



Scotland Office and Office of the Advocate General for Scotland

Annual Report and Accounts 2016-17



Scotland Office
and
Office of the Advocate General
for Scotland

Annual Report and Accounts 2016-17
(For the year ended 31 March 2017)

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Contents

Chapter 1	The Performance Report	1
	Ministerial Forewords	1
	Director's Introduction	4
	Departmental Overview	6
Chapter 2	The Accountability Report	35
	Director's Report	35
	Statement of Accounting Officer's Responsibilities	40
	The Governance Statement	41
	Remuneration and Staff Report	53
	Statement of Parliamentary Supply	65
	The Certificate and Report of the Comptroller and Auditor General of the House of Commons	69
Chapter 3	Financial Statements	72
	Statement of Comprehensive Net Expenditure	72
	Statement of Financial Position	73
	Statement of Cash Flows	74
	Statement of Changes in Taxpayer's Equity	75
	Notes to the Accounts	76
Chapter 4	Public Expenditure Financial Tables	88

Chapter 1: The Performance Report

Forewords

Foreword by the Secretary of State for Scotland

It has been my continued privilege to serve as Secretary of State for Scotland, leading a Department that delivers for the people of Scotland in a stronger United Kingdom.



In a year that saw significant political and constitutional change, we have delivered on my department's three objectives which are:

- Strengthening and sustaining the Union;
- Scotland's voice in Whitehall; and
- Championing the UK Government in Scotland.

The UK's vote to leave the European Union has provided the Department with significant opportunities to ensure Scotland gets the best deal possible from the process, and has transformed much of our work. The Ministerial team has travelled the length and breadth of Scotland to hear the views of stakeholders.

Throughout this past year the UK Government and the Scottish Government have worked constructively together to ensure Scotland's interests are represented by its two governments. The continued work on the Scotland Act 2016 in particular demonstrates this and I look forward to this collegiate working with colleagues in Scottish Government and also UK Government departments continuing over the course of the Parliament.

This report also marks one year since the Scotland Act 2016 received Royal Assent. Over the year that followed, Ministers and officials have worked hard to ensure the safe and secure transfer of powers to Scotland and to deliver on the recommendations of the all-party Smith Commission Agreement in full. We also took through six Scotland Act Orders under the Scotland Act 1998. That means, example, UK legislation reflects measures taken by the Scottish Government to make Scotland a more hostile place for human trafficking and reserved law is amended to strengthen the air weapons enforcement regime in Scotland. Finally, over the course of the reporting year my officials have supported the eight Legislative Consent Motions relating to UK Government Bills which were passed by the Scottish Parliament.

I travelled to Europe, the United States of America as well as Singapore and Myanmar during the reporting year to support the oil and gas sector in Scotland, as well as the whisky and film sectors.

The work the Scotland Office and Cabinet Office have taken forward on devolution capability with other UK Government Departments has increased understanding and awareness of devolution and what it means for policies and programmes across the UK Government.

I would like extend my gratitude and thanks to my colleague, former Parliamentary Under Secretary of State Lord Andrew Dunlop for his work on the delivery of City Deals, with MOD to deliver the Basing Review and with numerous Government departments to deliver the Scotland Act 2016 through the House of Lords, playing a significant part in making the Scottish Parliament one of the most powerful devolved Parliaments in the world.

I would like to thank my outstanding officials in the Scotland Office and the Office of the Advocate General for their hard work over 2016-17 – their achievements are set out for you to read about in this report. It is clear to me the Scotland Office, and the people who work here, have an even more significant task over this Parliament. I am confident the Scotland Office is equipped to deal with this task. Collectively, I look forward to the Scotland Office making a real difference to Scotland as an integral part of the UK as we move towards exiting the European Union.

Rt Hon David Mundell
Secretary of State for Scotland

Foreword by the Advocate General for Scotland

It has been my privilege to continue to serve as HM Advocate General for Scotland over the last year. It is hardly possible to overstate the significance of constitutional developments in the United Kingdom in that period. The historic vote to leave the European Union in June last year will, of course, lead to a fundamental change in our constitutional arrangements, and I look forward to helping the UK Government meet the challenges it will face as we prepare to leave. In December, I appeared in the Supreme Court alongside the Attorney General and Treasury Counsel in the case *R (Miller) -v- Secretary of State for Exiting the European Union* and I subsequently supported Ministers from the Department for Exiting the European Union as the legislation introduced by the government in response to the court's judgment made its way through the House of Lords. At official level, my Office has also supported work carried out by the Department for Exiting the European Union, Cabinet Office and Scotland Office as work has begun on the Repeal Bill.



In my role as the UK Government's principal adviser on Scots law and the Scottish devolution settlement, I am supported by officials in London and in Edinburgh who provide legal services to UK Government departments, and this has been another busy year for these areas of work. My Office has continued legal work to implement the Scotland Act 2016, delivering on the UK Government's commitment to give effect to the Smith Agreement, and legal advice and support has been provided on all Westminster Bills extending to Scotland so as to ensure they operate smoothly within the framework of Scots law and the devolution settlement.

In my role as the UK Government's principal adviser on Scots law and the Scottish devolution settlement, I am supported by officials in London and in Edinburgh who provide legal services to UK Government departments, and this has been another busy year for these areas of work. My Office has continued legal work to implement the Scotland Act 2016, delivering on the UK Government's commitment to give effect to the Smith Agreement, and legal advice and support has been provided on all Westminster Bills extending to Scotland so as to ensure they operate smoothly within the framework of Scots law and the devolution settlement.

My Office also undertakes a substantial amount of litigation for UK Government departments in Scottish courts and tribunals. In this last year, the work carried out for Home Office, HM Revenue & Customs, and the Department for Work and Pensions has again represented the highest volumes, with almost 300 new immigration cases for Home Office and 78 new cases for HM Revenue & Customs. I have also represented the UK Government in person in the courts on various occasions.

In September 2016, I led a UK delegation to the International Bar Association annual conference, in Washington DC. I was joined by representatives of law societies, bar associations and legal firms from all the jurisdictions of the United Kingdom. This was a great opportunity to showcase the strengths of the UK's world class legal services sector, and I was delighted to be able to offer my support to what was a very successful delegation.

In the coming year, supported by my office, I will continue to work hard to ensure the UK Government is able to call on the very best legal and constitutional advice. We enter a period that will undoubtedly bring many difficult challenges. I look forward to meeting them with confidence.

Lord Keen of Elie QC

HM Advocate General for Scotland

Director's Introduction

It is with pleasure I present the Annual Report and Accounts for 2016/17 for the Scotland Office and Office of the Advocate General.

The Scotland Office and the Office of the Advocate General are separate departments, responsible to the Secretary of State for Scotland and HM Advocate General for Scotland respectively. I am responsible for delivery of the Scotland Office's business objectives and the Director of the Office of the Advocate General is responsible for the delivery of its objectives. However, the two departments 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 approximately 120 staff in Edinburgh and in London.

Throughout 2016/17 we continued to implement the Scotland Act 2016. This devolves a significant range of further powers to the Scottish Parliament, making it one of the most powerful devolved parliaments in the world. The Scotland Office worked across the UK Government and with the Scottish Government to implement the powers from this Act effectively. These powers are broad ranging, including enhanced borrowing powers, and cover areas including welfare measures to elections to consumer advocacy. The Department also continued implementation work arising from the Scotland Act 2012.

The UK's vote to leave the European Union shifted the balance of work in the department, with EU Exit work becoming a clear priority issue throughout the year. We play an important role in the UK Government's planning for EU Exit. Immediately after the vote we began to engage with stakeholders across Scotland to hear their views and bring these into policy making and we have continued involvement in a range of cross-government forums on EU Exit.

Despite the significant change to the UK Government landscape with the vote to leave the EU, the Scotland Office continued to work productively with UK Government departments and the Scottish Government on a wide range of policy priorities. These have included bringing City Deals to each of Scotland's seven cities. Through City Deals the Scotland Office helps the UK, Scottish and Local Governments support economic transformation. The Scotland Office has also worked closely on the UK Government's Industrial Strategy, with the MoD on defence issues in Scotland and with DCMS and Broadband Delivery UK (BDUK) on mobile and broadband infrastructure plans. We also worked to ensure the 2016 review of the BBC's Royal Charter took full and fair account of Scotland's interests.

The effective operation of the devolution settlement is supported by regular communication between officials and ministers in Scotland's two governments. Our role is to ensure the policies deliver for Scotland and take account of the devolution settlement. We cover not just policy but legal, constitutional and presentational aspects of work.

The Office worked in partnership with other UK departments and external organisations to deliver a number of events both in Scotland and in London. These events showcase and promote Scottish interests. They include a successful Taste of Scotland event to mark St Andrew's Day and promote Scottish businesses and taking part in the Royal Highland Show at Ingliston.

The Scotland Office continues to strengthen devolution capability across Whitehall departments. We work closely with departments to review the impact of their policy priorities on Scotland, enhance officials' skills and have been involved in the Devolution and You learning campaign which is supported by the UK, Scottish and Welsh Governments to improve devolution capability across the civil service.

Looking ahead, in 2017/18 we will build on the strong foundation of EU Exit work that has been established this year. We will also continue to develop the relationships we have established with other UK Government departments and the Scottish Government to progress a range of issues, including the continued implementation of the provisions in the Scotland Act 2016, City Deals and the Industrial Strategy.

I am confident staff in both departments will find it another challenging, but highly stimulating, year and will face it with the professionalism and integrity they demonstrate every day.

Francesca Osowska

Director, Scotland Office

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

14 July 2017

Departmental Overview

Part 1: Scotland Office

The Scotland Office is the UK Government's Office for Scotland. Our objectives in 2016/17 reflect this, provide consistency and continue our work since the 2015 General Election.

Objectives in 2016/17

Objective 1: Strengthening and sustaining the Union

To act as custodians of constitutional arrangements and in particular the devolution settlement.

Objective 2: Scotland's voice in Whitehall

To represent distinct Scottish interests within Government and support the rest of the Government on Scottish matters.

Objective 3: Championing the UK Government in Scotland

To represent and advocate for the UK Government's policies and achievements in Scotland.

Objective 1: Strengthening and sustaining the Union

Scotland Act 2016

Scotland Act 2016 implementation

The Scotland Act 2016 devolves a significant range of further powers to the Scottish Parliament, making it one of the most powerful devolved parliaments in the world. The Act achieved Royal Assent on 23 March 2016 and this year has seen the Scotland Office work with ten other UK Government departments and with the Scottish Government to implement its provisions in a sensible and effective way.

The Act contains a broad range of powers and measures. These include:

- Devolution of income tax powers, including the power to set rates and bands;
- Assignment of VAT revenues;
- Devolution of air passenger duty;
- Devolution of aggregates levy;
- Powers to create new benefits in devolved areas, top up of reserved benefits and responsibility for benefits in Scotland including carer's and disability benefits;
- Enhanced borrowing powers;
- Powers relating to Scottish Parliament elections and local government elections in Scotland;
- The devolution of the licensing of onshore oil and gas extraction;
- Power to legislate for equalities in relation to Scottish public bodies;
- Power over traffic signs and speed limits and on-street parking
- Powers over abortion law;
- Devolution of powers relating to consumer advocacy;
- Policing of Railways in Scotland; and
- Powers over the management of Crown Estate assets in Scotland.

A number of provisions came into force either on Royal Assent or two months after Royal Assent. Since that point, five commencement regulations have been made to bring further sections of the Act into force. The UK Government is continuing work to bring remaining sections into force.

As a result of the implementation of the Act, the Scottish Parliament will have the power for the first time to set both the rates and band thresholds (excluding the personal allowance) that apply to all non-savings and non-dividend income tax paid by Scottish taxpayers.

The fiscal framework agreement sets out a number of agreed dates between the Governments on implementation and commencement of the powers in the Scotland Act 2016. This clears the way for the debate in Scotland to move on to how these tax and spending powers should be used.

To implement the welfare measures in the Act, the Joint Ministerial Working Group on Welfare (JMWGW) and Joint Senior Officials Group have met on three occasions since Royal Assent to facilitate joint working between Scotland Office, the Scottish Government and the DWP to oversee the transition, as set out in the fiscal framework agreement.

The Scotland Office continues regular stakeholder engagement on the implementation of the Act, including hosting sessions at Jobcentre Plus offices in Glasgow and Edinburgh in 2016.

Scotland Act 2012 implementation

In addition to the work to implement the Scotland Act 2016, the UK Government continues to work closely with the Scottish Government in order to implement, in full, the powers set out in the Scotland Act 2012. The Scottish Rate of Income Tax (SRIT) commenced on 6 April 2016. In February 2016, the Scottish Parliament set the SRIT at 10% for 2016-17, thereby effectively matching the tax rates in the rest of the UK at 20%, 40% and 45% for that year. We will continue to monitor and report on the implementation of the Scotland Act 2012 until at least April 2020. The most recent report on both Acts was published in April 2017.

Secondary legislation under the Scotland Act 1998 ('Scotland Act Orders')

The Scotland Office, with support from the Office of the Advocate General, took six Scotland Act Orders through Parliament in 2016-17, each under section 104 of the Scotland Act 1998, which allows for amendments to be made to reserved law to reflect changes to legislation in Scotland.

The broad purposes of these Orders were, respectively, to:

- Ensure eligibility to DWP benefits reflects local authority responsibilities in Scotland to provide continuing care to an eligible young person; ¹
- Update law in other parts of the UK, and UK statute in relation to Scotland, to reflect the consolidation of bankruptcy legislation in Scotland; ²
- Update UK legislation to reflect measures taken by the Scottish Government to make Scotland a more hostile place for human trafficking; ³
- Extend the categories of death in respect of which a mandatory Fatal Accident Inquiry is to be held to include deaths of service personnel in Scotland; ⁴
- Make the Scottish Fiscal Commission part of the Scottish Administration and place a duty on the Office for Budgetary Responsibility to co-operate with it; and ⁵
- Make changes to reserved law in order to strengthen the air weapons enforcement regime in Scotland and ensure consistency between the air weapons and firearms regimes more generally. ⁶

¹ The Children and Young People (Scotland) Act 2014 (Consequential Modifications) Order 2016

² The Bankruptcy (Scotland) Act 2016 (Consequential Provisions and Modifications) Order 2016

³ The Human Trafficking and Exploitation (Scotland) Act 2015 (Consequential Provisions and Modifications) Order 2016

⁴ The Inquiries into Fatal Accidents and Sudden Deaths etc. (Scotland) Act 2016 (Consequential Provisions and Modifications) Order 2016

⁵ The Scottish Fiscal Commission Act 2016 (Consequential Provisions and Modifications) Order 2017

⁶ The Air Weapons and Licensing (Scotland) Act 2015 (Consequential Provisions) Order 2017

Other secondary legislation

In addition to overseeing the making of orders under the Scotland Act 1998, the Scotland Office also coordinated the passage of an order to enable the Court and Office of the Lord Lyon, which regulates heraldry in Scotland, to increase the fees it charges for reserved functions under the Lyon King of Arms Act 1867.

The UK legislative programme and Legislative Consent Motions

The Scotland Office works to ensure other Government departments understand and comply with their responsibilities in adhering to the Sewel Convention. As part of the legislative process Scotland Office Ministers are members of the Parliamentary Business and Legislation Committee of the Cabinet Office and use that forum to address any areas of interest. At official level, the Scotland Office Constitutional Policy team advises departmental Bill Teams with regard to the Legislative Consent Motion (LCM) process.

