

Office of the Secretary of State for Scotland (Scotland Office)

and

Office of the Advocate General for Scotland

Annual Report and Accounts 2017-18





Office of the
Secretary of State for Scotland
(Scotland Office)

and

Office of the
Advocate General for Scotland

Annual Report and Accounts 2017-18
(For the year ended 31 March 2018)

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by Command of Her Majesty

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Contents

Chapter 1	The Performance Report	1
	The Ministerial Forewords	1
	Foreword by the Secretary of State for Scotland	1
	Foreword by the Advocate General for Scotland	3
	Director's Introduction	5
	Departmental overview	7
	Part 1: Scotland Office	7
	Part 2: Office of the Advocate General for Scotland	20
	Part 3: Sustainable Development	25
	Part 4: Returning Officers' Expenses	26
	Part 5: Financial Review for the Scotland Office and the Office of the Advocate General	28
Chapter 2:	The Accountability Report	31
	Director's Report	31
	Scotland Office and Office of the Advocate General Ministers and Directors	31
	Statement of the Accounting Officer's Responsibilities	36
	The Governance Statement	37
	The Remuneration and Staff Report	48
	Parliamentary Accountability and Audit Report	60
	The Certificate and Report of the Comptroller and Auditor General of the House of Commons	64
Chapter 3:	The Financial Statements	67
	Statement of Comprehensive Net Expenditure	67
	Statement of Financial Position	68
	Statement of Cash Flows	69
	Statement of Changes in Taxpayer's Equity	70
	Notes to the Accounts	71
Chapter 4:	The Public Expenditure Financial Tables	85

Chapter 1: The Performance Report

The Ministerial Forewords

Foreword by the Secretary of State for Scotland



I have been privileged to continue to serve as Secretary of State for Scotland, leading the department over the past year as it has worked hard to support the Government's plans for a stronger, fairer United Kingdom.

In a year where work to take forward the UK's vote to leave the European Union has dominated the landscape, my Office has continued

to work constructively across the UK Government, with the Scottish Government and with stakeholders throughout Scotland to ensure Scotland's interests are fully represented and to secure the best deal possible for the whole of the UK. We continue to approach EU Exit in a way that fully respects Scotland's vote to remain part of the UK in 2014 and have been clear that the vast majority of EU powers with devolved responsibilities will automatically flow to Holyrood. In addition, we look forward to continuing to work closely with the Scottish Government to create the UK-wide legal frameworks we need to protect the UK internal market – a market which is vital for business and jobs in Scotland.

In this 20th Anniversary year of the Scotland Act 1998, I am proud of our work with colleagues in Scottish Government and across UK Government departments to continue implementing the significant provisions of the Scotland Act 2016.

I am also proud of the work to drive forward City Region Deals to promote economic growth in Scotland, which has now taken the UK Government's total investment in UK City Region Deals in Scotland to more than £1 billion. In October, I launched the Scottish Business Taskforce, chaired by Lord Dunlop to bring together key business leaders to focus on addressing the gap between Scotland's economy and the rest of the UK.

The past year has, once again, seen continued and significant engagement with stakeholders. Lord Duncan, the Parliamentary Under Secretary of State, and I have travelled the length and breadth of Scotland to hear views from a wide variety of stakeholders, from farmers in Shetland to tourism representatives on Skye; from fishermen in Peterhead to financial services in Edinburgh. The Office again hosted around 25 events for stakeholders throughout the year to showcase Scotland, including a reception to mark the 70th Anniversary of the Edinburgh Festivals and a Taste of Scotland event to celebrate St Andrew's Day.

Over the past year, I have also promoted Scottish business interests and developed cultural and educational links on the international stage through visits to Paraguay, Argentina, Norway, Brussels, Hong Kong and Japan.

This year saw the Scotland Office move to new branding and for next year's Report will be known as the Office of the Secretary of State for Scotland. The move, which includes our work in Scotland being clearly badged under the UK Government brand, aims to help people more clearly distinguish our work from that of the Scottish Government, a recommendation stemming from the Smith Commission.

