 and in the Management Commentary. The non-voted expenditure relates to the funding provided to Returning Officers to run elections in Scotland.

The notes on pages 69 to 84 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 2014-15 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 2014-15 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.

The notes on pages 69 to 84 form part of these accounts

## SOPS 2. Net Outturn

### SOPS 2.1 Analysis of Net Resource Outturn by Section

2014-15										2013-14
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 and the Office of the Advocate General

11,399	3,628	7,771	-	-	-	7,771	7,793	22	22	7,219
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B - Boundary Commission for Scotland

-	-	-	80	-	80	80	150	70	70	132
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**Total Voted Expenditure in DEL**

<b>11,399</b>	<b>3,628</b>	<b>7,771</b>	<b>80</b>	<b>-</b>	<b>80</b>	<b>7,851</b>	<b>7,943</b>	<b>92</b>	<b>92</b>	<b>7,351</b>
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##### Non-Voted

C - Election Expenses

-	-	-	11,152	-	11,152	11,152	11,237	85	85	583
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**Total Non-Voted**

<b>-</b>	<b>-</b>	<b>-</b>	<b>11,152</b>	<b>-</b>	<b>11,152</b>	<b>11,152</b>	<b>11,237</b>	<b>85</b>	<b>85</b>	<b>583</b>
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##### Non-Budget

D - Grant to the Scottish Consolidated Fund

-	-	-	28,149,910	-	28,149,910	28,149,910	28,191,445	41,535	41,535	27,176,083
---	---	---	------------	---	------------	------------	------------	--------	--------	------------

**Total Non-Budget**

<b>-</b>	<b>-</b>	<b>-</b>	<b>28,149,910</b>	<b>-</b>	<b>28,149,910</b>	<b>28,149,910</b>	<b>28,191,445</b>	<b>41,535</b>	<b>41,535</b>	<b>27,176,083</b>
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**Total voted in Estimate**

<b>11,399</b>	<b>3,628</b>	<b>7,771</b>	<b>28,161,142</b>	<b>-</b>	<b>28,161,142</b>	<b>28,168,913</b>	<b>28,210,625</b>	<b>41,712</b>	<b>41,712</b>	<b>27,184,017</b>
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### 2.2 Analysis of net capital outturn by section

2014-15						2013-14
Outturn			Estimate			Outturn
Gross	Income	Net Total	Net Total	Net total compared to Estimate	Net total compared to Estimate adjusted for virements	Net Total
£000	£000	£000	£000	£000	£000	£000

#### Spending in Departmental Expenditure Limit (DEL)

##### Voted Expenditure

A - Scotland Office

53	-	53	55	2	-	-
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**Total Voted Expenditure in DEL**

<b>53</b>	<b>-</b>	<b>53</b>	<b>55</b>	<b>2</b>	<b>-</b>	<b>-</b>
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**Total for Estimate**

<b>53</b>	<b>-</b>	<b>53</b>	<b>55</b>	<b>2</b>	<b>-</b>	<b>-</b>
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The notes on pages 69 to 84 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

		2014-15 £000	2013-14 £000
	Note	Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply			
Budget	SOPS 2.1	19,003	7,934
Non-Budget	SOPS 2.1	28,149,910	27,176,083
		<u>28,168,913</u>	<u>27,184,017</u>
<b>Add:</b>			
Capital grants (net of EU contributions)		-	-
Other		-	-
		<u>28,168,913</u>	<u>27,184,017</u>
<b>Less:</b>			
Income payable to the Consolidated Fund		-	-
Other		-	-
		<u>28,168,913</u>	<u>27,184,017</u>
Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure (for the period ended 31st March 2015)		<u>28,168,913</u>	<u>27,184,017</u>

### 3.2 Outturn Against Final Administration Budget and Administration Net Operating Cost

	2014-15 £000	2013-14 £000
	Outturn	Outturn
Estimate - Administration Costs Limit	7,793	7,379
Outturn - Gross Administration Costs	11,399	10,868
Outturn - Gross Income relating to Administration Costs	(3,628)	(3,649)
Outturn - Net Administration Costs	<u>7,771</u>	<u>7,219</u>
Reconcilliation to Operating Costs:		
Less: Provisions utilised (transfer from programme)	-	-
Less: Other	-	-
<b>Administration Net Operating Costs</b>	<u>7,771</u>	<u>7,219</u>