As part of the UK Government's commitment to the effective operation of the devolution settlement, Scotland Office officials continue 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 reporting year to 31 March 2017 a total of 8 LCMs relating to 8 UK Government Bills were passed by the Scottish Parliament. An LCM for the Farriers (Registration) Bill, a Private Members Bill, was also passed.

Content of the 8 Legislative Consent Motions relating to UK Government Bills: 1 April 2016 – 31 Mar 2017

Children and Social Work Bill

For provisions which relate to the cross-border placement of children in secure accommodation, so far as these provisions fall within the legislative competence of the Scottish Parliament.

Criminal Finances Bill

Relating to amendments to the Proceeds of Crime Act 2002 and the Anti-Terrorism, Crime and Security Act 2001, so far as these matters fall within the legislative competence of the Scottish Parliament or alter the executive competence of the Scottish Ministers. An additional, supplementary LCM was passed for this bill in April 2017, following the end of the reporting year but prior to the dissolution of Parliament.

Cultural Property (Armed Conflicts) Bill

To support the bill, so far as applying to Scotland within the legislative competence of the Scottish Parliament, which provides for the introduction of measures to enable the ratification by the United Kingdom of the Hague Convention for the Protection of Cultural Property in the Event of Armed Conflict of 1954 and the Protocols to that Convention of 1954 and 1999.

Digital Economy Bill

For provisions relating to the Scottish Ministers laying down fees and rules for the Lands Tribunal for Scotland in cases concerning the Electronic Communications Code and Part 5 (Digital government), so far as these matters fall within the legislative competence of the Scottish Parliament or alter the executive competence of the Scottish Ministers.

Health Service Medical Supplies (Costs) Bill

Related to provisions on the costs of health service medicines, medical supplies and other related products, and specifically those relating to information powers, so far as these matters fall within the legislative competence of the Scottish Parliament or alter the executive competence of the Scottish Ministers.

Higher Education and Research Bill

For provisions relating to extending the power of the Office for Students (OfS) to make arrangements under Section 27 of the Bill so as to also include Scottish higher education providers where Scottish Ministers consent; to allow joint working with Research England (UKRI) and the OfS and the Scottish Further and Higher Education Funding Council and clarify the Secretary of State's powers to fund research, to ensure that they are as broad as the UK Research Councils, so far as these matters fall within the legislative competence of the Scottish Parliament or alter the executive power of Scottish Ministers.

Investigatory Powers Bill

Related to provisions relating to the interception of communications in places of detention, decisions relating to the issue, renewal, modification, cancellation and approval of interception warrants, targeted examination warrants and functions relating to mutual

assistance warrants, the subject matter of Part III of the Police Act 1997 and other equipment interference provisions, the safeguards relating to the use and retention of material obtained by investigative techniques under the Investigatory Powers Bill, oversight arrangements and functions, the functions of, and rights of appeal from, the Investigatory Powers Tribunal, the creation of a Technology Advisory Panel, and amendments to the Regulation of Investigatory Powers (Scotland) Act 2000 in consequence of the Investigatory Powers Bill, so far as these matters fall within the legislative competence of the Scottish Parliament or alter the executive competence of the Scottish Ministers.

Policing and Crime Bill

Related to provisions which refer to cross-border powers of arrest, restoring littering powers of Scottish local authorities and to firearms, where these matters fall within the legislative competence of the Scottish Parliament or alter the legislative competence of the Scottish Parliament or the executive competence of the Scottish Ministers.

Intergovernmental relations

The Scotland Office has worked productively with other UK Government departments and the Scottish Government on a range of topics this year. The effective operation of the devolution settlement is supported by regular communication between officials and ministers in Scotland's two governments.

This has been particularly important in the context of the UK's vote on 23 June 2016 to leave the European Union (EU). The Joint Ministerial Committee (JMC), chaired by the Prime Minister and comprising the First Ministers of Scotland and Wales and the First Minister and deputy First Minister of Northern Ireland, has established a Committee on EU Negotiations, known as JMC (EN), in order to:

- discuss each government's requirements of the future relationship with the EU;
- seek to agree a UK approach to, and objectives for, Article 50 negotiations;
- provide oversight of negotiations with the EU, to ensure, as far as possible, that outcomes agreed by all four governments are secured from these negotiations; and
- discuss issues stemming from the negotiation process which may impact upon or have consequences for the UK Government, the Scottish Government, the Welsh Government or the Northern Ireland Executive.

The Secretary of State for Scotland has attended meetings of JMC (EN) and held bilateral meetings with Scottish Ministers in order to bring about a future relationship with the EU that works best for the UK as a whole and for Scotland.

Following the publication of the Scottish Government's proposals Scotland's Place in Europe, an intensified process of engagement was agreed by the JMC. A programme of meetings at official and ministerial level took place to understand the proposals to support political decision-making. The work has been divided into two work streams which cover market access and the customs union, and migration and free movement. The work is an example of civil servants in both administrations working constructively together to support ministerial activity.

Finally, intergovernmental relations was a topic examined by two joint sessions of the UK Parliament's Scottish Affairs Committee and Scottish Parliament Social Security Committee this year, where the role of Scotland Office in facilitating working relationships was acknowledged.

Objective 2: Scotland's voice in Whitehall

Policy priorities and delivery

During 2016-17 the Scotland Office continued to serve as Scotland's voice in Whitehall, in part through a project approach to Ministers' policy priorities and supporting other UK Government departments to deliver in and for Scotland. The Scotland Office has continued worked collaboratively with a range of UK Government departments and agencies, the Scottish Government and its agencies, Scottish local authorities, trade associations and private sector partners. Some of the highlights include work on defence, on broadcasting and on City Region Deals which are covered in more detail below.

EU Exit work

The UK's vote to leave the EU was a significant change for the work of the Scotland Office.

The Government's priority is to secure the right deal for Scotland and the whole of the UK as we leave the EU. In the period since the referendum, Scotland Office Ministers and officials have worked closely with the Department for Exiting the European Union on EU exit as well as with the Department for International Trade on the opportunities for Scotland from future trade policy.

Immediately after the vote, Scotland Office Ministers reached out to stakeholders and sectors across Scotland; holding meetings with key membership-based groups and roundtables.

Scotland Office officials support Ministers in this on-going work by:

- Analysing the data and evidence, to understand the implications for Scotland and to share these across government;
- Working closely with Scottish Government officials to understand their perspectives and share information;
- Representing Scottish interests in cross-Whitehall groups; and
- Reaching out to stakeholders.

This work remains on-going and is expected to be a large and growing area of work in the future, alongside representing Scottish interests in future trade negotiations as the UK develops its own trade policy.

The Scotland Office is working closely with the Department for Exiting the European Union, the Cabinet Office and the Northern Ireland and Wales Offices on the Repeal Bill, which is expected to be introduced to the UK Parliament in the near future. A White Paper on the Repeal Bill was published in March and set out that the Bill will repeal the European Communities Act 1972 and convert EU law (as it applies in the UK) into domestic law on the day we leave the EU. The Bill will give devolved ministers a power to amend devolved legislation to correct law that will no longer operate appropriately. As powers are repatriated from the EU, it will be important to ensure that stability and certainty are not compromised, and that the effective functioning of the UK single market is maintained. We want to provide the greatest legal and administrative certainty upon

leaving the EU. So, consistent with the overall approach in the Bill, the UK Government intends to replicate the current frameworks provided by EU rules through UK legislation. In parallel we will begin intensive discussions with the devolved administrations to identify where common frameworks will be need to be retained in the future. It is the expectation of UK Government that the outcome of this process will be a significant increase in the decision making power of each devolved administration.

The Scotland Office also undertook a vast amount of other work in 2016-17. Some highlights are mentioned below.

Scottish City Region Deals

Since 2014, the UK Government has worked with the Scottish Government and local authorities to support economic transformation in a number of Scottish city regions, focusing on areas of expertise. Such deals are driven by the city region, working with a range of partners from across the public and private sectors and academia. The UK Government (typically Scotland Office, the Department for Communities and Local Government, HM Treasury and other relevant departments) and Scottish Government work with the local partners to refine proposals and agree the scope of a deal.

Three City Deals have been agreed to date in Scotland; Glasgow (August 2014), Aberdeen (November 2016) and Inverness (January 2017).

At the Autumn Statement 2016, the UK Government confirmed that it was continuing negotiations with Edinburgh and was willing to enter negotiations on the Tay Cities and Stirling/Clackmannanshire – meaning that the UK Government has committed to deals covering each of Scotland’s seven cities.

Glasgow and Clyde Valley Deal - UK Government contribution of up to £500m

This was the first Scottish deal, agreed in August 2014, and is the most advanced. It comprises three thematic elements: Innovation, Skills & Employment and Infrastructure. Implementation is well under way.

Innovation and Growth - three projects to support the growth of small and medium enterprises and enhance the life sciences sector:

- Imaging Centre of Excellence - provides ground-breaking medical research and commercialisation facilities for clinical researchers and companies;
- MediCity - brings together academics, entrepreneurs, clinicians and business support services to boost new services and medical technology; and
- Integrated Grow-on (Tontine) - provides quality, flexible work spaces for growing small to medium sized enterprises and a highly focused account managed service from dedicated business advisers. Two of the skills & employment programmes have been in delivery phase during 2016/17 (Working Matters and In Work Progression) with the third project, Youth Employment Gateway now at the pre-business case stage. The Cathkin Relief Road works were completed in December 2016 with the remaining infrastructure projects including Eurocentral, public realm, park and ride, Sauchiehall Street, railway station, pedestrian bridge, ocean terminal and roundabout now at business case stage.

Aberdeen City Region Deal - UK Government contribution of up to £125m

The Aberdeen Deal addresses a number of proposals including a new Oil & Gas Technology centre that will support the industry to exploit remaining North Sea reserves. The business case for the OGTC has now been agreed and funding has started to flow. There are also plans to expand Aberdeen harbour which will enable the city to handle oil extraction decommissioning work. The Deal also sets out how the region will diversify the biopharmaceutical and agri-food industries, diversifying the area's economy and creating new jobs and export opportunities, as well as commitments to improve digital connectivity.

Inverness and Highland City Region Deal – UK Government contribution of up to £53.1m

The Deal, signed in January 2017 will enable the Highland area to be the most digitally connected rural region in Europe by investing into extended digital coverage, including superfast broadband and mobile 4G connectivity. It will also support a package of new innovation measures such as a centre focused on the commercialisation of new medical products and technologies and a Northern Scotland Hub. The Deal will also include work to ensure business-friendly air routes to international hubs and improved access to London.

Edinburgh and South East City Region Deal – negotiations underway and approaching conclusion

Negotiations have been progressing since March 2016 and should conclude in summer 2017 with the agreement of “Heads of Terms” (agreement on the broad principles of the Deal). Following the Science and Innovation Audit in November 2016, the UK Government has been particularly focussed on the benefits that can be delivered through innovation in areas including World Class Data infrastructure, Data Driven Innovation and Robotics.

Stirling and Clackmannanshire

An agreement to negotiate was confirmed by the Chancellor at Autumn Statement 2016. The Stirling negotiations area due to commence in May 2017.

Tay Cities

Similar to Stirling and Clackmannanshire, an agreement to negotiate was confirmed however negotiations will not begin until later in 2017.

Industrial Strategy

The Scotland Office supported work by the Department for Business, Energy and Industrial Strategy (BEIS) to develop the Industrial Strategy Green Paper. The paper was published in January 2017. Scotland Office officials have also supported BEIS engagement with stakeholders across Scotland at both Ministerial and official level throughout the consultation, ensuring our key stakeholders participate in the consultation and that they have an opportunity to speak with BEIS directly.

In conjunction with BEIS and No. 10, Scotland Office set up a process for joint work in Industrial Strategy between BEIS and Scottish Government, with systematic

engagement on each pillar of the Industrial Strategy at official level, drafting of a joint analysis document on barriers to productivity and regional growth in Scotland and the Industrial Strategy Ministerial Forum held on 11 April 2017.

Scotland Office has also engaged with regional groups in Scotland to guide their engagement with UK Government to ensure that proposals being developed for regional growth are set in the context of the Industrial Strategy and we have brokered both Ministerial and official engagement to help align proposals with new policy.

Defence

The Scotland Office has supported the Ministry of Defence in its work to implement the Strategic Defence and Security Review in Scotland. The UK Government's commitment to defence in Scotland in 2016/17 has included commitments to the production of further warships at shipyards on the Clyde and the contract being signed for nine Boeing P-8 Maritime Patrol Aircraft to be based at RAF Lossiemouth.

The Secretary of State for Scotland also witnessed the signing of a Strategic Delivery and Development Framework between HM Naval Base Clyde and Argyll & Bute Council, the culmination of work to improve understanding and co-operation between the base and its community.

Broadcasting

The Royal Charter, which forms the constitutional basis of the BBC, was reviewed during 2016. As a public sector broadcaster, the BBC's Charter is reviewed periodically to ensure that the BBC's mission, purpose and values, as well as the BBC's funding and governance arrangements, all remain relevant and fit for purpose.

The Scotland Office worked with DCMS to ensure the Charter review process took full and fair account of Scotland's interests, to ensure that the BBC remained a strong UK institution in Scotland which represented the people and places of Scotland. Following extensive consultation and engagement, the new Charter was published in December 2016.

The new Charter and accompanying operating framework for the BBC include arrangements for a Scotland representative on the new unitary BBC Board, the body that will oversee the BBC, giving Scotland a voice right at the heart of BBC decision-making. It also delivers new powers to Ofcom to scrutinise the BBC's performance in delivering for Scotland, plus a clear set of obligations and measures that the BBC will be required to meet and report against in serving their audiences in Scotland. For the first time the Charter formalises the BBC's support for Gaelic broadcasting services, and also maintains measures to ensure that BBC programme production continues to be made outside of London, including in Scotland, to help encourage a healthy independent production industry across the UK.

Under the new Charter, the Scottish Government will also have additional powers to hold the BBC to account, enshrined in law, to include a formal and consultative role in future Charter Reviews. The BBC will lay their annual reports and accounts before the Scottish Parliament and, going forward, will be required to submit reports to, and appear before, Committees within the Scottish Parliament on the same basis as the UK Parliament.

Energy

The Scotland Office has continued its close engagement with the Energy Sector across oil and gas and renewables. The oil and gas sector has been operating in particularly challenging circumstances and, by working with the industry and the Oil and Gas Authority, we have ensured challenges faced are properly understood by colleagues across UK Government and targeted support is provided. The Aberdeen City Deal (see above) is also part of the UK government response.

The Scotland Office continues to work with colleagues in the Department for Business, Energy and Industrial Strategy (BEIS), islands organisations and industry to deliver the commitment to remote island wind set out in the manifesto.

Digital Economy

Good digital connectivity is now an essential for businesses, communities, families and individuals across our society. The Department of Culture, Media & Sport (DCMS) Broadband UK programme is rolling out superfast broadband connectivity across the UK via a number of projects. In Scotland rollout is happening in partnership with the Scottish Government and Highlands and Islands Enterprise under the Digital Scotland banner.

The Scotland Office has closely monitored and worked with partners across the public and private sector to ensure opportunities to improve mobile and broadband connectivity are maximised in Scotland. The UK Digital Economy Act paves the way for the introduction of a UK Universal Service Obligation by 2020, ensuring broadband connectivity is a right alongside fixed telephony. The Scotland Office has ensured the UK better broadband subsidy scheme, offering a basic affordable broadband service is advertised and available in Scotland.

The Scotland Office has worked closely with the Home Office's Emergency Service Mobile Communications Programme (ESMCP) to ensure, where possible, masts built for the ESMCP, and are viable for commercial use, are opened up to third parties.