Equally the creation of UK Government Hubs, including in the capital cities of London, Edinburgh, Cardiff and Belfast, demonstrates the UK Government's commitment to strengthening the Union. The Edinburgh hub will see the UK Government estate consolidated into a modern working space with office facilities to meet the needs of visiting UK Government Ministers.

I would like to thank my officials in the department and Office of the Advocate General for their sustained commitment and efforts over the past year. The year ahead will be another busy one for us but I am confident we will rise to the challenge.

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

The Rt. Hon. David Mundell MP
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.

Following the historic vote to leave the European Union in June 2016 I have been helping the government meet the challenges it faces as we prepare to leave. I provided support to Ministers from the Department for Exiting the European Union as the European Union (Withdrawal)

Bill introduced by the government to deliver Brexit made its way through Parliament. At official level, my Office has worked closely with Cabinet Office and Scotland Office to ensure the Scottish aspects of the Bill are in order.

In my role as the 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 yet again been another busy year for these areas of work. My Office has continued legal work to implement the Scotland Act 2016, delivering on the 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 April this year I have also made the first reference to the Supreme Court of a Bill passed by the Scottish Parliament. The Attorney General and I did not take this decision lightly. By referring the Scottish Parliament's 'Continuity' Bill to the Supreme Court, we are seeking legal certainty as to its competence. Given the Presiding Officer's view at introduction that the Bill was not within the legal scope of the Parliament, we believe it is important to ask the Court to provide absolute clarity. In doing so we are following the process set out in Section 33 of the Scotland Act 1998. Particularly in the run up to Brexit, it is vital that we avoid legal uncertainty in our statute book.

My Office also undertakes a substantial amount of litigation for government departments in Scottish courts and tribunals. In this last year, the work carried out for Home Office and HM Revenue & Customs, represented the highest volumes, with more than 300 new immigration cases for Home Office, and 78 new cases for HM Revenue & Customs.

I have also represented the government in person in the courts on various occasions and did so, for example, when the Supreme Court made the historic step of hearing cases outside of London in June 2017 in Edinburgh.

In October 2017, I launched the Legal Services are GREAT campaign in Singapore and then attended the International Bar Association Conference in Sydney to promote UK Legal Services where I spoke at a number of sessions. During this visit I also met with various Law officers and Ministers including Singapore's Chief Justice Sundaresh Menon, the former Australian Prime Minister, John Howard, and the Australian Attorney General George Brand QC.

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

A handwritten signature in black ink that reads "Ken of Elie". The signature is written in a cursive, flowing style.

The Rt Hon, Lord Keen of Elie QC
HM Advocate General for Scotland

Director's Introduction



It is with pleasure that I present the Annual Report and Accounts for 2017-18 for the Scotland Office and Office of the Advocate General.

The Scotland Office and Office of the Advocate General are separate departments, responsible to the Secretary of State for Scotland and HM Advocate General Scotland respectively. I took up post as Director for the Scotland Office in October 2017 as successor to Francesca Osowska and I am responsible for the delivery of the Scotland Office's business objectives. Neil Taylor took up post as Director of the Office of the Advocate General in August 2017 as successor to Michael Chalmers and is responsible for the delivery of its objectives. The two Departments share a single budget and I act as Principal

Accounting Officer for both as well as for the Boundary Commission of Scotland. As noted in the Secretary of State's foreword we changed branding for the Scotland Office this year to clarify our role. In future reports the Scotland Office will be referred to as the Office for the Secretary of State for Scotland.

The primary focus for 2017-18 has undoubtedly been EU Exit work, with both Departments playing an important role in ensuring that UK Government policies and legislation deliver for Scotland and respect the devolution settlement as we prepare to leave the EU. We do this through regular dialogue and communication between ministers and officials in the Scottish Government and UK Government Departments and our engagement in a range of cross-government forums on EU Exit. In addition, the Scotland Office has organised and facilitated a range of events and visits with stakeholders across Scotland to ensure their views are heard and reflected in consideration of policy.