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

The notes on pages 69 to 84 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
<b>Resource Outturn</b>	SOPS 2.1	28,210,625	28,168,913	41,712
<b>Capital Outturn</b>	SOPS 2.2	55	53	2
<b>Accruals to cash adjustment</b>				
<b>Adjustments to remove non-cash items:</b>				
Depreciation		(30)	(20)	(10)
New provisions and adjustments to previous provisions		-	-	-
Department unallocated provision		-	-	-
Supported capital expenditure		-	-	-
Prior period adjustments		-	-	-
Other non-cash items		(41)	(41)	-
<b>Adjustments for NDPBs:</b>				
Remove voted resource and capital		-	-	-
Add cash grant in-aid		-	-	-
<b>Adjustments to reflect movements in working balances:</b>				
Increase/(decrease) in stock		-	-	-
Increase/(decrease) in receivables		-	8,514	(8,514)
Increase/(decrease) in payables		-	(9,639)	9,639
Use of provisions		-	-	-
<b>Removal of non-voted budget items:</b>				
Consolidated Fund Standing Services		-	-	-
Other adjustments		-	-	-
<b>Net cash requirement</b>		<b>28,210,609</b>	<b>28,167,780</b>	<b>42,829</b>

The notes on pages 69 to 84 form part of these accounts.

## SOPS 5. Income Payable to the Consolidated Fund

### 5.1 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:

	<b>Outturn 2014-15 £000</b>	<b>Outturn 2013-14 £000</b>
Forfeited election deposits and interest	(16)	(6)
Fines and penalties	(31,315)	(31,347)
Other income	-	(1,116)
Less:		
Costs of collection - where deductible	-	-
Uncollectible debts	-	-
Amount payable to the Consolidated Fund	(31,331)	(32,469)
Balance held at the start of the year	-	-
Payments into the Consolidated Fund	31,331	32,469
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 69 to 84 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 2015

		2014-15	2013-14
		£000	£000
	Note		
<b>Administration Costs</b>			
Staff Costs	3	6,592	6,215
Other Costs	4	4,807	4,653
Income	6	(3,628)	(3,649)
<b>Programme Costs</b>			
Staff Costs	3	58	101
Other Costs	5	22	31
Grant to the Scottish Consolidated Fund	5	28,149,910	27,176,083
Election Expenses	5	11,152	583
NLF interest payable		46,037	46,521
NLF interest receivable		(46,037)	(46,521)
<b>Net Operating Costs for the year ended 31 March 2015</b>		<b>28,168,913</b>	<b>27,184,017</b>
Total Expenditure		28,218,578	27,234,187
Total Income		(49,665)	(50,170)
<b>Net Operating Costs for the year ended 31 March 2015</b>		<b>28,168,913</b>	<b>27,184,017</b>
<b>Items that will not be reclassified to net operating costs:</b>			
Net (gain) loss on revaluation of Property, Plant and Equipment		(1)	1
<b>Total comprehensive net expenditure for the year ended 31 March</b>		<b>28,168,912</b>	<b>27,184,018</b>

The notes on pages 69 to 84 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 2015

		31 March 2015	31 March 2014
		£000	£000
	Note		
<b>Non-current assets:</b>			
Property, plant and equipment	7	134	100
Financial assets (NLF)	10	678,069	692,175
<b>Total non-current assets</b>		<b>678,203</b>	<b>692,275</b>
<b>Current Assets:</b>			
Trade and other receivables	12	887	1,354
NLF receivables	12	23,845	14,864
Cash and cash equivalents	11	597	131
<b>Total current assets</b>		<b>25,329</b>	<b>16,349</b>
<b>Total Assets</b>		<b>703,532</b>	<b>708,624</b>
<b>Current liabilities</b>			
Trade and other payables	13	(2,884)	(1,761)
NLF payables	13	(23,845)	(14,864)
<b>Total current liabilities</b>		<b>(26,729)</b>	<b>(16,625)</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>676,803</b>	<b>691,999</b>
<b>Non-current liabilities</b>			
Other payables (NLF)	13	(678,069)	(692,175)
<b>Total non-current liabilities</b>		<b>(678,069)</b>	<b>(692,175)</b>
<b>Assets less liabilities</b>		<b>(1,266)</b>	<b>(176)</b>
<b>Taxpayers' Equity and other reserves</b>			
General fund		(1,268)	(177)
Revaluation Reserve		2	1
<b>Total equity</b>		<b>(1,266)</b>	<b>(176)</b>

The notes on pages 69 to 84 form part of these accounts.