Resettlement of Syrian refugees

The Home Office continues to lead on a dedicated programme to resettle families displaced by the on-going conflict in Syria. The UK Government has committed to resettling 20,000 people in the UK by 2020. Approximately 15 months into the project, Scotland has already settled around 6% of the overall UK target for 2020. Since the start of the Resettlement Scheme, the Scotland Office has worked closely with the Home Office and the Convention of Scottish Local Authorities (COSLA) to ensure a smooth transition for families moving to new homes in Scotland.

Trade promotion

In June, the Secretary of State travelled to Dallas and Houston to help support the UK's oil and gas sector by building links with the industry in the US. He met with senior figures from a number of key businesses, including Maersk, BP and the Weir Group, pressing the case for investing in Scotland and finding paths for Scottish companies to export their expertise in the industry. This built on a visit to Mozambique earlier in the year, where he helped broker an oil and gas deal between Aberdeen and the Mozambique town of Pemba.



US Maersk Health & Safety training facilities

As part of our on-going EU exit work, the Scotland Office worked with DEXEU to plan and deliver a programme of activity in Brussels for the Secretary of State. This visit allowed Secretary of State to ensure the UK Government voice on Scotland was being heard in Brussels and informed subsequent discussions with stakeholders in Scotland on EU exit.

Building on our relationship with the Edinburgh International Film Festival (EIFF) and with the aim of supporting the Global Britain messaging, we worked with the British Embassy in Berlin to plan and deliver a programme of activity for the Secretary of



Sir Tim Barrow (l) and Secretary of State for Scotland, Rt Hon David Mundell (r)

State, promoting Scotland internationally, which included the launch of EIFF in Berlin and a visit to Fruit Logistica, one of the biggest fresh produce trade fairs, to support Scottish companies in attendance.

Stakeholder Engagement

Over the past year the Scotland Office has implemented a strategic and focused engagement programme with stakeholders across Scotland. There have been over 100 meetings with over 200 stakeholders covering a diverse range of sectors. These took place through one to one meetings, roundtables, attendance at third party events and visits to interested organisations and companies.

The purpose of this engagement has been twofold – to ensure the views of Scottish stakeholders are listened to and taken into account by all UK Government Departments working on EU Exit as well as keeping stakeholders informed of key UK Government policy and initiatives in this area.

Alongside this activity, Scotland Office officials continue to advise and support other UK Government departments on their engagement strategies, thereby supporting their outreach in Scotland. This has included facilitating a programme of activity in Edinburgh and Glasgow for No 10 Directors; suggesting stakeholders for BEIS to engage with on the Industrial Strategy and supporting DExEU on engagement with Scottish stakeholders on their EU Exit work.

As well as facilitating engagement in Scotland for Ministers and officials, the Scotland Office has also provided support to Scottish stakeholders when they are in London. Examples include a roundtable event on the Industrial Strategy with CBI members, facilitating a cross-government meeting with Scotch Whisky Association to discuss the impact of EU Exit on the industry, and hosting a networking event for Scottish Financial Enterprise.

Devolution capability

The Scotland Office has been working closely with Cabinet Office to strengthen devolution capability across all UK Government Departments.

Officials from Scotland Office have also supported Cabinet Office in taking forward the Devolution and You learning campaign, a campaign which is supported by the UK, Scottish and Welsh Governments to improve devolution capability across the unified Civil Service. Scotland Office activity included leading training sessions with officials from across UK Government, writing blogs and other learning materials and supporting interchange and shadowing opportunities.

Scotland Office has also been supporting the UK Government in Scotland to help build a sense of the UK Government family between UK Government civil servants who work in Scotland, to work collaboratively, across Departments and to raise the profile of the work of the UK Government in Scotland within the Civil Service and the wider community.

Events

The Scotland Office has planned and delivered a number of events in Dover House, showcasing it as a hub for Scottish activity in Whitehall. A highlight of this programme of activity was the Taste of Scotland event marking St Andrew's Day. The event,

which showcased produce from a range of Scottish businesses including gin, smoked salmon, chocolate and black pudding, provided a valuable networking opportunity with Ambassadors and other key stakeholders.



Secretary of State for Wales, Rt Hon Alun Cairns (l) and Secretary of State for Scotland, Rt Hon David Mundell (r) attending the St Andrew's Day event in Dover House

In addition, the Scotland Office worked with FCO to organise an event in Lancaster House, London, to mark Burns Night. This provided a platform to celebrate Scotland amongst a wide range of guests including Ambassadors, key Scottish stakeholders and others in London with an interest in Scotland.

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 Government departments on the delivery of the Strategic Defence and Security Review, CONTEST (the UK Government's counter terrorism strategy), and the National Cyber Security Strategy.

The Scotland Office also worked with other UK departments, the Scottish Government and other responders on preparations for the major risks facing the UK and responses to current incidents such as cyber-attacks and the impact of severe weather in Scotland.

The Scotland Office has an important liaison role in ensuring that both Scotland and that UK as a whole are more secure and better able to plan for and respond to emergencies, as a result of Scotland's place within the UK.

Objective 3: Championing the UK Government in Scotland

Ministerial Visits

The Secretary of Scotland and former Parliamentary Under Secretary of State, Lord Dunlop undertook a large number of visits around Scotland over the past year which provided opportunities to highlight the work of the UK Government and to hear first-hand from stakeholders from a broad range of sectors. These ranged from an Oil and Gas supply chain company in Aberdeen to a gin distillery on the Isle of Harris, the Tontine Centre linked to the Glasgow City Deal, the site of the new V&A Museum of Design in Dundee, and a potato seed producer in Forfar.



Parliamentary Under Secretary of State, Lord Dunlop visiting the site of the V&A Museum of Design, Dundee

In addition to these visits, Scotland Office officials supported a number of visits by Ministers from other UK Government departments. These included the Prime Minister, Chancellor, Defence Secretary, Secretaries of State for DfT, DWP, DEFRA, DIT and DExEU. By working closely with each of these departments, the Scotland Office has been able to offer advice and support to help ensure the engagements undertaken were informed and productive.

Events across Scotland

We worked in partnership with other UK Government departments and external organisations to plan, deliver and promote a number of events in Scotland which champion the work of the UK Government. Examples include the first UK Government stand at Royal Highland Show with the aim of raising the visibility of UK Government in Scotland which provided a valuable platform for Scotland Office and Departments, including DEFRA, DWP, and MOD, to speak to the general public about the UK Government's work. We also held an event to mark LGBT History month, working with Government Equalities Office and a number of LGBT organisations, which provided

an opportunity to highlight the positive work of the UK Government and an event in Edinburgh Castle to mark Armed Forces Day which was attended by over 100 guests including veterans, serving personnel and cadets.



Armed Forces Day reception, Edinburgh Castle, 2016

Digital And Campaigns

Our Campaigns and Digital engagement activities remain a valuable tool in communicating the activities of the UK Government to the general public.

We worked across departments to support communications around key government announcements including the Budget, implementation of the Scotland Act and many others. A key campaign for this year has been promoting factual information about Scotland's trading relationships with the UK, EU and internationally.

In fact, Scotland's trade with the rest of the UK is worth 4 times more than with the EU.



Year on year, our direct digital engagement with the general public has increased significantly and allows us to engage wider audiences. We will continue sharing messages from both our own department and other government departments on the work the UK Government is doing across Scotland.

Over the summer, our Rio Olympics activity supported the Scottish Athletes in Team GB and promoted the support the UK Government gives Scottish athletes on their road to Rio. We secured seven video interviews with Olympians and our content was shared by the official Rio 2016 account. 83% of the people who saw the content had not engaged with the Scotland Office on social media before, indicating a strong success rate in reaching new audiences.

On St Andrew's Day, we celebrated Scotland's global impact by bringing to life the exceptional work done internationally by inspirational Scots, using the moment of national pride to raise awareness of the work that men and women in the armed services, international aid workers, and FCO international diplomatic staff do for people in Scotland. Working with FCO, DFID and MOD staff around the world, we created videos of UK Government staff playing important roles in international affairs, including members of the Armed Forces serving in Iraq and Washington, aid workers helping alleviate poverty in Pakistan and Tanzania, and diplomats building international relations in Barbados and Singapore. An animation and infographics carrying key UK Government messages were created and all film was edited in-house. Over 60 posts were issued on Scotland Office social media, amplified by hundreds more from embassies, departments and a host of international stakeholders from as far afield as Malawi. The digital content reached an estimated 6.8 million timelines internationally and was featured on Scotland Tonight.



Burns Night provided another opportunity to showcase what the UK Government delivers for Scotland, to demonstrate Scotland's importance to the UK and to celebrate Scotland's global contribution. Building on the success of the St Andrew's campaign, the Scotland Office coordinated a cross-departmental effort, covering all communications disciplines and targeting a variety of engaging stories to different audiences. We

ran a joint campaign with Scottish Government, which not only created impact, but demonstrated Scotland's governments working together. Our digital campaign featured films of UKG staff reading Burns poetry, infographics on whisky exports, animated Burns GIFs, and video interviews.

Twenty film contributions were submitted by UK Government staff from all over the world reading Burns' poetry, which brought to life the different roles Scottish people play internationally. The video reached millions of people across the world through social media.

In January-March 2017, our focus turned to trade.

We devised digital activity to inform the public, creating videos, infographics and films highlighting the thriving trading relationship between Scotland and the rest of the UK. Engagement on social media was unprecedented.

Media

We have continued to work with media in Scotland to inform the public about the work of the UK Government in Scotland.

That included print, online and broadcast media – both national and in communities across the county. We helped journalists with queries, issue news releases and statements, set up briefings and facilitated ministerial interviews.

Two key topics for this year were media around EU exit and further information on the devolution of powers.

The team also worked to highlight through the media the range of powers being devolved through the Scotland Act 2016. This included a speech by the Secretary of State for Scotland on the second anniversary of the independence referendum highlighting progress in implementing the Smith Commission recommendations and working in collaboration with the Scottish Government on the transfer of tax and welfare powers.

In addition the team demonstrated the economic benefits of the UK to Scotland, at fiscal events including the Budget and in negotiation on the City Deals for every city in Scotland. Defence was another key area with joint working with the MoD media team to inform the public about plans to locate all of the UK's submarines in Helensburgh, as well as securing the future of shipbuilding on the Clyde.



Scotland Office ministers visited HMRNB Clyde, the Royal Navy's main presence in Scotland

Part 2: Office of the Advocate General for Scotland

Delivery of Objectives in 2016-17

The Office of the Advocate General (OAG) set the following strategic objectives for 2016-17:

Objective 1: Providing Advice on Policy and Legislation

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 and the wider United Kingdom.

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 provide an excellent service in the conduct of 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 the Scotland Act.

Objective 3: Strengthening and Sustaining the Union

We will work to support Scotland's continuing place within the UK, including working to support the delivery of a strengthened Scottish Parliament within the United Kingdom to meet the commitments made in advance of the independence referendum.

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 support the Advocate General for Scotland and Secretary of State for Scotland.

The activity which OAG undertook in 2016-17 to meet each of these objectives is summarised below.

Objective 1: Providing Advice on Policy and Legislation

As in previous years, a significant proportion of OAG's work in 2016-17 related to the provision of Scots legal advice on the full range of UK Government activities in Scotland. This involved work across a number of UK departments and the provision of legal support on a range of different topics. In order to make that work effective, OAG has worked hard to build and maintain contacts with departments of the UK Government through the provision of targeted training.

The UK Government's legislative programme was again the subject of significant advice and support from OAG. That work now involves not just the Scots law and devolution implications of Bills which extend to Scotland but also contributing to the UK Government's analysis of devolution matters for the purposes of the English Votes procedures in the UK Parliament. Support for the Scotland Office on issues of legislative consent remained a central part of our work.

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 2016-17, 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:

- Children and Social Work Bill;
- Criminal Finances Bill;
- Cultural Property (Armed Conflicts) Bill;
- Digital Economy Bill;
- Health Service (Medical Supplies) (Costs) Bill;
- Higher Education and Research Bill;
- Policing and Crime Bill;
- Prisons and Courts Bill;
- Technical and Further Education Bill; and
- Vehicle Technology and Aviation Bill.

Work on the implementation of the Scotland Act 2016 was a particular priority for the Office as has been contributing to work on the legal implications for the Scottish devolution settlement of the decision to leave the European Union, including contributing to the UK Government's position on aspects of the Miller case concerning the Government's power to trigger Article 50.

As far as subordinate legislation is concerned, OAG was responsible for advising or leading on orders under the Scotland Act Orders, covering a range of subjects such as Fatal Accidents, and the Scottish Fiscal Commission. 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

The Advocate General personally represented the UK Government in significant court cases in 2016-17. For example, he appeared in the Supreme Court in R (on the application of Miller) v Secretary of State for Exiting the EU, alongside the Attorney General and First Treasury Counsel, addressing the court on the devolution issues raised. The Advocate General also represented the Home Secretary in an important immigration case in the Supreme Court, Kiarie and Byndloss.

The Advocate General also maintained his intervention 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 following the reference to the Court of Justice of the European Union in Luxembourg, and the conclusion of the appeal in the Court of Session last year, the case is now being appealed to the UK Supreme Court.

A breakdown of the cases in which the Advocate General has intervened since devolution can be found at:

<https://www.gov.uk/government/publications/involvement-in-cases>

OAG also undertook a wide variety of litigation in the Scottish courts for UK government departments. Immigration litigation on behalf of the Home Secretary continued to be a major area of work. A total of 291 new cases were dealt with comprising 264 petitions for judicial review, 27 statutory applications for leave to appeal and 12 statutory appeals. There were also 10 reclaiming motions (appeals to the Inner House of the Court of Session). The immigration cases OAG deals with consistently comprise one of the largest single areas of work before the Court of Session. The significant themes this year have been: claims challenging Home Office decisions relating to family life (Article 8 ECHR,); cases following the Supreme Court decision in Eba v Advocate General for Scotland which considered whether it was competent in certain circumstances to seek judicial review of a decision of the Upper Tribunal; challenges to action by Home Office following the discovery of evidence of applicants for leave, cheating in English Language tests and challenges to detention.

OAG represented the Secretary of State for Work and Pensions in an increasing number of appeals to the Upper Tribunal, and statutory appeals to the Inner House of the Court of Session. The appeals have related to a variety of benefits.

OAG's dedicated HMRC division also handled a high volume of litigation in 2016-17 on behalf of HM Revenue & Customs. It handled 137 cases during the year, 78 of which were new. The litigation workload includes cases relating to tax and duties before the Court of Session, several Sheriff Courts throughout Scotland, appeals to the Sheriff Appeal Court, the First-tier Tribunal (Tax Chamber) and the Upper Tribunal (Tax and Chancery Chamber) and 2 cases before the Supreme Court (1 as Appellant and 1 as Respondent). 23 of the cases relate to National Minimum Wage matters (either appeals by, or recovery of sums due from, employers) in both the Employment Tribunal and Sheriff Courts.

Objective 3: Strengthening and Sustaining the Union

OAG undertook a variety of work in 2016-17 to support Scotland's continuing place within the UK. The most significant was OAG's continued role in supporting implementation of the Scotland Act 2016, giving legislative effect to the Smith Commission Agreement. It also 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.

Objective 4: Helping to ensure that Devolution Works

OAG's legislative, advisory and litigation work was critical to meeting this objective in 2016-17. 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 orders under the Scotland Act. Such orders are one of the key mechanisms by which the Scotland Act ensures continuing coherence of the settlement.