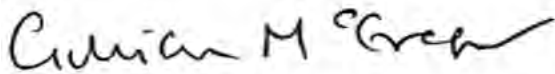
The Scotland Office has continued to work productively with UK Government Departments, the Scottish Government and other key partners on a wide range of policy priorities including the delivery of City Deals across Scotland and implementation of the UK Government's Industrial Strategy. We have worked closely with UK Government Departments who are responsible for the delivery of reserved UK-wide policies and functions in Scotland, including the Ministry of Defence (MOD), Home Office (HO), Department for International Trade (DIT), Department for Business, Energy & Industrial Strategy (BEIS) and Department for Media, Culture and Sport (DCMS) to name but a few. In addition, throughout 2017-18 we have continued to implement the devolution of significant further powers to the Scottish Parliament through the Scotland Act 2016, delivering on the recommendations of the cross-party Smith Commission agreement and with the vast majority of provisions of the Act already in force.

The Scotland Office and Office of the Advocate General for Scotland both have an important role to play in strengthening devolution capability across Whitehall Departments. This includes raising awareness of the devolution settlements and encouraging early engagement with the devolved administrations on the formulation and implementation of legislation and policy. We are also keen to ensure the UK

Government's contribution in Scotland (including through some 23,000 UK Government civil servants physically based in Scotland) is understood and recognised.

Looking ahead to 2018-19, we anticipate another busy year on EU Exit as we work through a complex legislative programme and ensure that we are operationally ready to leave the EU. We look forward to taking forward this work in a spirit of openness and collaboration with our key partners.

Neil Taylor and I would also like to take to take this opportunity to pay tribute to staff in both departments for their hard work, commitment and professionalism over the past year. The programme of work in the coming year promises to be just as busy as last year and we are confident that we have the right people to deliver it.

A handwritten signature in black ink, appearing to read "Gillian M. Gregor". The signature is fluid and cursive, written on a light-colored background.

Gillian McGregor

Director, Scotland Office

Accounting Officer, Scotland Office and Office of the Advocate General for Scotland
July 2018

Departmental Overview

Part 1: Scotland Office

The Scotland Office supports the Secretary of State in promoting the best interests of Scotland within a stronger United Kingdom. It ensures Scottish interests are fully and effectively represented at the heart of the UK Government, and the UK Government's responsibilities are fully and effectively represented in Scotland.

Objectives in 2017-18

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

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

Devolution: New Powers

During this year, we celebrated the 20th anniversary of the Scotland Act 1998 reflecting on the strength of the devolution settlement and the achievements of the last 20 years. Through the Scotland Act 2016, the UK Government has legislated to make the Scottish Parliament one of the most powerful devolved parliaments in the world. This legislation delivers the cross-party Smith Commission recommendations which followed the 2014 independence referendum, while retaining the strength and security of the UK. The new powers build on existing powers over health, education and policing with significant new levers over income tax, welfare, equalities, and many more areas.

The Office has continued to work closely with other UK Government departments and with the Scottish Government to implement the provisions of the Act. The majority of provisions have come into force and, through the Joint Ministerial Working Group on Welfare, the UK Government is working closely with the Scottish Government to transfer the remaining benefits in a way that ensures a seamless service. The Department for Work and Pensions (DWP) continues to share its knowledge and expertise in this area and is being as flexible as possible in accommodating the work the Scottish Government is undertaking to set up the new Social Security Agency and new IT systems.

Further secondary legislation is also expected relating to devolution of policing of railways in Scotland, the management and operation of tribunals and welfare implementation.