**Francesca Osowska**

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

10 July 2015

## 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 2015

	Note	2014-15 £000	Restated 2013-14 £000
<b>Cash flows from operating activities</b>			
Net operating cost		(28,168,913)	(27,184,017)
Adjustments for non-cash transactions	4	61	60
(Increase)/Decrease in trade and other receivables		(8,514)	1,688
Less: Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure <sup>(1)</sup>		8,981	(2,088)
Increase/(Decrease) in trade payables		10,104	(1,779)
Less: Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure <sup>(1)</sup>		(9,487)	2,129 <sup>(5)</sup>
Closing account in year movement			
<b>Net cash outflow from operating activities</b>		<b>(28,167,768)</b>	<b>(27,184,007)</b>
<b>Cash flows from investing activities</b>			
Purchase of Plant & Machinery and Fixtures and Furnishings	7	(13)	-
(Repayments) from other bodies	10	5,106	7,106
<b>Net cash outflow from investing activities</b>		<b>5,093</b>	<b>7,106</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - Current Year <sup>(2)</sup>		28,157,010	27,183,383
From the Consolidated Fund (Non-supply)		11,237	583 <sup>(5)</sup>
Repayment of loans from the National Loans Fund <sup>(3)</sup>		(5,106)	(7,106)
Repayment of unspent election funding		-	-
<b>Net financing</b>		<b>28,163,141</b>	<b>27,176,860</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>466</b>	<b>(41)</b>
<b>Income payable to the Consolidated Fund</b>		<b>(31,331)</b>	<b>(32,469)</b>
<b>Income paid to the Consolidated Fund</b>		<b>31,331</b>	<b>32,469</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>466</b>	<b>(41)</b>
Cash and cash equivalents at the beginning of the period	11	131	172
Cash and cash equivalents at the end of the period	11	597	131

<sup>(1)</sup> Movements include: departmental balances with the Consolidated Fund: and payables linked to financing - NLF loans (principal and interest), capital debtors, finance leases and PFI and other service concession arrangements.

<sup>(2)</sup> This is the amount received from the Consolidated Fund in respect of the current year.

<sup>(3)</sup> This includes loans repaid by entities for onward transmission to the NLF and interest received from entities for transmissions to the NLF.

<sup>(4)</sup> Cash paid over to the Consolidated Fund under any category.

<sup>(5)</sup> The election funding has been moved from cash flows from operating activities to cash flows from financing activities.

The notes on pages 69 to 84 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 2015

	<b>General Fund £000</b>	<b>Revaluation Reserve</b>	<b>Total Reserves £000</b>
<b>Balance as at 31 March 2013</b>	208	-	208
Net Parliamentary Funding - draw down	(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
<b>Non-Cash Adjustments:</b>			
Non-cash charges - auditor's remuneration	(41)	-	(41)
<b>Other Reserve Movements</b>			
Fixed Assets	-	(1)	(1)
<b>Balance as at 31 March 2014</b>	<b>177</b>	<b>(1)</b>	<b>176</b>
Net Parliamentary Funding - drawdown	(28,168,247)	-	(28,168,247)
Consolidated Fund Standing Services repaid	-	-	-
Deemed Supply	(131)	-	(131)
Unused election funding	51	-	51
Supply Payable	546	-	546
Closing account in year movement	-	-	-
Comprehensive Spending for the year	28,168,913	-	28,168,913
<b>Non-Cash Adjustments:</b>			
Non-cash charges - auditor's remuneration	(41)	-	(41)
<b>Other Reserve Movements:</b>			
Fixed Assets	-	(1)	(1)
<b>Balance as at 31 March 2015</b>	<b>1,268</b>	<b>(2)</b>	<b>1,266</b>

The notes on pages 69 to 84 form part of these accounts.