Along with the Scotland Office, Wales Office and Cabinet Office Constitution Group, OAG continues to be part of the UK Governance Group (UKGG) established following the 2015 election. Whilst this has not changed Ministerial responsibilities, the creation of the UKGG has brigaded at the centre of government those offices with responsibility for devolution and wider constitutional matters. OAG has played a central role in the UKGG's efforts to build devolution capacity across Whitehall, leading training and building awareness and understanding of devolution at official level.

Objective 5: Supporting Ministers

The Advocate General works with the Attorney General and the Solicitor General for England and Wales to provide formal advice on the most difficult and sensitive legal questions facing Government. OAG supports the Advocate General in performing that role. 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 particular matter, or the content of such advice. Accordingly, no details of this significant aspect of OAG's work can be disclosed in this report.

OAG also assisted the Advocate General in relation to Parliamentary and Cabinet Committee business. In 2016-17, the Advocate General was a member of the Parliamentary Business and Legislation Committee which manages the UK Government's legislative programme.

Under Section 33 of the Scotland Act 1998, the Advocate General may refer to the Supreme Court the question of whether a Bill of the Scottish Parliament, or any provision of such a Bill, is outside the legislative competence of the Scottish Parliament. OAG 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 as regards all Scottish Parliament Bills passed in 2016-17.

The Advocate General was also the official spokesperson in the House of Lords for the Attorney General's Office. In addition, he has answered parliamentary questions

and steered certain legislation through the House on behalf of the UK Government. For example, in the 2016-17 session the Advocate General led for the Government on aspects of the Investigatory Powers Bill and the European Union (Notification of Withdrawal) Bill. The Advocate General is also a spokesperson for the Ministry of Justice in the House of Lords and advises the Lord Chancellor on some specific areas of her portfolio such as the promotion of legal services abroad.

In November 2016, Lord Keen led a UK delegation to Beijing to attend the Chinese Law Society Conference on UK-China rule of law co-operation. The purpose of this trip was to establish stronger UK-China cooperation on rule of law issues to facilitate UK business growth in China.



Lord Keen speaking on 24 November 2016 at the opening ceremony of the British Embassy and Chinese Law Society's Conference on UK-China rule of law co-operation

OAG also supported the Advocate General as he led a trade delegation to the International Bar Association conference in Washington DC. The purpose of the delegation was to promote UK legal services, and it included representatives from law societies, bar associations and other professional organisations from all the jurisdictions of the United Kingdom, as well as numerous legal firms. The Advocate General undertook several speaking engagements and meetings and his involvement was welcomed by the practitioners taking part. The delegation as a whole was warmly received.

Part 3: Sustainable Development

The data in this report is in accordance with the guidelines laid down by HM Treasury in the Government Financial Reporting Manual 2016/17, which can be accessed at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577272/2016-17_Government_Financial_Reporting_Manual.pdf

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 UK Government bodies, to a total of about 45% and Melville Crescent in Edinburgh is also shared with other UK Government bodies to a total of about 28%. OAG 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. 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:

- We have continued to ensure 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.

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 and dial-in facilities rather than travelling to meetings;
- Using recycled paper and other stationery; and
- Using public transport rather than cars when travelling to meetings.

Throughout this year we have continued to acquire new mobile video conference equipment to facilitate reduced travel and we have continued to remove or replace printers and photocopiers with energy efficient models which reduce paper wastage.

Part 4: Returning Officers' Expenses

Foreword

Statutory Background

The Representation of the People Act 1983 provides for the making of regulations to set out the range and scale of fees and expenses, which will apply to elections.

The Charges Order that relates to the relevant election date is applicable; thus, different Orders may apply to different accounts. The Order applied in this Account was:-

For the European Election on 22 May 2014 :

- The European Parliamentary Elections (Returning Officers' and Local Returning Officers' Charges) (Great Britain and Gibraltar) Order 2014 (SI 2014 No 325), which came into force on 13 February 2014.

For the UK Parliamentary Election on 7 May 2015 :

- The Parliamentary Elections (Returning Officers' Charges) Order 2015 (SI 476) which came into force on 24 February 2015.

History of the Account

The account came into effect on 22 August 1991 when responsibility for accounting related to parliamentary elections in the United Kingdom was transferred from HM Treasury to the Home Departments. The transfer was made in order to consolidate responsibility for parliamentary election matters within the areas where electoral policy and legislation were already covered.

UK Parliamentary elections in the United Kingdom are financed from the Consolidated Fund. European elections in Scotland are financed from the grant paid to the Scottish Consolidated Fund. Funds are drawn down as required either to meet expenses already incurred by Returning Officers (e.g. to purchase or maintain election equipment on an ad hoc basis) or, when an election is called, to provide sufficient advances for necessary preparations to be put in hand. Other calls on the account are made by the payment of postal charges to Royal Mail for the free election material permitted under the Representation of the People legislation. Finally, when Returning Officers' Election Accounts have been approved, any outstanding balances are received or disbursed as appropriate.

Main Areas of Payments and Receipts

The payments made during 2016-17 related to final settlements of claims totalling £1,264,636.28 which related to the 2015 UK Parliamentary Election. The receipts of £356.73 were in relation to bank interest. The bank interest and unused funding were subsequently surrendered to the Consolidated Fund.

Initial advances to returning officers are calculated on the basis of the formula created by the Cabinet Office. The formula is based on a number of categories which includes:

the costs of previous elections; the number of voters; the number of polling places; and the numbers of postal voters etc. All completed election account claims from Returning Officers are checked thoroughly against the formula and all variances are questioned prior to payment being issued.

The table below highlights the flow of expenditure from the Consolidated fund in relation to election expenses:

Receipts And Payments Account For The Year Ended 31 March 2017

	2016-17	2015-16
	£000	£000
Receipts		
Balance b/f from previous elections		
Unused funding 2013 By-election		25
Unused funding 2014 European Election		25
Funding for the 2015 UK Parliament Election		14,175
Unused funding 2015 UK Parliament Election	1,595	
Other Receipts		
refund of funding - 2014 European Election		34
Refund of Final Settlements		1
Bank Interest		1
Forfeited Deposits		79
Total	1,595	14,340
Payments		
Local Authority Claims		
Funding Advances		8,475
Final Settlements (including accrued costs)	198	1,751
Other Expenditure		
Royal Mail Costs		3,421
Total	198	13,647
Excess of payments over receipts before amounts surrendered to the Exchequer	1,397	693
Less: Accrued Expenditure	-1,067	1,067
Less: Amounts Surrendered to the Exchequer in Respect of:		
Forfeited Deposits	0	79
Bank Interest Received	0	1
Unused Funds	330	85
Total	330	165
Statement of Balances as at 31 March 2017	0	1,595

Part 5: Financial Review for the Scotland Office and the Office of the Advocate General

In 2016-17 within the Parliamentary Supply Estimates (Supplementary Estimate) for the Scotland Office and the Office of the Advocate General the spend totalled £28 billion. The Scotland Office and the Office of the Advocate General voted provision was £10.6 million and the payment to the Scottish Consolidated Fund totalled £28 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 2016-17

At the start of the year the Scotland Office and the Office of the Advocate General were voted £28 billion in its Main Estimate. By the final Single Supplementary Estimate, this had increased by £14 million, primarily due to an increase in the payment to the Scottish Consolidated Fund.

Explanation of Variances between Estimate and Net Resource Outturn

The Statement of Parliamentary Supply demonstrates that overall there was an underspend of 0.02% (£4.5 million) on the Estimate provision of £28.0 billion. The Statement of Parliamentary Supply 1.1: Analysis of net resource outturn by section, and The Statement of Parliamentary Supply 1.1: Analysis of net capital outturn by section provides a breakdown of this position for each subhead in the Estimate. The reasons for variances are set out below.

Scotland Office and the Office of the Advocate General – Resource

The Scotland Office and the Office of the Advocate General underspend on its provision is mainly attributable to unfilled vacancies throughout the year and planned efficiencies within the Offices.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Scotland Office and Office of the Advocate General	9,793	9,982	189	1.89%

Boundary Commission for Scotland

The underspend for the Boundary Commission for Scotland in 2016-17 was mainly as a result of lower than expected review costs. Public notices were not printed in the press to advertise the consultations on Initial Proposals as part of the 2018 Review, Public Hearings were each completed within a single day rather than over the two days allowed by the legislation and the development costs of the consultation portal cost less than had been budgeted. Underspends also arose due to the postponement

of the commission's rebranding work until the transfer of responsibility for reviews of Scottish Parliament boundaries took place.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Boundary Commission for Scotland	484	605	121	20%

Grant payable to the Scottish Consolidated Fund

The sum of £4.144 million described as an underspend in the grant payable to the Scottish Consolidated Fund indicates the amount of actual cash that the Scottish Government did not draw down in 2016-17. 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. The Scotland Office paid across all amounts to the Scottish Consolidated Fund as requested by the Scottish Government. Information on the Scottish Government's actual expenditure in resource terms can be found in the Scottish Government's consolidated accounts and the accounts of its arm length bodies. The Scotland Office is responsible for ensuring that funds are transferred appropriately and that transfers are recorded correctly in our accounts. It is for the Scottish Parliament to determine how the funds are spent and for the Scottish Government to account for the expenditure.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Grant payable to the Scottish Consolidated Fund	27,957,900	27,962,044	4,144	0.01%

Scotland Office and the Office of the Advocate General – Capital

The underspend on capital is attributable to unused contingency funds.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Scotland Office and the Office of the Advocate General	45	50	5	10%

Reconciliation of Resource Expenditure between Estimate, Accounts and Budgets

	Estimate £000	Outturn £000
Net Resource Outturn (Estimates)	27,972,631	27,968,375
Net Operating Cost (Accounts)	27,972,631	27,968,375
Voted expenditure outside the budget	(27,972,681)	(27,968,420)
Resource Budget Outturn (Budget)	10,587	10,277

Francesca Osowska

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

14 July 2017

Chapter 2: The Accountability Report

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 2016/17 are shown below:

- The Rt Hon David Mundell MP, Secretary of State for Scotland;
- Lord Dunlop of Helensburgh, Parliamentary Under Secretary of State for Scotland;
- The Rt Hon The Lord Keen of Elie QC, Advocate General for Scotland;
- Francesca Osowska, Scotland Office Director and Accounting Officer; and
- Michael Chalmers, Office of the Advocate General Director;

The Senior Managers were supported by the Deputy Director for Corporate Services and Governance and the Legal Secretary to the Advocate General who attend all meetings of the Scotland Joint Management Board.

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

Our Corporate Performance

Underpinning the Scotland Office's core objectives is a commitment to continue to run the Office effectively, efficiently and economically, delivering on a number of key internal performance targets.

Performance Targets

In 2016/17, 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 2016-17
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 received 1539 pieces of correspondence and replied to 1364 (88.6%) within the target time. The Office of the Advocate General answered three pieces of correspondence and replied to 100% of ministerial correspondence within the target time.
We will reply to all Freedom of Information (FOI) requests within 20 working days of receipt or, if an extension is permitted under the FOI Act, and it is necessary to use it, we will reply within 20 working days explaining the reasons for the delay and indicating when a full reply will be sent.	Percentage of correspondence replied to within 20 days.	The Scotland Office received 165 FOI requests in 2016/17 and replied to 149 (90%) within 20 working days either substantively or explaining the reason for an extension. The Office of the Advocate General received 24 FOI requests in 2016/17 and replied to 92% within 20 working days.
We will ensure that accounts are paid promptly. We will pay 80% of accounts within five days of receipt of a valid invoice.	Percentage of payments made within target time.	The Scotland Office paid 84% of invoices within five days. The Office of the Advocate General paid 88% of invoices within five days.

Ministerial correspondence

There were 1539 items, compared to 1556 in 2015/16.

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, 100% 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 6 occasions during the reporting year 2016/17, on:

- 11 May 2016;
- 6 July 2016;
- 12 October 2016;
- 23 November 2016;
- 18 January 2017; and
- 1 March 2017.

	Ordinary Written Questions		Named Day Questions	
	Total Received	Answered on Time	Total Received	Answered on Time
House of Commons	136	136	49	49
House of Lords	2	2	n/a	n/a
Total	138	138	49	49

Freedom of Information Act 2000

Under the Act, public authorities are required to respond to written requests for information within 20 working days. Information released and considered to be in the wider public interest is placed on both Offices' websites. Information in former Scottish Office files relating to reserved functions is held by the Scottish Government on behalf of the UK Government and subject to the UK Act in certain circumstances. Information supplied by the UK Government to the Scottish Government in confidence and recorded on Scottish Government files is also subject to the Freedom of Information Act 2000 (not the Freedom of Information (Scotland) Act 2002). The Office has an agreement with the Scottish Government on the handling of requests for such information.

Information Assurance

Reliable and accurate information is crucial to proper decision making in the Scotland Office and Office for the Advocate General for Scotland, 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.

Whistleblowing

The Whistleblowing policy for the Scotland Office and Office of the Advocate General is reviewed annually. The Audit Committee last reviewed the Whistleblowing policy in October 2016. The Whistleblowing policy is published on the Scotland Office and OAG intranet websites, with clear guidance on how staff should raise concerns, in confidence, with the Scotland Office and OAG Nominated Whistleblowing Officers. The guidance also makes clear to staff that they can raise concerns directly with the Chair of the Audit Committee.

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 workplace inspections and conduct risk assessments, including display screen equipment assessments.

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.

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 2016-17 (together with data for 2015-16 and 2017-18) can be found in chapter 4. Alongside this grant, the Scottish Government's funding in 2016-17 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 total cash paid in 2016-17 was **£27,957,900,000**

The Scottish Government published details of how it allocated its budget for 2016-19. These are contained in Scotland's Draft Budget 2016-17 and the Budget (Scotland) Act 2015.

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, excluding non-voted election funding and the block grant, 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 2016-17 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.

Shared Services with Other Government Bodies

The Scotland Office and the Office of the Advocate General receive some 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 facilities 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 specific 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 Office of the Advocate General and 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 (2016/17: £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.

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.

The Scotland Office Accounts have been prepared on a statutory basis in accordance with the requirements of HM Treasury and are designed to comply with generic Accounts Directions issued to departments by HM Treasury under section 5 (2) of the Government Resources and Accounts Act 2000.

The financial statements are audited by the Comptroller and Auditor General, who is appointed under statute and reports to Parliament on the audit examination. Auditors' remuneration and expenses are disclosed at Note 3 to the accounts. During the reporting year no payment was made to the auditors for non-audit work (2015-16: £nil).

I hereby confirm that so far as I am aware, there is no relevant audit information of which the Scotland Office's auditors are unaware and that I have taken all reasonable steps to ensure that I am aware of any relevant audit information and to establish that the Scotland Office's auditors are aware of that information.

I hereby confirm that the annual report and accounts as a whole are fair, balanced and understandable, and that I take personal responsibility for the annual report and accounts and the judgements required for determining that they are fair, balanced and understandable.

Francesca Osowska

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

July 2017

Governance Statement (including commentary on Compliance with the Government's Corporate Governance Code and Annual Report of the Audit Committee)

Introduction

As the Director of the Scotland Office I am the Principal Accounting Officer of both the Scotland Office and the Office of the Advocate General. In accordance with the responsibilities assigned to me in my appointment letter, and as set out in Managing Public Money, I am charged with the governance of the Scotland Office and the Office of the Advocate General. I can be called before the Public Accounts Committee of the House of Commons to account to Parliament for the stewardship of the resources within the Offices' control and for their management.