Alongside the work to implement the Scotland Act 2016, 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 on 26 April 2018.¹ In addition we have conducted Post-Legislation Scrutiny of the 2012 Act and provided a report to the Scottish Affairs Committee. This has also been published as a Command Paper.²

A review of sections 34-37 of the 2012 Act, which relate to referrals to the Supreme Court, is being conducted by the Lord Justice General. He was asked to lead the review by the Secretary of State in accordance with commitments given in Parliament to ensure the independence of this review. The review published a consultation paper in early 2018 and will report its findings in due course.

Devolution: Existing Powers

The Scotland Office, with support from the Office of the Advocate General, took three Scotland Act Orders through Parliament in 2017-18. The purpose of these Orders was to update and modernise the corporate insolvency procedures in Scotland, a specific power to raise a levy on wild freshwater fisheries in the respect of the conservation and management of freshwater fisheries, and an Order relating to the Criminal Justice (Scotland) Act 2016.

¹ The report can be found here: <https://www.gov.uk/government/publications/sixth-annual-report-on-the-implementation-of-the-scotland-act-2012-and-second-annual-report-on-the-implementation-of-the-scotland-act-2016>

² The command paper can be found here: <https://www.gov.uk/government/publications/memorandum-to-the-scottish-affairs-select-committee-on-post-legislative-assessment-of-the-scotland-act-2012>



This year saw a key devolution milestone – the 20th anniversary of the Scotland Act 1998.

The Secretary of State also made regulations which introduced changes to voter registration for UK Parliament elections in Scotland. This replicated changes being made in the rest of the UK.³ We worked with the Scottish Government to ensure that similar changes which it made in respect of Scottish Parliament and local elections were implemented at the same time as the regulations we introduced.

The UK Legislative Programme and Legislative Consent Motions

The Scotland Office works to ensure other Government Departments understand and comply with their responsibilities in relation 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 are sought from the Scottish Parliament where the legislative consent process is engaged. In the reporting year to 31 March 2018, a total of three LCMs relating to three UK Government Bills were passed by the Scottish Parliament. This included the Criminal Finances Bill, the Financial Guidance and Claims Bill and the Laser Misuse (Vehicles) Bill.

³ The Representation of the People (Scotland) (Amendment) Regulations 2018

EU Exit

The Scotland Office is working closely with departments across the UK Government and with the Scottish Government to secure the best deal for Scotland and the whole of the UK as we leave the EU.

In 2017-18, the Office has worked with the Department for Exiting the European Union, the Cabinet Office and the other Territorial Offices to help deliver the EU (Withdrawal) Bill's objective of providing certainty and stability as the UK leaves the EU, with an approach that has respected and will strengthen devolution and is in line with the Sewel Convention.

As powers are repatriated from the EU, it will be important to ensure stability and certainty are not compromised and that the effective functioning of the UK single market is maintained. The Devolved Administrations and the UK Government have recognised common frameworks may be needed in some areas in order to protect the UK internal market, manage our common resources and allow the UK to be an open and competitive trading nation as new arrangements replace the EU frameworks.

The Office has undertaken a significant amount of work on this issue to convey key messages through the media, directly with stakeholders and on digital channels. This has involved extensive and co-ordinated media handling, a series of roundtables and bilaterals with stakeholders and digital campaigns.

Objective 2: Scotland's Voice in Whitehall

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

EU Exit

The Secretary of State for Scotland, Parliamentary Under Secretary of State and officials have worked closely with the Department for Exiting the European Union, Cabinet Office, Department for International Trade, Department for Environment, Food and Rural Affairs (DEFRA), Home Office and many others to represent Scotland's interests and support Departments on Scottish matters relating to EU Exit. This has included:

- working closely with Scottish Government officials to understand their perspectives and share information;
- representing Scottish interests in cross-Whitehall groups across EU exit policy areas; and
- reaching out to stakeholders, from a cross-section of sectors the length and breadth of Scotland to understand their priorities.

This work remains ongoing and continues to be a priority, alongside representing Scottish interests in future trade negotiations as the UK develops its trade policy.