# Notes to the Accounts for the Year Ended 31 March 2015

## 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 2014-15 (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 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 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 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 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 share a single function but for IFRS purposes are considered to be separate operating segments. The other segments reported in the accounts are the Boundary Commission; the grant to the consolidated fund; Non-voted election expenses and National Loan Fund repayments.

### 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'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 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 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:

- 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.

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.

## **1.5 Intangible Assets**

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

## **1.6 Leases**

The Scotland Office and the Office of the Advocate General 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 are surrendered to the NLF. Outstanding loan balances are included within Trade and other payables.

## **1.8 Employee Benefits**

### **Pensions**

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

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

### **Early Departure Costs**

All Scotland Office and the Office of the Advocate General 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 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 together with the grant payable to the Scottish Consolidated Fund under Section 64 of the Scotland Act 1998; the sponsorship of the Boundary Commission and non-voted election expenses.

## **1.12 Provisions**

Provisions are recognised when the Scotland Office and the Office of the Advocate General 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% (2013–14: 2.2%).

### **1.13 Value Added Tax (VAT)**

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

### **1.14 Financial Instruments**

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items (such as goods or services), which are entered into in accordance with the Scotland Office and the Office of the Advocate General'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 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 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 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 has one category of financial liability known collectively as Other Financial Liabilities:

### **Other Financial Liabilities**

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

### **1.15 Cash and Cash Equivalents**

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

### **1.16 Significant Accounting Estimates and Assumptions**

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

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

#### **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.

### **1.17 Accounting policy in respect of Accounting Standards, interpretations and amendments to published standards**

The Department has reviewed the standards, interpretations and amendments to published standards that became effective during 2014-15 and which are relevant to its operations. The adoption of these standards has not had a significant impact on the Department's financial position or results.

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

### **1.18 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:-

IAS 1- Disclosure Initiative (amendment). effective from 1 January 2016, (not yet EU adopted).

These amendments encourage professional judgements to be used in determining what information to disclose in financial statements and where and in what order information is presented in the financial disclosures. The amendments make clear that materiality applies to the whole of the financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

HM Treasury will review the implications of this amendment and follow the due process nearer the EU adoption date.

IFRS 9 - Financial Instruments (effective from 1 January 2018, not yet EU adopted).

The objective of this Standard is to provide users with more useful information about an entity's expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date of financial instruments. IFRS 9 provided a single classification and measurement approach to all types of financial asset; at amortised costs or at fair value through either the OCI or residually through Profit or Loss.

IFRS 9 carries forward unchanged almost all of the accounting requirements in IAS 39 for financial liabilities. The Standard also contains a single forward-looking expected loss impairment model which is applied to all financial instruments, and introduces a reformed model for hedge accounting which principally aligns the accounting treatment with risk management activities.

The introduction of IFRS 9 is subject to analysis and review by HM Treasury.

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 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortisation (amendment). 1 January 2016.

This amendment prohibits revenue-based depreciation methods and generally presumes that such methods are an inappropriate basis for amortising intangible assets.



This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset.

HM Treasury will review the implications of this amendment and follow the due process nearer the EU adoption date.

IAS 17 - replacement Leases (ISAB plan to issue by end of 2015). The current proposals include the elimination of the current operating lease categorisation for virtually all leases. Assets and liabilities will be recognised on a right of use basis, but two possible exemptions are anticipated, one for short leases (less than 1 year ) and the second being for small value assets.

The Boards (ISAB and FASB) jointly published a revised Exposure Draft Leases in May 2013. Following feedback on their proposals they published a project update in February and March 2015. The updates confirmed the definition of a leases under the new Standard. It emphasises that service contracts are not required to be capitalised on the Statement of Financial Position and that the new Standard will include accompanying guidance to help entities whether a contract (or contains) a lease.

HM Treasury will review the implications and follow due process once there is a final standard.