The governance framework describes the systems and processes by which the Scotland Office and the Office of the Advocate General are directed and controlled, and the means by which they account to Parliament. It covers the processes by which Ministers and senior leaders 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 2016 to 31 March 2017. I 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 2016-17.

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 for Scotland. The JMB follows the enhanced departmental board model. Details of the membership of the JMB can be found below. In line with Central Government guidance the Board is at the apex of the Offices' corporate governance.

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**.

The then Secretary of State appointed Graeme Bissett, Joyce Cullen and Shonaig Macpherson as new non-executive board members to the Joint Management Board on 26 March 2015, at the very end of reporting year 2014-2015. Following the 2015 General Election, the Secretary of State reflected on the constitution and role of the Board and decided to strengthen the governance and operation of the Board. As a result the Office adopted the enhanced board model operating in the majority of UK Government departments and recruited an additional non-executive member of the Board to be the Lead Non-Executive. Keith Cochrane CBE was appointed, following a recruitment campaign, to this role on 16 December 2015. Details of the Board membership during 2016-17 are given below.

Since Keith Cochrane's appointment the visibility of the Non-Executive Board Members have increased considerably, especially across Government. Keith Cochrane is a member of the Lead Non-Executive network, chaired by the Government's Lead NED, Sir Ian Cheshire. The network meets on a monthly basis to discuss how to deliver the Government's cross cutting priorities. The Non-Executive Directors attend periodic conferences which brings together NEDs from across Government to discuss how they can provide independent, expert advice, and challenge to support Ministers in delivering their departmental objectives. The Director of the Office of the Advocate General, the Senior Leadership Team members and I have frequent engagement with the Board members both as a group and also informally on a one-to-one basis. There is also significant sharing of information between officials and the NEDs to ensure they are kept fully updated on the work of the Offices between meetings of the Board, and to help NEDs identify areas where they can add value. The Non-Executive Board Members and the Lead Non-Executive in particular have also had frequent engagement with their peers from Boards of other UK Government Departments, providing me with additional reassurance of the governance arrangements and oversight of the Offices.

In his role as the Scotland Office and OAG Lead NED, Keith Cochrane has undertaken a significant programme of engagement with Lead NEDs from across UK Government departments. This direct engagement has supported and enhanced the work by the Secretary of State for Scotland and the Scotland Office Director, at Ministerial and Permanent Secretary level, to heighten awareness of devolution across Whitehall. This engagement has covered the following Whitehall departments BEIS, DIT, DEFRA, DWP, HMT and MoJ. This direct engagement has resulted in heightened devolution awareness across Whitehall departments and provided more opportunities for the Scotland Office to have influence and engage with departments when dealing with issues affecting Scotland at an earlier and more influential stage.

The JMB formally met on five occasions during 2016-17 reporting year, but the Non-Executive Board members also provided advice on a number of occasions outside of meetings, most notably on: City Deals: Department's approach to EU Exit; the Scotland Office and Office of the Advocate General Business Plans and performance management/ KPMI frameworks and on specific policy areas such as defence and business policy projects. There are two sub-committees in addition to the Audit Committee that were in place in 2016-17. These are a Communications Strategy sub-committee, chaired by the Lead non-executive and a sub-committee for the Office of the Advocate General to ensure that the work of OAG could be adequately discussed and that the sub-committee reports to the Audit Committee and the Board through a record of the discussions. Membership of these sub-committees and details of attendance at meetings is below.

In addition to formal corporate governance structure I am in regular contact with the Director of the Office of the Advocate General to ensure that I can fulfil my responsibilities

as Principal Accounting Officer in respect of the Office of the Advocate General. 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. I have additional reassurance from the internal audit filed work and report on the financial management and oversight of the Boundary Commission. The Government Internal Audit Agency conducted an Internal Audit of the BCS in January 2016. The Scotland Office responded to that Internal Audit and has taken forward a number of recommendations in response, including a revised MoU and risk management policy for the BCS.

Membership and business of the Joint Management Board

The Board in 2016-17 comprised:

- the Secretary of State for Scotland, the Parliamentary Under Secretary of State for Scotland, 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;
- the Lead Non-Executive Board Member; and
- Four other Non-Executive Board Members, including the Chair of the Audit Committee.

The Senior Managers were supported by the Deputy Director for Corporate Services and Governance and the Legal Secretary to the Advocate General who attend all meetings of the Scotland Joint Management Board.

The membership of the Board, its subcommittees and members' attendance at meetings is shown in the table below. All members were present at meetings which they were required to attend. In 2016-17, there were:

- Five formal JMB meetings;
- Four meetings of the OAG JMB sub-committee; and
- Four meetings of the Scotland Office Comms JMB sub-committee.

Joint Management Board 2016-17	Sub-committee
Rt Hon David Mundell MP - Secretary of State for Scotland	
Lord Dunlop - Parliamentary Under Secretary of State for Scotland	
Lord Keen of Elie QC - Advocate General for Scotland	
Francesca Osowska - Director of the Scotland Office and Principal Accounting Officer	
Michael Chalmers - Director of the Office of the Advocate General	OAG sub-committee
	OAG sub-committee
Keith Cochrane - Lead Non-Executive Member	Communication Strategy Sub-committee
Edward Adams - Non-Executive Member and Chair of the Audit Committee	Audit Committee
Graeme Bissett - Non-Executive Member	Audit Committee
Joyce Cullen - Non-Executive Member	OAG sub-committee
Shonaig Macpherson - Non-executive member	

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

- Departmental Performance Management Indicators and Business Plans;
- Communications Capability and Stakeholder Engagement;
- UK Government Departmental Devolution Capability Awareness Review;
- People Survey Response and Organisational Cultural Change;
- Series of project deep-dives into project areas, such as City Deals;
- Scotland Act implementation and Fiscal Framework; and
- Impact of EU Exit.

Board Sub-committees, including the Audit Committee

The Joint Management Board has five sub-committees:

- the Scotland Office Senior Leadership Team;
- the Office of the Advocate General Senior Management Team;
- the Audit Committee;
- the Communications Strategy sub-committee; and
- the Office of the Advocate General sub-committee.

The greater part of the work of the Joint Management Board is delegated to the two Senior Leadership Teams of the two Offices. The two Senior Leadership 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, and in the 2016-17 reporting year the Audit Committee met five times. A separate report by the chairman of the Audit Committee on the Committee's work in 2016-17 is annexed to this Governance Statement.

During 2016-17 the Audit Committee had three members: Edward Adams, Gillian Carty and Graeme Bissett. There were five meetings during the reporting year. All the members were present at all the meetings.

Officials of the National Audit Office and Government Internal Audit Agency (GIAA) attend the Audit Committee. The GIAA 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. In 2016-17 the Office consolidated its appetite and approach to risk management. The Audit Committee approved a revised Risk Management Framework for the Offices, which had been developed across both departments in consultation with Internal Audit. This Framework satisfies the requirements of the Management of Risk in Government

published by the Cabinet Office. The Offices also introduced a new methodology for recording and managing risks and implementation of a risk management policy. The risk register and risk management policy were reviewed by the Audit Committee and are based on advice of good practice from our Internal Auditors. The framework for managing risk with the Offices is intended to ensure a consistent approach in risk identification and management. The risk management policy sets out:

- The Offices' Joint Management Board and its sub-committee the Audit Committee oversee the risk management process. They monitor the most significant strategic risks facing the organisation;
- The structure, content and escalation path for the Offices' risk registers have been agreed by the Board and Audit Committee and are designed to ensure the identification of both strategic risks and key business risks;
- As part of the implementation of the Management of Risk in government Framework, the Offices are reviewing the process by which high rated risk are report up to the Board and Ministers, ensuring that the Audit Committee retains its fundamental roles and responsibilities;
- The risk registers detail the risks that if they materialise would affect the Offices achieving its objectives as set out in the business plans. The risk register also includes a statement defining the business escalation criteria based on the agreed risk tolerance;
- The Senior Leadership Teams reviews the registers on a monthly basis. As part of that review a "deep dive" into a particular risk is taken at every other meeting. The Audit Committee also reviews the risk registers and undertakes a "deep dive" into a risk, usually reflecting the risk the Senior Leadership Teams reviewed at their last meeting;
- These reviews include scrutiny of the effectiveness of controls in reducing the level of high risks. Any high scoring risk whose scoring cannot be reduced in line with its projected target score and date are subject to strong challenge by the Director of the relevant Office and by that Offices' SLT. The matter is escalated to Ministers if the actions planned and contingency measures do not reduce the level of risk;
- There were no risks escalated in 2016-17; and
- The Deputy Director responsible for the risk updates the entry on the register on a monthly basis ahead of the meeting of the SLT. This ensures that the register is accurate and up-to-date and shows acceptance of responsibility for delivery of the mitigating actions.

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 during the year by the regular contact I have 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' Lead Non-Executive, Non-Executive Board Members and the Audit Committee. The Chair of the Audit Committee's report on its work in 2016-17 is in Annex C to this Chapter.

Internal Audit services are provided to the Scotland Office and the Office of the Advocate General by the GIAA. Our auditors in the GIAA 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 2016-17 Internal Audit reports were produced on the following subjects and made available to the Audit Committee:

- Finance Systems Review;
- OAG Income Arrangements/Governance; and
- Staff Performance Management.

Internal Audit uses a four levels system for rating levels of assurance provided by its audits. 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 Page 69. I am very grateful to his staff for the advice they have given 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 2016-17

Propriety and Assurance

In the Scotland Office, the Office of the Advocate General, and the Boundary Commission for Scotland, during 2016-17, there were no known:

significant lapses of physical 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 2016-17, I can report, in the light of the assurances I have received 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

14 July 2017

Annex A: Government's Corporate Governance Code

The Cabinet Office and HM Treasury have published a refreshed Code of Good Practice: *Corporate governance in central government departments*. This code updates the last code published in 2011. The 2017 code, and its associated guidance, were published by the Cabinet Office on the 21 April 2017. The changes to the code and guidance are not significant but reflect current practice and update out of date references. The aim is for the code to support the departmental board model as it continues to embed within departments.

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. Departments are not required to report against the updated code until 2017-18 reporting year. The purpose of this Annex is to summarise those differences at the end of 2016-17 against the code published 2011, 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 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 and meetings of the Offices' Audit Committee;
- 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; and
- Agendas are agreed with the Secretary of State as Chair of the Board in advance of each meeting.

Annex B: Scotland Office and OAG Lead Non-Executive Board Member's Report

Composition

This has been the first full year of meetings following the adoption of the enhanced Board model for the Joint Management Board (JMB). There were no changes in Board membership in the year. Five meetings of the JMB were held in the 2016-2017 reporting year, and all JMB meetings were well attended and interactive.

Quality

Board agendas have covered several topic areas, including:

- Departmental Performance Management Indicators and Business Plans;
- Communications Capability and Stakeholder Engagement;
- UK Government Departmental Devolution Capability Awareness Review;
- People Survey Response and Organisational Cultural Change;
- Series of project deep-dives into project areas, such as City Deals;
- Scotland Act implementation and Fiscal Framework; and
- Impact of EU Exit.

The meetings were focused with challenge encouraged by Ministers. Board agendas developed through the year, with greater focus on fewer substantive topics as the Board became established. The logistics of meetings and communications were well managed with effective support from the Board Secretariat.

Departmental involvement of Non-Executive Directors (NEDs)

During the year, NEDs have supported each Office and provided critical challenge to the management of risk, IT, resourcing needs and communications. During the year there were two Board sub committees in which individual NEDs participated; one focused on the specific requirements of the Office of the Advocate General and the other on Communications Strategy. Numerous other activities have involved NEDs such as mentoring of individuals, at all levels across the Scotland Office, and deep dive discussions with officials around the implementation of the Scotland Act, City Deals and issues arising from the UK's exit from the European Union. An annual Board gathering, attended by Ministers, Directors of the Scotland Office and Office of the Advocate General and NEDs provided another opportunity for engagement. NEDs have also attended several UK Government wide NED events while I have met with a number of departmental Lead NEDs through the year to promote specific Office priorities across wider Government. This has been complemented, in some instances, with meetings between the Scotland Office Director and the Permanent Secretary of the relevant government department.

Conclusion and Evaluation of Board effectiveness recommendations

The JMB is effective and has added value through interactive debate and focused discussions. The Departments have made good use of, and benefited from, the external expertise NEDs provide at, and outside, the Board environment in a time of significant change and challenge. An evaluation of Board Effectiveness for 2016-17

has been undertaken with conclusions that the Board is now well established, has a clear role and increasingly focussed on substantive themes. While these conclusions were predominantly positive a number of recommendations have been made to further increase effectiveness:

The Board should continue to extend its focus on substantive topics to enable more in depth discussion and analysis;

More scope for NED engagement and support out with formal Board meetings both internally and externally;

Continued Board focus on performance management, delivery of outputs alongside leadership development and succession planning; and

Building links with other Territorial Departments and Scottish Government NEDs.

Keith Cochrane CBE

Scotland Office/Office of the Advocate General Lead Non-Executive Director

May 2017

Annex C: Annual Report of the Audit Committee

Scotland Office/Office of The Advocate General Audit Committee

Report for the year 2016-2017 from the Chairman

Francesca Osowska is the Director of the Scotland Office and is Principal Accounting Officer for the Offices. As Accounting Officer, she needs to have confidence that the Scotland Office (SO) and Office of the Advocate General (OAG) have effective corporate governance, risk management and financial 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 the operation of corporate governance; corporate risk and its management; the independence, effectiveness and coordination of internal and external audit; and the quality of financial management. It also provides the Director of the Scotland Office and her senior colleagues with a forum where they can test assumptions and decisions in these areas.

Activity

The Audit Committee met formally five times during 2016-17. One meeting was held in London, with the others taking place in Edinburgh. In addition a short meeting was held with the Head of Finance to review the resource accounts.

Membership

Membership of the Committee has been stable throughout 2016-17. All members attended each meeting. 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 2016-17 in relation to governance, risk and financial management were sound and appropriate for the purposes they were required to support. The Committee was conscious that the Offices had once again coped with an extraordinarily high level of activity over this period, not only in relation to the on-going implementation of the Scotland Act 2016 and the Fiscal Framework, but particularly following the EU Referendum of 23rd June.

During the year the Committee sought to ensure that it paid appropriate attention to all aspects of the work of the Offices which are relevant to the Committee's remit. We were satisfied with the way these matters were handled, while noting significant improvements in staff engagement and motivation across both offices, in spite of the constraints imposed by the pressure to control costs. The Committee was pleased to note that notwithstanding the level of activity over the period, the importance of effective 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.

In June, the Committee approved a revised Risk Management Framework for the offices, which had been developed across both offices in consultation with the Internal Audit Agency. This Framework represents a step change over its predecessors and will satisfy the requirements of Management of Risk in Government published by the Cabinet Office in June. The Committee kept the risk registers under review, continuing with the practice of considering one risk in depth at each meeting.

The Committee reviewed at each meeting the Offices' financial performance. The Committee considered at length the accounting treatment of payments for retrospective VAT following a change in policy by HMRC in respect of the salaries of staff seconded from the Ministry of Justice and Scottish Government (which disproportionately affects the SO and OAG and required a further Supplementary Estimate this year); and also assessed the clarity of reporting in the Annual Report on the role that the Scotland Office plays in the financial administration of the Scottish Government's Block Grant, together with assurances on the robustness of the procedures operated.