In addition to the work on the EU (Withdrawal Bill) and UK-wide Frameworks, the Office has worked closely with DEFRA to understand the potential implications of EU Exit for Scotland in areas like agriculture, fisheries and the environment and to ensure the views and concerns of key Scottish stakeholders from these sectors are considered both by DEFRA and other Whitehall departments in the development of future UK Government legislation and policy.

City Region Deals

The UK Government drives the City Region Deals programme, working in partnership with the Scottish Government, in order to promote economic growth across Scotland's cities and regions, creating jobs and boosting prosperity. The UK Government's investment in UK City Region Deals in Scotland is now more than £1 billion. All of Scotland's seven major cities either have, or are in negotiation for, a deal and talks are underway on the Borderlands and Ayrshire growth deals.

These City Region Deals are an excellent example of collaborative working between the Scotland Office, working with other key Departments in the UK Government, and the Scottish Government, alongside partners from the public and private sectors and academia.

In addition to taking forward significant elements of the Deals for Glasgow & Clyde Valley, Aberdeen and Aberdeenshire, Inverness and Highland, we have also worked with partners to agree the £1.1bn Edinburgh & South East Scotland Deal and work up the final elements of the £90m Stirling and Clackmannanshire Deal. In doing this we have produced a series of films that were shared on the Office's social media channels and partners' channels to explain the importance of the Deals in the relevant areas. The films, which illustrate tangible benefits of the Deals, were supplemented with animated explainers about key projects and expanded pages on the Delivering for Scotland microsite.



The UK Government's Investment in UK City Region Deals is now more than £1 billion.

This year the Office delivered:

- **Edinburgh & South East Scotland:** Heads of Terms were signed by UK Government, Scottish Government and the local partners on 20 July 2017. All parties are working to progress to the 'final deal' document. The UK Government has been particularly focused on the benefits that can be delivered through innovation in areas including World Class Data Infrastructure, Data Driven Innovation and Robotics.
- **Stirling & Clackmannanshire:** Negotiations commenced on 14 March 2017. There are a number of projects the UK Government focused on, including the Aquaculture Innovation Hub, a totemic National Tartan Centre and the release of MoD land at Forthside. The Heads of Terms of the deal was signed on 31 May 2018.

The Office continued to work on:

- **Tay Cities:** UK Government received the formal proposals from the Tay Cities partners on 2 March 17. Negotiations continue with the partners. A key theme for the proposals is around closing the gap in both regional productivity and forecast employment rates between the region and the rest of Scotland.

- **Borderlands:** The five Borderlands local authorities (Dumfries & Galloway, Scottish Borders, Carlisle City Council, Cumbria County Council and Northumberland) have been working together since 2014 to develop a strong working relationship across the region, and a joint strategy to develop their regional economy on both sides of the English-Scottish border. The Borderlands submitted a Growth Deal proposal to the UK Government on 29 September 2017. The Chancellor committed to opening negotiations on a Borderlands Growth Deal in the November 2017 Budget and negotiations commenced in January 2018. The Borderlands Growth Deal proposition is focused on transport, digital infrastructure, energy, business growth, rural, culture and tourism policies.
- **Ayrshire:** The three Ayrshire local authorities (East, North and South) have been working on proposals since 2015. Agreement to negotiate was announced by the Prime Minister in March 2018, and initial scoping meetings have now taken place with a full programme of negotiations planned for the rest of 2018.

Industrial Strategy & Economy

The Industrial Strategy sets out a long term plan to boost the productivity and earning power of people throughout the UK. It sets out how the UK Government is helping businesses create better, higher-paying jobs in every part of the UK with investment in the skills, industries and infrastructure of the future.

The Scotland Office is committed to ensuring Scotland benefits from improved productive growth as part of the Industrial Strategy and supported work by the Department for Business, Energy and Industrial Strategy (BEIS) to develop the White Paper which was published in November 2017.