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

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

	2014-15 £000						
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses	National Loans Fund	Total
Gross Expenditure	6,127	5,272	80	28,149,910	11,152	46,037	28,218,578
Income	(532)	(3,096)	-	-	-	(46,037)	(49,665)
Net Expenditure	<b>5,595</b>	<b>2,176</b>	<b>80</b>	<b>28,149,910</b>	<b>11,152</b>	<b>-</b>	<b>28,168,913</b>

	2013-14 £000						
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Election Expenses	National Loans Fund	Total
Gross Expenditure	5,331	5,537	132	27,176,083	583	46,521	27,234,187
Income	(382)	(3,267)	-	-	-	(46,521)	(50,170)
Net Expenditure	<b>4,949</b>	<b>2,270</b>	<b>132</b>	<b>27,176,083</b>	<b>583</b>	<b>-</b>	<b>27,184,017</b>

### 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.

#### National loan Fund

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 are surrendered to the NLF. Outstanding loan balances are included within Trade and other payables.

### 3. Staff Numbers and Related Costs

Staff costs comprise:

	2014-15				2013-14	
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Wages and salaries	-	4,934	218	62	5,214	4,962
Social security costs	-	427	24	6	457	430
Other pension costs	-	965	-	14	979	924
<b>Sub Total</b>	-	<b>6,326</b>	<b>242</b>	<b>82</b>	<b>6,650</b>	<b>6,316</b>
Less recoveries in respect of outward secondments	-	-	-	-	-	-
<b>Total net costs</b>	-	<b>6,326</b>	<b>242</b>	<b>82</b>	<b>6,650</b>	<b>6,316</b>

	2014-15		2013-14	
	Charged to Admin budgets	Charged to Programme budgets	Charged to Admin budgets	Charged to Programme budgets
Of which:				
<b>Core Department</b>		6,592		-
<b>Other designated bodies (Boundary Commission)</b>		-	58	101

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

#### Average number of persons employed

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

	2014-15				2013-14	
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Office						
Scotland Office	-	64	2	1	67	61
Office of the Advocate General	-	46	1	-	47	46
Boundary Commission	-	1	-	-	1	3
<b>Total</b>	-	<b>111</b>	<b>3</b>	<b>1</b>	<b>115</b>	<b>110</b>

The total number of staff in post as at 31st March 2015 of 118 (112.8 FTE) includes 9 agency member(s) of staff.

All other staff are loaned or seconded from other Government bodies.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Scotland Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation of the scheme was carried out on 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

For 2014-15, employers' pension contributions of 979k (2013-14: £924k) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% (2013-14: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflected past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' pension contributions of £0 (2013-14: £0) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3.0% to 12.5% (2013-14: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer pension contributions of equivalent to 0.8% of pensionable pay were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of employees in the PCSPS scheme.

Contributions due to the partnership pension providers at the reporting period date were £0 (2013-14:£0) There were no retirements during 2014-15 (2013-14: Nil) on the grounds of ill health.

## 4. Other Administration Costs

	2014-15 £000	2013-14 £000
Rentals under operating leases	489	293
Accommodation Costs	1,340	1,238
Legal Costs	1,881	2,218
Travel and Subsistence Costs	587	526
Other Administrative Expenditure	449	318
<b>Non-cash items:</b>		
Depreciation	20	19
Auditors' remuneration and expenses	41	41
<b>Total</b>	<b>4,807</b>	<b>4,653</b>

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

## 5. Programme Costs

	2014-15 £000	2013-14 £000
Grant paid to Scottish Consolidated Fund	28,149,910	27,176,083
Boundary Commission Operating Costs	22	31
Election expenses	11,152	583
<b>Total</b>	<b>28,161,084</b>	<b>27,176,697</b>

## 6. Income

	2014-15 £000	2013-14 £000
Hire of Office Facilities	(532)	(382)
Legal fees and charges to clients	(1,388)	(1,292)
Recovery of legal outlays from other Government Bodies	(1,708)	(1,975)
<b>Total</b>	<b>(3,628)</b>	<b>(3,649)</b>

## 7. Property, Plant and Equipment

2014-15	Leasehold improvements	Plant machinery & equipment	Furniture & fittings	Total
	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 April 2014	53	92	46	191
Additions	-	18	35	53
Revaluation	1	-	-	1
Disposals	-	-	-	-
At 31 March 2015	54	110	81	245
<b>Depreciation</b>				
At 1 April 2014	(5)	(48)	(38)	(91)
Charged in year	(5)	(10)	(5)	(20)
Disposals	-	-	-	-
Revaluation	-	-	-	-
At 31 March 2015	(10)	(58)	(43)	(111)
Carrying amount at 31 March 2015	44	52	38	134
Carrying amount at 31 March 2014	48	44	8	100
2013-14	Leasehold improvements	Plant & machinery	Furniture & fittings	Total
	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 April 2013	52	92	63	207
Additions	-	-	-	-
Disposals	-	-	(17)	(17)
Revaluation	1	-	-	1
At 31 March 2014	53	92	46	191
<b>Depreciation</b>				
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