Links with Other Departments

As well as participating in the periodic meetings of Non Executives of Government Departments, I as Chairman attended (for the first time) in March the Meeting of Cross Government Audit and Risk Assurance Committee Chairs' Network. The meeting received presentations from Sir Amyas Morse (Comptroller and Auditor General), John Manzoni (Chief Executive of the Civil Service) and John Whitfield (Chief Executive of the Government Internal Audit Agency), as well as looking in depth at the challenges currently faced by a major UK Department (DEFRA). The meeting was useful in building contacts across Whitehall, and in emphasising the importance of Devolution across the work of Audit Committees generally. The Scotland Office (as well as the Welsh Office and Northern Ireland Office) has now been formally added to the Network.

Audit

The Committee noted in October that Internal Audit was no longer part of the MoJ but had instead become part of the Government Internal Audit Agency. External Audit continued to be provided by the National Audit Office. Both provided strong support to the Committee throughout the year, attending all the meetings, and offering helpful advice. The Committee was concerned over the length of time taken to assess and implement responses to commentary from the internal auditors in January 2016 on important governance matters in the Boundary Commission.

Committee Self-Assessment

The Committee undertook its first self-assessment this year, the results of which were communicated to the Accounting Officer on 10 May 2017.

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 Scotland Office and the Office of the Advocate General operate in a demanding environment and the range and importance of the Offices' work is amply described in earlier sections of this Annual Report. It is important that the Audit Committee continues to provide both reliable assurance and a proper degree of challenge to the relevant aspects of that work. In 2017-18, the Committee will continue to work closely with the GIAA and NAO in their assurance and challenge roles. The Committee has taken on board the findings from the recent publication "Management of Risk in Government" and will adjust its priorities to maintain alignment with the Offices' objectives, while implementing a refreshed approach to monitoring risk management in support of good governance and effective management.

Edward Adams

30 June 2017

Remuneration and Staff Report

Remuneration Report

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

Remuneration Policy

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

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament (MPs) and their allowances; on Peer's allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

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/office-of-manpower-economics>

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.

The salaries of Senior Civil servants are determined in line with the Cabinet Office Senior Civil Service (SCS) Reward policy.

Service Contracts

The Constitutional Reform and Governance Act 2010 require 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 <http://www.civilservicecommission.org.uk>

Ministers' salaries and pension entitlements

The salaries, taxable benefits in kind and pension entitlements 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 their services as an MP (£74,000 from 8 May 2015, £74,962 from 1 April 2016) 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 below.

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. No Scotland Office Minister received benefits in Kind in 2016-17 or 2015-16.

Remuneration (salary and pensions)

Ministers	Salary (£)		Pension benefits (to nearest £1000) ⁽¹⁾		Total (to nearest £1,000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
The Rt Hon David Mundell MP Secretary of State for Scotland (from 11 May 2015) ⁽²⁾ and Parliamentary Under Secretary of State for Scotland (until 10 May 2015) ⁽³⁾	67,505	62,410	18,000	22,000	86,000	84,000
The Rt Hon Alastair Carmichael MP (until 8 May 2015)	n/a	7,077 ⁽²⁾	n/a	11,000	n/a	18,000
The Rt Lord Dunlop of Helensburgh, Parliamentary Under Secretary of State for Scotland (since 11 May 2015) ⁽⁴⁾ ⁽⁶⁾	105,076	93,213 ⁽⁴⁾	n/a	n/a	105,000	93,000
The Rt Hon The Lord Keen of Elie QC, Advocate General for Scotland (since 29 May 2015) ⁽⁶⁾	128,121	107,801 ⁽⁵⁾	n/a	n/a	128,000	108,000
The Rt Hon The Lord Wallace of Tankerness QC, Advocate General for Scotland (until 8 May 2015)	n/a	32,558 ⁽⁵⁾	n/a	3,000	n/a	36,000

Notes to the table:

- (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 or decrease due to a transfer of pension rights.
- (2) full year equivalent £67,505 (both Secretary of State's waived their increase)
- (3) full year equivalent £23,844 (the Parliamentary Under Secretary of State waived his increase)
- (4) full year equivalent £105,076 (the Parliamentary Under Secretary of State waived his increase). This includes the House of Lords Office Holders Allowance of £36,366.
- (5) full year equivalent £128,121 (both ministers waived their increase). This includes the House of Lords Office Holders Allowance of £36,366.
- (6) both ministers waived the right to their pension entitlement.

Pension Benefits

Ministers	Accrued Pension at age 65 as at 31 March 2017	Real increase in pension at age 65	CETV at 31 March 2017	CETV at 31 March 2016	Real increase/ (decrease) in CETV £000
	£'000	£'000	£'000	£'000	£'000
The Rt Hon David Mundell MP Secretary of State for Scotland (from 11 May 2015) and Parliamentary Under Secretary of State for Scotland (until 10 May 2015)	5-7.5	0-2.5	85	66	9
The Rt Lord Dunlop of Helensburgh, Parliamentary Under Secretary of State for Scotland (since 11 May 2015)	n/a	n/a	n/a	n/a	n/a
The Rt Hon The Lord Keen of Elie QC, Advocate General for Scotland (since 29 May 2015)	n/a	n/a	n/a	n/a	n/a

Please note, the "CETV at start date" figure this year does not match the "CETV at end date" figure from last year. This is due to the change in transfer factors used by the PCPF. The factors were changed in March 2016 following updated guidance from HM Treasury which sets the financial assumptions to use to calculate CETVs from PCPF. More information about this change can be found

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508105/Basis_for_setting_the_discount_rate_for_calculating_cash_equivalent_transfer_values_payable_from_the_public_service_pension_schemes.pdf

Ministerial Pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015, available at <http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc>.

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). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1st April 2013 have transitional protection to remain in the previous final salary pension scheme.

Benefits for Ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 Ministerial pension schemes.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

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

Senior Managers' salary and pension entitlements

Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Scotland Office and thus recorded in these accounts.

Salary figures include all allowances payable by the Scotland Office, whereas full year equivalents are calculated net of allowances, bonuses and ex gratia payments.

Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2016-17 relate to performance in 2015-16 and the comparative bonuses reported for 2015-16 relate to performance in 2014-15.

The Senior Managers were supported by the Deputy Director for Corporate Services and Governance and the Legal Secretary to the Advocate General who attend all meetings of the Scotland Joint Management Board.

The salaries, bonuses taxable benefits in kind and pension entitlements for Senior Managers are shown in the following tables:-

Single total figure of remuneration										
Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000) ⁽¹⁾		Total (£'000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Francesca Osowska, Scotland Office Director and Accounting Officer	95-100	90-95	-	-	11,000 ⁽²⁾	-	37	42	145-150	135-140
Michael Chalmers, Office of the Advocate General Director	95-100	90-95	-	-	-	-	37	48	135-140	140-145

Notes to the table:

(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) Part year costs.

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.

Pension Benefits

Senior Managers	Accrued pension and related lump sum at pension age at 31 March 2017	Real increase in pension and related lump sum at pension age at 31 March 2016	CETV at 31 March 2017	CETV at 31 March 2016	Real increase/ (decrease) in CETV
	£'000	£'000	£'000	£'000	£'000
Francesca Osowska, Scotland Office Director and Accounting Officer	25-30 plus lump sum 70-75	0-2.5 plus lump sum 0-2.5	435	397	16
Michael Chalmers, Office of the Advocate General Director	20-25	0-2.5	245	217	13

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

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

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

The Cash Equivalent Transfer Value (CETV)

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.

The real increase in the value of the 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.

Pay Multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid directors in the Scotland Office in the financial year 2016-17 was £95-100k (2015-16, £90-95k). This was 2.1 times (2015-16, 2.3 times) the median remuneration of the workforce, which was £46,442 (2015-16, £42,043).

In 2016-17, no employees (2015-16, nil) received remuneration in excess of the highest-paid director. Remuneration ranged from £17.2k to £95.8k (2015-16, £16.8k to £94.9k).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Staff Report

Staff Costs

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 Scotland Office and Office of the Advocate General expenditure on staff during 2016-17 is shown in the table below:-

	2016-17					2015-16
	£000					
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Wages and salaries	-	6,291	301	125	6,717	5,832
Social security costs	-	672	38	17	727	507
Other pension costs	-	1,324	-	23	1,347	1,096
Sub Total	-	8,287	339	165	8,791	7,435
Less recoveries in respect of outward secondments	-	0	0	0	0	0
Total net costs	-	8,287	339	165	8,791	7,435

The staff costs comprise of:

	Charged to Admin Budgets	Charged to Programme Budgets	Charged to Admin Budgets	Charged to Programme Budgets
	2016-17		2015-16	
	£000		£000	
Core Department	8,486	-	7,344	-
Other Designated Bodies	-	305	-	91

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 2013 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation at www.civilservice-pensions.gov.uk

For 2016-17, employers' pension contributions of £1,347k (2015-16: £1,096k) were payable to the PCSPS at one of four rates in the range 20% to 24.5% (2015-16: 20% to 24.5%) 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 (2015-16: £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% (2015-16: 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 (2015-16:£0)

Staff Numbers

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

	2016-17					2015-16
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Scotland Office	0	68	2	2	72	66
Office of the Advocate General	0	46	1	0	47	48
Boundary Commission	0	5	0	0	5	2
Total	0	119	3	2	124	116

Staffing Levels

At the 31 March 2017 the total number of staff in post in the Scotland Office totalled 71 of which 54% were based at Melville Crescent in Edinburgh and 46% at Dover House in London. The Office of the Advocate General had 50 staff at the 31 March 2017, 88% of which were based in Victoria Quay in Edinburgh and 12% at Dover House in London.

Reporting of Civil Service and other compensation schemes - exit packages

Exit Package Costs Band	2016-17			2015-16		
	Number of Compulsory Redundancies	Number of Other Departures	Total Number of Exit Packages by Cost Band	Number of Compulsory Redundancies	Number of Other Departures	Total Number of Exit Packages by Cost Band
<£10,000	-	-	-	-	-	-
£10,000-£25,000	-	-	-	-	-	-
£25,000-£50,000	-	-	-	-	1	1
£50,000-£100,000	-	-	-	-	-	-
>£100,000	-	-	-	-	-	-
Total Number of Exit Packages	-	-	-	-	1	1
Total Cost £000	-	-	-	-	£40,250	£40,250

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of the departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill Health retirement costs are met by the pension scheme and are not included in the table.

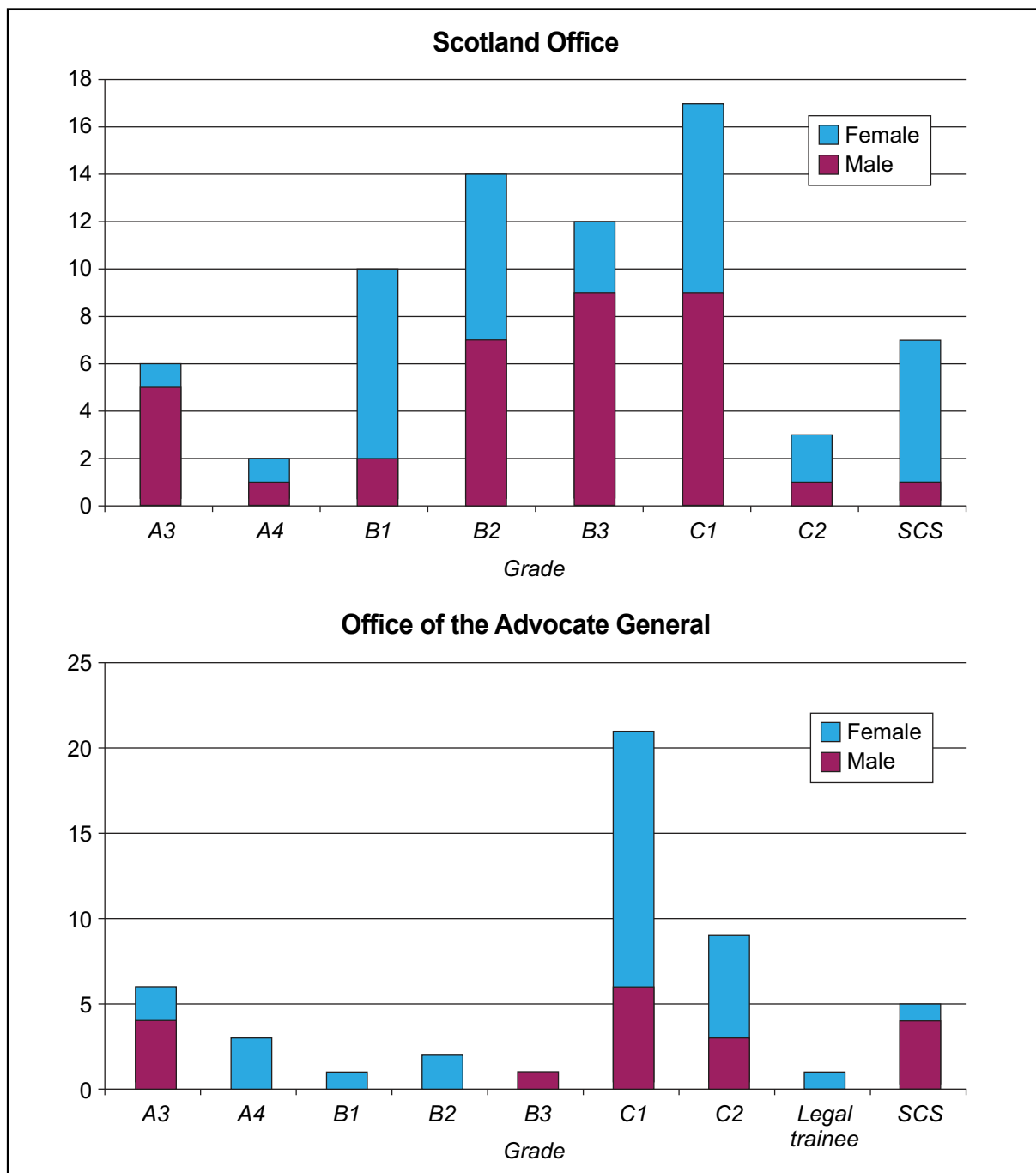
Senior Civil Service

At 31 March 2017 there were 6 senior civil service posts in the Scotland Office and 5 posts in the Office of the Advocate General.

Diversity

Women make up 51% of staff in the Scotland Office and 64% of staff in the Office of the Advocate General. The following charts (over) show the number of women and men in each grade in the two Offices.

Number of Women and Men in each grade



Equal Opportunities

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.

Employment of disabled persons

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.

Sick Absence Data

The average number of working days lost in the calendar year at the end of 2016 was 0.2 days . This remains well below the Civil Service average.

Spend on Consultancy and Temporary Staff

The Scotland Office and Office of the Advocate had no spend on consultancy in 2016-17. The departments use temporary staff to cover staff on long term sick, maternity leave and for vacant posts, the total spend on temporary staff in 2016-17 was £326,414.

Off Payroll Appointments

In 2016-17 the Scotland Office had no off payroll appointments for more than £220 per day and for duration of six months or longer.

The National Audit Office have reviewed the Accountability Report for consistency with the information provided in the financial statements.

Francesca Osowska

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

14 July 2017

Statement of Parliamentary Supply

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

The Statement of Parliamentary Supply and related notes are subject to audit.