Alongside working collaboratively with the Scottish Government to maximise the impact of further support for businesses and communities, officials have supported BEIS engagement with stakeholders across Scotland at both Ministerial and official level and assisted in the development of policy measures in Scotland such as engaging Scottish companies in sector deals, the Industrial Strategy Challenge Fund and Grand Challenges and working with BEIS, Cabinet Office and the Territorial Offices on the inter-agency collaboration review.

The Secretary of State for Scotland also launched the Scottish Business Taskforce this year with a focus on addressing the persistent gap between Scotland's economy and the rest of the UK. Chaired by Lord Dunlop, the group brings together influential business and economic leaders who have taken a particular interest in supporting the implementation of the Industrial Strategy in Scotland, improving provision of trade promotion services and access to finance for business, and increasing the number of women in leadership positions in Scotland.

Finally, the Office continues to support the work to ensure Scotland's trade interests are being



The Industrial Strategy addresses 4 grand challenges to put Scotland and the UK at the forefront of global technological revolution.

represented in the UK, EU and internationally. The Office is working with DExEU to help establish a deep and special partnership between the UK and the EU - one that allows for strong trade and the closest cooperation on issues that matter. Ensuring a seamless internal UK market is also a priority given that Scotland trades almost four times as much with the rest of the UK as it does with the EU.

Oil and Gas and Renewables

The Office has continued its close engagement with the energy sector across both oil and gas and renewables. The oil and gas sector is an important industry and has been operating in challenging circumstances. By working with the industry and the Oil and Gas Authority, the Office has helped ensure the challenges are properly understood by colleagues across UK Government and targeted support is provided. This includes delivery of the Aberdeen City Deal, including the Oil and Gas Technology Centre.

The Office continues to work with colleagues in the Department for Business, Energy and Industrial Strategy (BEIS), to support the renewables sector in Scotland, engaging with the industry and also specifically delivering on the commitment that remote islands wind projects will have the opportunity to participate in the next Contracts for Difference auction expected in spring 2019.



PUS of S visiting Shetland.

International Trade

Boosting international trade is key for Scotland and the rest of the UK. The Office is working closely the Department for International Trade on boosting exports and developing the UK's trade policy. The GREAT campaign is now operational in over 144 countries, promoting the UK as a world class destination for trade, tourism, investment and education. It also promotes Scottish export opportunities across the globe, utilising the UK's global consular network.

This year, the Board of Trade has also been reconvened to meet the modern needs of businesses, exporters and inward investors across the whole of the UK. It aims to represent the UK's trade and investment promotion agenda and to ensure the nations and regions of UK equally feel the economic benefits of free trade. The Secretary of State for Scotland joins the quarterly Board of Trade meetings and events, and is joined by two business advisers: former Trade Minister Brian Wilson and Edrington CEO Ian Curle.

The Secretary of State continues to make overseas visits to promote Scottish business interests and build cultural and educational links. This year he visited Paraguay, Argentina, Norway, Brussels, Hong Kong and Japan, meeting business, cultural and academic sectors, all with an interest in or connection with Scotland.

Defence

The UK Government is one of only five permanent members of the UN Security Council, and the only one which spends both 2% of our GDP on defence and 0.7% on international development.



HMS Prince of Wales is the second Queen Elizabeth Class aircraft carrier to be built for the UK using Scottish shipyards.

Over this year, the Office has continued to support the Ministry of Defence in its work to implement the Strategic Defence and Security Review in Scotland and deliver the National Security Capability Review published in March 2018.

The UK Government's commitment to defence in Scotland in 2017-18 has included significant commitments to warship building.

The Royal Navy had steel cut on the first of eight City class Type 26 frigates at Govan shipyard in July 2017. It was announced that the first Type 26 frigate would be named HMS *Glasgow* and will enter service with the Royal Navy in the mid 2020s. Manufacture of the first three of these new highly capable warships will secure approximately 1,700 skilled shipbuilding jobs in Scotland until 2035.