## 8. Other Commitments

### 8.1 Operating Leases

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

	<b>2014-15</b>	<b>2013-14</b>
	<b>£000</b>	<b>£000</b>
Buildings		
Not later than one year	140	157
Later than one year and not later than five years	587	558
Later than five years	815	984
<b>Total</b>	<b>1,542</b>	<b>1,699</b>

## 9. Financial Instruments

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

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 (Note 13) and trade and other receivables (Note 12).

## 10. Investments in Other Public Sector Bodies

	<b>Loans funded from National Loans Fund</b>
	<b>£000</b>
<b>Cost or valuation</b>	
At 1 April 2013	697,281
Adjustment	
Loans repayable within 12 months transferred to debtors	(5,106)
<b>Balance at 31 March 2014</b>	<b>692,175</b>
Loans repayable within 12 months transferred to debtors	(14,106)
<b>Balance at 31 March 2015</b>	<b>678,069</b>

### History of Accounts

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

The National Loan Fund (NLF) outstanding balances at 31 March 2015 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

	2014-15 £000	2013-14 £000
Balance at 1 April 2014	131	172
Net change in cash and cash equivalents	466	(41)
<b>Balance at 31 March 2015</b>	<b>597</b>	<b>131</b>
The following balances at 31 March 2014 were held at:		
Government Banking Service	597	131
<b>Balance 31 March 2015</b>	<b>597</b>	<b>131</b>

## 12. Trade Receivables Financial and Other Assets

	2014-15 £000	2013-14 £000
<b>Amounts falling due within one year:</b>		
VAT	58	69
Trade receivables	566	1,002
Deposits and advances	-	-
NLF interest receivables	9,739	9,757
Prepayments and accrued income	263	283
Current part of NLF loan	14,106	5,106
<b>Total</b>	<b>24,732</b>	<b>16,217</b>
	<b>2014-15 £000</b>	<b>2013-14 £000</b>
<b>Amounts falling due after more than one year:</b>		
Instalments due on NLF loans	678,069	692,175
<b>Total</b>	<b>678,069</b>	<b>692,175</b>

### 12.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15 £000	2013-14 £000	2014-15 £000	2013-14 £000
Balances with other central government bodies	24,469	15,944	678,069	692,175
Balances with local authorities	34	12	-	-
Balances with bodies external to government	229	261	-	-
<b>Total receivable at 31 March</b>	<b>24,732</b>	<b>16,217</b>	<b>678,069</b>	<b>692,175</b>

### 13. Trade Payables and Other Current Liabilities

	2014-15 £000	2013-14 £000
<b>Amounts falling due within one year:</b>		
Trade payables	28	22
NLF interest payable	9,739	9,757
Accruals and deferred income	2,259	1,608
Current part of NLF loans	14,106	5,106
Unused Election Funding	51	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	546	131
<b>Total</b>	<b>26,729</b>	<b>16,624</b>
<b>Amounts falling due after more than one year:</b>		
NLF loans	678,069	692,175
<b>Total</b>	<b>678,069</b>	<b>692,175</b>

#### 13.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15 £000	2013-14 £000	2014-15 £000	2013-14 £000
Balances with other central government bodies	25,977	17,838	678,069	692,175
Balances with local authorities	-	-	-	-
Balances with bodies external to government	752	567	-	-
<b>Total payable at 31 March</b>	<b>26,729</b>	<b>18,405</b>	<b>678,069</b>	<b>692,175</b>



## 14. Contingent Liabilities disclosed under IAS 37

The Scotland Office 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.

There are no related party transactions to report in 2014-15.

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.

## 16. Entities within the Departmental Boundary

The entities within the boundary during 2014–15 were as follows:

List of entities analysed between:

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

## 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.

This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

There are no material events to report.



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