Summary of Resources and Capital Outturn 2016-17

	SOPS Note	2016-17			2016-17			2015-16	
		Estimate			Outturn			Outturn	
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving/ (excess)	
Departmental Expenditure Limit									
- Resource	1.1	10,587	-	10,587	10,277	198	10,475	310	22,513
- Capital	1.2	50	-	50	45	-	45	5	225
Annually Managed Expenditure									
- Resource	1.1	-	-	-	-	-	-	-	-
- Capital	1.2	-	-	-	-	-	-	-	-
Total Budget		10,637	-	10,637	10,322	198	10,520	315	22,738
Non-Budget									
- Resource	1.1	27,962,044	-	27,962,044	27,957,900	-	27,957,900	4,144	28,025,258
Total		27,972,681	-	27,972,681	27,968,222	198	27,968,420	4,459	28,047,996
Total Resource		27,972,631	-	27,972,631	27,968,177	198	27,968,375	4,454	28,047,771
Total Capital		50	-	50	45	-	45	5	225
Total		27,972,681	-	27,972,681	27,968,222	198	27,968,420	4,459	28,047,996

Net Cash Requirement 2016-17

£000	SOPS Note	2016-17 Estimate	2016-17		2015-16
			Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
Net Cash Requirement	2	27,972,580	27,968,237	4,343	28,033,777

Administration Costs 2016-17

		Estimate 2016-17	Outturn 2016-17	Outturn 2015-16
Administration Costs	1.1	9,922	9,738	8,731

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 SoPS Note 2 (Analysis of net outturn by section) and in the Management Commentary.

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

SOPS 1. Net Outturn

SOPS 1.1 Analysis of Net Resource Outturn by Section

2016-17								2015-16	
Outturn							Estimate	Outturn	
Administration			Programme					Net total compared to Estimate	
Gross	Income	Net Total	Gross	Income	Net Total	Total	Net total		
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000

Spending in Departmental Expenditure Limit (DEL)

Voted										
A - Scotland Office and Office of the Advocate General	14,065	4,327	9,738	55	-	55	9,793	9,982	189	8,731
B - Boundary Commission for Scotland	-	-	-	484	-	484	484	605	121	135
Total Voted Expenditure in DEL	14,065	4,327	9,738	539	-	539	10,277	10,587	310	8,866
Non-Voted										
C - Election Expenses	-	-	-	198	-	198	198	-	(198)	13,647
Total Non-Voted	-	-	-	198	-	198	198	-	(198)	13,647
Non-Budget										
D - Grant to the Scottish Consolidated Fund	-	-	-	23,057,900	-	23,057,900	23,057,900	23,062,044	4,144	28,025,258
E - Payover of Scottish Rate of Income Tax to Scottish Consolidated Fund	-	-	-	4,900,000	-	4,900,000	4,900,000	4,900,000	-	-
Total Non-Budget	-	-	-	27,957,900	-	27,957,900	27,957,900	27,962,044	4,144	28,025,258
Total voted in Estimate	14,065	4,327	9,738	27,958,637	-	27,958,637	27,968,375	27,972,631	4,256	28,047,771

SOPS 1.2 Analysis of Net Capital Outturn by Section

2016-17						2015-16
Outturn			Estimate			Outturn
Gross	Income	Net	Net	Net total compared to Estimate	Net total compared to Estimate adjusted for virements	Net
£000	£000	£000	£000	£000	£000	£000

Spending in Departmental Expenditure Limit (DEL)

Voted						
A - Scotland Office and Office of the Advocate General	45	-	45	50	5	225
Total Voted Expenditure in DEL	45	-	45	50	5	225
Total for Estimate	45	-	45	50	5	225

SOPS 2. Reconciliation of Net Resource Outturn to Net Cash Requirement

	SOPS Notes	Estimate £000	Outturn £000	Net total outturn compared with Estimate saving / (excess) £000
Resource Outturn	1.1	27,972,631	27,968,375	4,256
Capital Outturn	1.2	50	45	5
Capital Accrual		-	188	(188)
Accruals to cash adjustment				
Adjustments to remove non-cash items:				
Depreciation		(60)	(55)	(5)
New provisions and adjustments to previous provisions		-	-	-
Department unallocated provision		-	-	-
Supported capital expenditure		-	-	-
Prior period adjustments		-	-	-
Other non-cash items		(41)	(39)	(2)
Adjustments to reflect movements in working balances:				
Increase/(decrease) in stock		-	-	-
Increase/(decrease) in receivables		-	(126)	126
Increase/(decrease) in payables		-	1,114	(1,114)
Use of provisions		-	-	-
Removal of non-voted budget items:				
Consolidated Fund Standing Services		-	(1,265)	1,265
Other adjustments		-	-	-
Net cash requirement		27,972,580	27,968,237	4,343

SOPS 3. Income Payable to the Consolidated Fund

3.1 Consolidated Fund Income

Consolidated Fund income shown in note 4.1 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:

	Outturn 2016-17 £000	Outturn 2015-16 £000
Forfeited election deposits and interest	-	(80)
Fines and penalties	(25,689)	(28,760)
Other income (unused election costs)	(330)	(85)
Less:		
Costs of collection - where deductible	-	-
Uncollectible debts	-	-
Amount payable to the Consolidated Fund	(26,019)	(28,925)
Balance held at the start of the year	-	-
Payments into the Consolidated Fund	26,019	28,925
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.

Losses and Special Payments

The Scotland Office and Office of the Advocate General have made no Losses or Special Payments in 2016-17.

Remote Contingent Liabilities

The Scotland Office and Office of the Advocate General had no Remote Contingent Liabilities in 2016-17.

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 for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 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 2017 and of the Department's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures 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 CE Morse
Comptroller and Auditor General**

18 July 2017

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

Chapter 3: Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

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.

		2016-17	2015-16
		£000	£000
	Note	<u> </u>	<u> </u>
Income from sale of goods and services	4	(1,665)	(1,418)
Other operating income		(2,662)	(2,270)
Total operating income		<u>(4,327)</u>	<u>(3,688)</u>
Staff Costs	3	8,791	7,435
Purchase of goods and services	3	5,758	5,090
Depreciation and impairment charges	3	55	29
Grant to the Scottish Consolidated Fund	3	23,057,900	28,025,258
Payover of Scottish Rate of Income Tax to Scottish Consolidated Fund		4,900,000	-
Election expenses	3	198	13,647
Total operating expenditure		<u>27,972,702</u>	<u>28,051,459</u>
NLF interest receivable		(44,648)	(45,474)
NLF interest payable		44,648	45,474
Net expenditure for the year		<u>27,968,375</u>	<u>28,047,771</u>
Other Comprehensive Net Expenditure			
Net (gain) loss on revaluation of property, plant and equipment		(1)	(1)
Comprehensive expenditure for the year		<u>27,968,374</u>	<u>28,047,770</u>

Statement of Financial Position as at 31 March 2017

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.

		31 March 2017	31 March 2016
		£000	£000
	Note		
Non-current assets:			
Property, plant and equipment	5	323	332
Financial assets (NLF)	8	623,856	653,963
Total non-current assets		624,179	654,295
Current Assets:			
Trade and other receivables	10	1,247	1,373
NLF receivables	10	39,246	33,671
Cash and cash equivalents	9	198	2,222
Total current assets		40,691	37,266
Total Assets		664,870	691,561
Current liabilities			
Trade and other payables	11	(3,273)	(6,599)
NLF payables	11	(39,246)	(33,671)
Total current liabilities		(42,519)	(40,270)
Non-current assets plus/less net current assets/liabilities		622,351	651,291
Non-current liabilities			
Other payables (NLF)	11	(623,856)	(653,963)
Total non-current liabilities		(623,856)	(653,963)
Assets less liabilities		(1,505)	(2,672)
Taxpayers' Equity and other reserves			
General fund		(1,509)	(2,675)
Revaluation Reserve		4	3
Total equity		(1,505)	(2,672)

Francesca Osowska

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

14 July 2017

Statement of Cash Flows for the period ended 31 March 2017

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.

		2016-17 £000	2015-16 £000
	Note		
Cash flows from operating activities			
Net operating cost		(27,968,375)	(28,047,771)
Adjustments for non-cash transactions	3	94	70
(Increase)/Decrease in trade and other receivables		(5,448)	(10,312)
Less: Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure ⁽¹⁾		5,575	9,825
Increase/(Decrease) in trade payables		2,249	13,541
Less: Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure ⁽¹⁾		(3,363)	(11,599)
Net cash outflow from operating activities		(27,969,268)	(28,046,246)
Cash flows from investing activities			
Purchase of Plant & Machinery and Fixtures and Furnishings ⁽²⁾		(234)	(77)
(Repayments) from other bodies	8	24,106	14,106
Net cash inflow from investing activities		23,872	14,029
Cash flows from financing activities			
From the Consolidated Fund (Supply) - Current Year ⁽³⁾		27,967,808	28,033,858
From the Consolidated Fund (Non-supply)		-	14,175
Repayment of loans from the National Loans Fund ⁽⁴⁾		(24,106)	(14,106)
Repayment of unspent election funding		(330)	(85)
Net financing		27,943,372	28,033,842
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(2,024)	1,625
Income payable to the Consolidated Fund		(26,019)	(28,925)
Income paid to the Consolidated Fund ⁽⁵⁾		26,019	28,925
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(2,024)	1,625
Cash and cash equivalents at the beginning of the period	9	2,222	597
Cash and cash equivalents at the end of the period	9	198	2,222

⁽¹⁾ 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.

⁽²⁾ This figure accounts for capital accruals.

⁽³⁾ This is the amount received from the Consolidated Fund in respect of the current year.

⁽⁴⁾ This includes loans repaid by entities for onward transmission to the NLF and interest received from entities for transmissions to the NLF.

⁽⁵⁾ Cash paid over to the Consolidated Fund under any category.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

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.

	General Fund £000	Revaluation Reserve £000	Tax Payers' Equity £000
Balance at 31 March 2015	1,268	(2)	1,266
Net Parliamentary Funding	(28,048,033)	-	(28,048,033)
Deemed Supply	(546)	-	(546)
Non-voted election funding	(51)	-	(51)
Unused election funding	1,595	-	1,595
Supply Payable	627	-	627
CFER transferred to CF	85	-	85
Comprehensive net expenditure for the year	28,047,771	-	28,047,771
Auditors Remuneration	(41)	-	(41)
Fixed assets revaluation	-	(1)	(1)
Balance at 31 March 16	2,675	(3)	2,672
Net Parliamentary Funding	(27,967,808)	-	(27,967,808)
Deemed Supply	(2,222)	-	(2,222)
unused election funding	-	-	-
Supply Payable	198	-	198
CFER transferred to CF	330	-	330
Net expenditure for the year	27,968,375	-	27,968,375
Auditors Remuneration	(39)	-	(39)
Fixed assets revaluation	-	(1)	(1)
Balance at 31 March 17	1,509	(4)	1,505

Notes to the Accounts for the Year Ended 31 March 2017

1. Statement of Accounting Policies

1.1 Basis of Preparation

These financial statements have been prepared in accordance with the 2016-17 Government Financial Reporting Manual (FReM) issued by HM Treasury. 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 is judged to be the most appropriate to the particular circumstances of the Scotland Office and 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 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 prepared under IFRS, the FReM also requires the Scotland Office and Office of the Advocate General to prepare one additional primary 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 Office of the Advocate General is the British Pound Sterling (£).

1.2 Accounting Convention

These Accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, and certain financial assets and liabilities.

1.3 Operating Segments

The Scotland Office and the Office of the Advocate General for Scotland 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 Scottish Consolidated Fund; The Payover of Scottish Rate of Income Tax; 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.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost is transferred from the Revaluation Reserve to the General Fund.

Capitalisation Threshold – Individual Assets

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

Capitalisation Threshold – Grouped Assets

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

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

Depreciation

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

Estimated useful asset lives are within the following ranges:

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

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

Disposal of Non-Current Assets

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

When re-valued assets are sold, the amounts included in the Revaluation Reserve are transferred to the General Fund.

1.5 Leases

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

Operating Leases

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

1.6 Investments

National Loans Fund (NLF)

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

1.7 Employee Benefits

Employee Leave Accruals

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

Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS) cover most past and present employees. The defined benefit schemes are unfunded.

The Scotland Office and the Office of the Advocate General do not directly employ staff and recruit staff on loan or secondment from other government bodies. The Office is

not responsible for the payment of national insurance or pension contributions and is simply invoiced for the costs by the appropriate government body.

Early Departure Costs

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

1.8 Operating Income

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

1.9 Consolidated Fund Extra Receipts (CFERs)

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

1.10 Administration and Programme Expenditure

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

1.11 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.

1.12 Financial Instruments

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

Classification and Measurement – Financial Assets

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

Loans and Receivables

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

Impairment of Financial Assets

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

- Objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the end of the reporting period ('a loss event');
- The loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- A reliable estimate of the amount can be made.

Classification and Measurement – Financial Liabilities

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

Other Financial Liabilities

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

1.13 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.

1.14 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.

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 market values of the land and buildings at the inception of the lease.

1.15 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 2016-17 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.

1.16 New standards, amendments and interpretations issued but not effective

New standards which are not yet effective are not expected to have a material impact on the future Scotland Office accounts.

Note 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.

	2016-17 £000							
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Payover of Scottish Rate of Income Tax to Scottish Consolidated Fund	Election Expenses	National Loans Fund	Total
Gross Expenditure	7,682	6,438	484	23,057,900	4,900,000	198	44,648	28,017,350
Income	(427)	(3,900)	-	-	-	-	(44,648)	(48,975)
Net Expenditure	7,255	2,538	484	23,057,900	4,900,000	198	-	27,968,375

	2015-16 £000							
	Scotland Office	Office of the Advocate General	Boundary Commission	Grant to the Scottish Consolidated Fund	Payover of Scottish Rate of Income Tax to Scottish Consolidated Fund	Election Expenses	National Loans Fund	Total
Gross Expenditure	6,901	5,518	135	28,025,258	-	13,647	45,474	28,096,933
Income	(458)	(3,230)	-	-	-	-	(45,474)	(49,162)
Net Expenditure	6,443	2,288	135	28,025,258	-	13,647	-	28,047,771

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 Scottish Parliament elections are found from within these resources.

The Scottish Rate of Income Tax

the Scottish Rate of Income Tax (SRIT), identification of Scottish taxpayers and administering the tax are all matters for the UK Government and Her Majesty's Revenue and Customs (HMRC). Receipts from SRIT are collected by HMRC and paid to the Scottish Government, equal to the block grant reduction. Receipts from SRIT will be added to the Scottish block grant.

National loans Fund

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 for Scotland to the Registers of Scotland and Scottish Water prior to devolution. The responsibility for repayment of principal and interest fall 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.

Election Expenses

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

3. Administration and Programme Costs

Administration Staff Costs

	2016-17 £000	2015-16 £000
Wages and salaries	6,481	5,761
Social security costs	704	501
Other pension costs	1,301	1,082
Total net costs	8,486	7,344

Other Administration Costs

	2016-17 £000	2015-16 £000
Rentals under operating leases	576	558
Accommodation Costs	1,144	1,485
Legal Costs	2,783	2,017
Travel and Subsistence Costs	628	587
Other Administrative Expenditure	409	358
Non-cash items:		
Auditors' remuneration and expenses	39	41
Total Administration Costs	5,579	5,046

Programme Costs

	2016-17 £000	2015-16 £000
Boundary Commission Staff Costs	305	91
Boundary Commission Operating Costs	179	44
Grant paid to Scottish Consolidated Fund	23,057,900	28,025,258
Payover of Scottish Rate of Income Tax to Scottish Consolidated Fund	4,900,000	-
Depreciation	55	29
Election expenses	198	13,647
Total	27,958,637	28,039,069
Total Operating Expenditure	27,972,702	28,051,459

Footnote: The Consolidated Statement of Comprehensive Net Expenditure staff costs figure includes administration and Boundary Commission staff costs; and the figure for purchase of goods and services includes other administration costs and Boundary Commission operating costs.

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

4. Income

	2016-17 £000	2015-16 £000
Hire of Office Facilities	(427)	(458)
Legal fees and charges to clients	(1,665)	(1,418)
Recovery of legal outlays from other Government Bodies	(2,235)	(1,812)
Total	(4,327)	(3,688)

5. Property, Plant and Equipment

2016-17	Leasehold	Plant	Furniture	Total
	Improvements	Machinery & Equipment	& Fittings	
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2016	243	136	50	429
Additions	38	7	-	45
Revaluation	2	-	-	2
Disposals	-	-	-	-
At 31 March 2017	283	143	50	476
Depreciation				
At 1 April 2016	(17)	(76)	(4)	(97)
Charged in year	(28)	(21)	(6)	(55)
Disposals	-	-	-	-
Revaluation	(1)	-	-	(1)
At 31 March 2017	(46)	(97)	(10)	(153)
Carrying amount at 31 March 2017	237	46	40	323
Carrying amount at 31 March 2016	226	60	46	332

2015-16	Leasehold	Plant	Furniture &	Total
	Improvements	Machinery & Equipment	Fittings	
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2015	54	110	81	245
Additions	188	26	12	226
Disposals	-	-	(43)	(43)
Revaluation	1	-	-	1
At 31 March 2016	243	136	50	429
Depreciation				
At 1 April 2015	(10)	(58)	(43)	(111)
Charged in year	(7)	(18)	(4)	(29)
Revaluation	-	-	-	-
Disposals	-	-	43	43
At 31 March 2016	(17)	(76)	(4)	(97)
Carrying amount at 31 March 2016	226	60	46	332
Carrying amount at 31 March 2015	44	52	38	134

6. Other Commitments

6.1 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.

	2016-17	2015-16
	£000	£000
Buildings		
Not later than one year	483	483
Later than one year and not later than five years	2,176	2,083
Later than five years	3,313	3,889
Total	5,972	6,455

7. Financial Instruments

7.1 Categories of Financial Instruments

Financial Assets

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.

8. Investments in Other Public Sector Bodies

	Loans funded from National Loans Fund
	£000
Cost or valuation	
At 1 April 2015	678,068
Adjustment	
Loans repayable within 12 months transferred to debtors	(24,106)
Balance at 31 March 2016	653,962
Loans repayable within 12 months transferred to debtors	(30,106)
Balance at 31 March 2017	623,856

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 2017 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.

9. Cash and Cash Equivalents

	2016-17 £000	2015-16 £000
Balance at 1 April 2016	2,222	597
Net change in cash and cash equivalents	-2,024	1,625
Balance at 31 March 2017	198	2,222
The following balances at 31 March 2017 were held at:		
Government Banking Service	198	2,222
Balance 31 March 2017	198	2,222

10. Trade Receivables Financial and Other Assets

	2016-17 £000	2015-16 £000
Amounts falling due within one year:		
VAT	86	-
Trade receivables	901	545
Deposits and advances	-	-
NLF interest receivables	9,140	9,565
Prepayments and accrued income	260	828
Current part of NLF loan	30,106	24,106
Total	40,493	35,044
	2016-17 £000	2015-16 £000
Amounts falling due after more than one year:		
Instalments due on NLF loans	623,856	653,962
Total	623,856	653,962

11. Trade Payables and Other Current Liabilities

	2016-17 £000	2015-16 £000
Amounts falling due within one year:		
Trade payables	30	1
VAT	-	31
NLF interest payable	9,140	9,565
Accruals and deferred income	3,045	4,345
Current part of NLF loans	30,106	24,106
Unused Election Funding	-	1,595
Amounts issued from the Consolidated Fund for supply but not spent at year end	198	627
Total	42,519	40,270
Amounts falling due after more than one year:		
NLF loans	623,856	653,963
Total	623,856	653,963

12. Contingent Liabilities disclosed under IAS 37

The Scotland Office does not have any contingent liabilities. The contingent liability recorded in the 2015-16 accounts relating to VAT has been accounted for within these accounts.

13. Related-party transactions

The Scotland Office and the Office of the Advocate General work closely with the Scottish Government and Ministry of Justice from where the majority of staff are loaned. Advice and assistance were provided by both government bodies for some specialised areas where they have greater expertise, such as IT, accommodation and finance. Not all of these services were covered by Service Level Agreements during the year. The Office of the Advocate General also have Service level Agreements with the Home Office, Department for Work and Pensions and HM Revenue and Customs in relation to reimbursement of costs incurred on their behalf.

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

14. Entities within the departmental boundary

The entities within the boundary during 2016–17 were as follows:

List of entities analysed between:

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

15. 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.

The Accounting Officer authorised these financial statements for issue on XX July 2017.

Chapter 4: Public Expenditure Financial Tables

Table 1 - Spending by Scotland Office & Office of the Advocate General and Scottish Government 2011-12 to 2019-20

	2012-13	2013-14	2014-15	2015-16	2016-17	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Plans	Outturn ⁽⁷⁾	Plans	Plans	Plans
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Scotland Office & Office of the Advocate General Expenditure									
Resource expenditure within Administration Costs	7,151	7,219	7,772	8,731	9,922	9,738	8,870	9,050	9,240
Other resource expenditure	281	715	11,317	13,782	665	737	430	430	430
Scotland Office Resource ⁽²⁾	7,432	7,934	19,089	22,513	10,587	10,475	9,300	9,480	9,670
Scotland Office Capital									
	-	-	53	225	50	45	50	50	50
Scotland Office Resource + Capital DEL ⁽²⁾	7,432	7,934	19,142	22,738	10,637	10,520	9,350	9,530	9,720
less depreciation & impairments	(12)	(19)	(20)	(29)	(60)	(55)	(30)	(30)	(30)
Scotland Office DEL	7,420	7,915	19,122	22,709	10,577	10,465	9,320	9,500	9,690
Scottish Government Expenditure (The Scottish Block) ⁽⁶⁾									
Resource ⁽⁸⁾	25,712,384	26,090,827	26,372,507	26,334,335	21,597,731	21,391,255	15,374,059	14,783,631	14,473,152
Capital ⁽⁸⁾	2,980,505	2,920,989	3,288,989	3,163,543	3,335,205	3,240,425	3,389,256	3,536,565	3,719,968
Total Resource + Capital	28,692,889	29,011,816	29,661,496	29,497,878	24,932,936	24,631,680	18,763,315	18,320,196	18,193,120
less depreciation & impairments	(782,955)	(663,154)	(752,952)	(771,459)	(891,738)	(783,687)	(1,056,744)	(1,105,256)	(1,145,340)
Scottish Government DEL ^{(3) (5)}	27,909,934	28,348,662	28,908,544	28,726,419	24,041,198	23,847,993	17,706,571	17,214,940	17,047,780

(1) Totals may not sum due to rounding.

(2) Including depreciation & impairments.

(3) Resource + capital - depreciation & impairments (includes Student Loans impairments).

(4) 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.

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

(6) From the 2015 Spending Review, Scotland Office expenditure no longer forms part of the Scottish Block.

(7) 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.

(8) Resource and Capital figures for all years reflect classification change of Research & Development (R&D) expenditure from resource to capital (ESA 10).

Table 2 - Changes to Scottish Government Departmental Expenditure Limit for 2012-13 to 2019-20 since publication of 2015-16 Report & Accounts

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Provisional Outturn	Plans	Plans	Plans
	£million	£million	£million	£million	£million	£million	£million	£million
Capital DEL plus Resource DEL: June 2016	28,692.9	29,011.8	29,661.5	29,516.3	24,767.4	30,743.1	30,912.6	31,212.7
Interdepartmental transfers								
from DCMS: Digital	-	-	-	-	21.0	-	-	-
from DfT: Dundee PSO	-	-	-	-	1.2	-	-	-
from HO: Immigration Health Surcharge	-	-	-	-	5.6	12.4	-	-
from HO: Sham marriages	-	-	-	-	0.1	0.1	-	-
from BEIS: Citizens Advice	-	-	-	-	1.2	-	-	-
from BEIS: Energy Efficiency	-	-	-	-	4.7	-	-	-
from DWP: Fit for work	-	-	-	-	2.1	-	-	-
from MOJ: O'Brien case	-	-	-	-	1.7	-	-	-
from DWP: Discretionary Housing Payments	-	-	-	-	-	19.7	20.0	19.5
from DWP: Employment Service	-	-	-	-	-	9.9	13.3	13.7
from BEIS: Consumer Protection	-	-	-	-	-	1.4	1.4	1.4
Spending Policy								
Inverness City Deal	-	-	-	-	0.2	3.5	10.9	12.0
Aberdeen City Deal	-	-	-	-	2.3	11.6	18.0	21.4
Distribution of LIBOR fines	-	-	-	-	0.2	-	-	-
Reduction in non-cash spending	-	-	-	-	(75.0)	-	-	-
Cash Management Rebate	-	-	-	-	0.2	-	-	-
DA Budget Exchange	-	-	-	-	165.7	-	-	-
Glasgow City Deal	-	-	-	-	15.0	-	-	-
Burrell	-	-	-	-	5.0	-	-	-
Coastal Communities Fund	-	-	-	-	5.7	-	-	-
Scottish Submarine Museum	-	-	-	-	0.7	-	-	-
Reserve Claim: CFER'd Immigration Health Surcharge	-	-	-	-	2.0	-	-	-
Fire pensions	-	-	-	-	1.7	-	-	-
Block Grant Adjustment (Fiscal Framework)	-	-	-	-	-	(12,450.0)	(12,984.0)	(13,417.0)
Block Grant Adjustment (Coastal Communities Fund & Crown Estate)	-	-	-	-	-	(1.5)	(1.5)	(1.5)
Edinburgh Cultural Summit	-	-	-	-	-	0.1	-	-
Baseline additions (Fiscal Framework)	-	-	-	-	-	122.0	-	-
Barnett Consequentials								
Autumn Statement 2016	-	-	-	-	2.6	146.8	222.3	255.7
Barnett Consequentials of DCMS Reserve Claim	-	-	-	-	1.9	-	-	-
Spring Budget 2017	-	-	-	-	-	144.2	107.2	75.2
Departmental outturn (underspend compared to final plans)								
Final Outturn 2015-16	-	-	-	(18.4)	-	-	-	-
Estimated Outturn 2016-17	-	-	-	-	(264.0)	-	-	-
Provisional Outturn 2016-17	-	-	-	-	(37.3)	-	-	-
Budgeting Changes								
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Subtotal	0.0	0.0	0.0	(18.4)	(135.7)	(11,979.8)	(12,592.4)	(13,019.5)
Capital DEL plus Resource DEL: June 2017	28,692.9	29,011.8	29,661.5	29,497.9	24,631.7	18,763.3	18,320.2	18,193.1

(1) Totals may not sum due to rounding

Table 3 - Cash grant paid to the Scottish Consolidated Fund 2015-16: Provision and Final Outturn

	Original Provision £m	Final Provision £m	Final Outturn £m
Expenditure Classified as Departmental Expenditure Limit ⁽²⁾	29,636.701	29,800.911	29,497.878
Expenditure Classified as Annually Managed Expenditure	4,016.318	3,980.122	3,913.969
Expenditure Financed by Scottish Taxes	498.000	508.000	498.000
Expenditure Financed by Capital Borrowing	304.000	306.000	306.000
Non Domestic Rates	2,799.500	2,788.500	2,788.500
Total Managed Expenditure	37,254.519	37,383.533	37,004.347
Adjustments to cash requirement			
Non-budgetary cash items	119.404	399.404	173.740
Depreciation and Impairments	(1,031.307)	(944.243)	(845.023)
Other Cash to accruals adjustments	(3,062.566)	(2,885.548)	(3,123.667)
Non Domestic Rates Income	(2,799.500)	(2,713.500)	(2,713.500)
National Insurance Fund Payments towards Scottish NHS	(1,724.076)	(1,811.520)	(1,911.520)
Other items including non-voted expenditure	(11.500)	(31.000)	(28.272)
Income from Scottish Taxes used to finance public expenditure ⁽⁴⁾	(498.000)	(508.000)	(498.000)
Capital Borrowing	(304.000)	(306.000)	(306.000)
Closing balance in Scottish Consolidated Fund	-	-	273.153
Cash Grant payable to Scottish Consolidated Fund by Scotland Office ⁽³⁾	27,942.974	28,583.126	28,025.258

Notes

⁽¹⁾ Totals may not sum due to rounding

⁽²⁾ Resource and capital DEL including depreciation

⁽³⁾ Scotland Act 1998, Section 64 (2)

⁽⁴⁾ Total income from Scottish Taxes was £572.230 million and £74.230 million has been credited to the Scottish Cash Reserve

Table 4 - Cash grant paid to the Scottish Consolidated Fund 2016-17: Provision & Provisional Outturn

	Original Provision £m	Final Provision £m	Provisional Outturn £m
Expenditure Classified as Departmental Expenditure Limit ⁽²⁾	24,767.371	24,932.936	24,631.680
Expenditure Classified as Annually Managed Expenditure	3,779.937	4,133.278	4,179.731
Expenditure Financed by Scottish Taxes	5,571.000	5,571.000	5,533.000
Expenditure Financed by Capital Borrowing	315.800	333.000	333.000
Non Domestic Rates	2,768.500	2,768.500	2,768.500
Total Managed Expenditure	37,202.608	37,738.714	37,445.911
Adjustments to cash requirement			
Non-budgetary cash items	144.337	219.337	152.337
Depreciation and Impairments	(1,066.738)	(1,082.684)	(916.84)
Other cash to accruals adjustments	(2,765.724)	(3,023.119)	(3,158.634)
Non Domestic Rates Income	(2,843.500)	(2,843.500)	(2,843.5)
National Insurance Fund Payments towards Scottish NHS	(1,724.076)	(1,974.995)	(1,974.995)
Other items including non-voted expenditure	(11.500)	(25.200)	(22.807)
Income from Scottish Taxes used to finance public expenditure ⁽⁴⁾	(5,571.000)	(5,571.000)	(5,533)
Capital Borrowing	(315.800)	(333.000)	(333)
Closing balance in Scottish Consolidated Fund	-	(42.509)	242.428
Cash Grant payable to Scottish Consolidated Fund by Scotland Office ⁽³⁾	23,048.607	23,062.044	23,057.900

Notes

(1) Totals may not sum due to rounding

(2) Resource and capital DEL including depreciation

(3) Scotland Act 1998, Section 64 (2)

Table 5 - Cash grant paid to the Scottish Consolidated Fund 2017-18: Provision

	Original Provision
	£m
Expenditure Classified as Departmental Expenditure Limit ⁽²⁾	18,763.315
Expenditure Classified as Annually Managed Expenditure	5,064.895
Expenditure Financed by Scottish Taxes	12,485.000
Expenditure Financed by Capital Borrowing	450.000
Non Domestic Rates	2,665.800
Total Managed Expenditure	39,429.010
Adjustments to cash requirement	
Non-budgetary cash items	152.057
Depreciation and Impairments	(1,156.744)
Other Cash to accruals adjustments	(4,064.545)
Non Domestic Rates Income	(2,665.800)
National Insurance Fund Payments towards Scottish NHS	(2,014.477)
Other items including non-voted expenditure	-
Income from Scottish Taxes	(12,485.000)
Capital Borrowing	(450.000)
Cash Grant payable to Scottish Consolidated Fund by Scotland Office ⁽³⁾	16,744.501

Notes

⁽¹⁾ Totals may not sum due to roundings

⁽²⁾ Resource and capital DEL including depreciation

⁽³⁾ Scotland Act 1998, Section 64 (2)

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