HMS *Prince of Wales*, the second of the Royal Navy's two future flagships being built by the Aircraft Carrier Alliance, was officially named in September 2017 during a ceremony in Rosyth. With a crew of 679, HMS *Prince of Wales* is expected to carry out sea trials in 2019 before entering Royal Navy service.

Another commitment included in the 2015 Strategic Defence and Security Review was delivered when the National Shipbuilding Strategy was published in September.

The RAF has invested £10m in the new Remote Radar Head facility at Saxa Vord, Shetland. The radar will improve RAF and NATO understanding of the airspace north of Britain and further out across the Norwegian Sea, improving the UK's sovereign capability at a time of heightened Russian military activity. It will see the island return to the role it performed during the 1960s and 1970s when the site was used as an early warning radar on NATO's northern flank.

National Security and Civil Contingencies

The Scotland Office has 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, and in ensuring that policy development and legislation in reserved matters is fit for purpose in Scotland.

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 former included extensive work on a major counter terrorism exercise which took place in October 2017. The exercise was led by Police Scotland and tested the responses of a wide range of reserved and devolved bodies to terrorist attacks in Scotland and northern England. During the severe weather of early 2018 the armed forces provided military assistance to the NHS in Edinburgh, Fife and Tayside, enabling key staff to get to work.

The Scotland Office has an important liaison role in ensuring that both Scotland and the 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.

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. Our activity has included leading training sessions with officials from across UK Government, and supporting interchange and shadowing opportunities.

Objective 3: Championing the UK Government in Scotland

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

There are around 23,000 UK Government civil servants who live and work in Scotland. The Scotland Office has been supporting the UK Government to help connect UK Government civil servants 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. Some examples of how we do this are set out below.

Devolution

The Office has worked to highlight how the UK Government is continuing to devolve powers to Scotland by implementing the Scotland Act 2016. That has included significant media and digital work to explain to the devolution of significant tax and welfare powers. We celebrated the 20th Anniversary of the Scotland Act on digital channels, featuring politicians from the previous decades and a range of stakeholders including the Scottish Youth Parliament. The campaign recognised the strength of devolution and achievements of the last 20 years.

Digital Economy

The Office has worked with partners across the public and private sectors to ensure opportunities to improve mobile and broadband connectivity are maximised in Scotland.

The Office has also worked closely with DCMS to ensure Scotland is included in the 5G Trials and Testbeds and the Local Full Fibre Network programme, with trials taking place in both rural and urban areas.

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

External Events

The Royal Highland Show provided an opportunity to raise the visibility of the UK Government amongst stakeholders and the general public, with nearly 200,000 people attending. The Office led on the development and delivery of a UK Government stand. Situated in a prime location, hundreds of people visited our stand and thousands were aware of our presence. We adopted a cross-government approach to this activity, working with various departments including DEFRA, DFID, DWP, DIT, BEIS and MOD.

The Secretary of State for Scotland, Secretary of State for DEFRA and Parliamentary Under Secretary of State for Scotland all undertook extensive programmes of engagement with stakeholders and sector media.

On St Andrew's Day, the Office honoured the occasion by filming members of the Armed Forces, international aid workers and foreign diplomatic staff across the globe. The #GlobalStAndrews campaign recognised the important contribution being made by UK Government staff to security, world aid and diplomatic relations. This campaign



The Royal Highland Show is a key annual event for the UK Government, providing a showcase for the work of many departments in Scotland.

achieved a 20% increase on social media impressions compared with 2016. We also showcased the work of the GREAT Campaign through a seminar linked to St Andrew's Day and issued a media release highlighting the international success of Scotland's fantastic food and drinks products.

The Office also highlighted the UK Government's support of the Edinburgh Festivals and their contribution to the economy with a reception to mark their 70th Anniversary, We also worked with partners and posted a series of videos from the event, including from the Secretary of State for Scotland and the First Secretary of State.

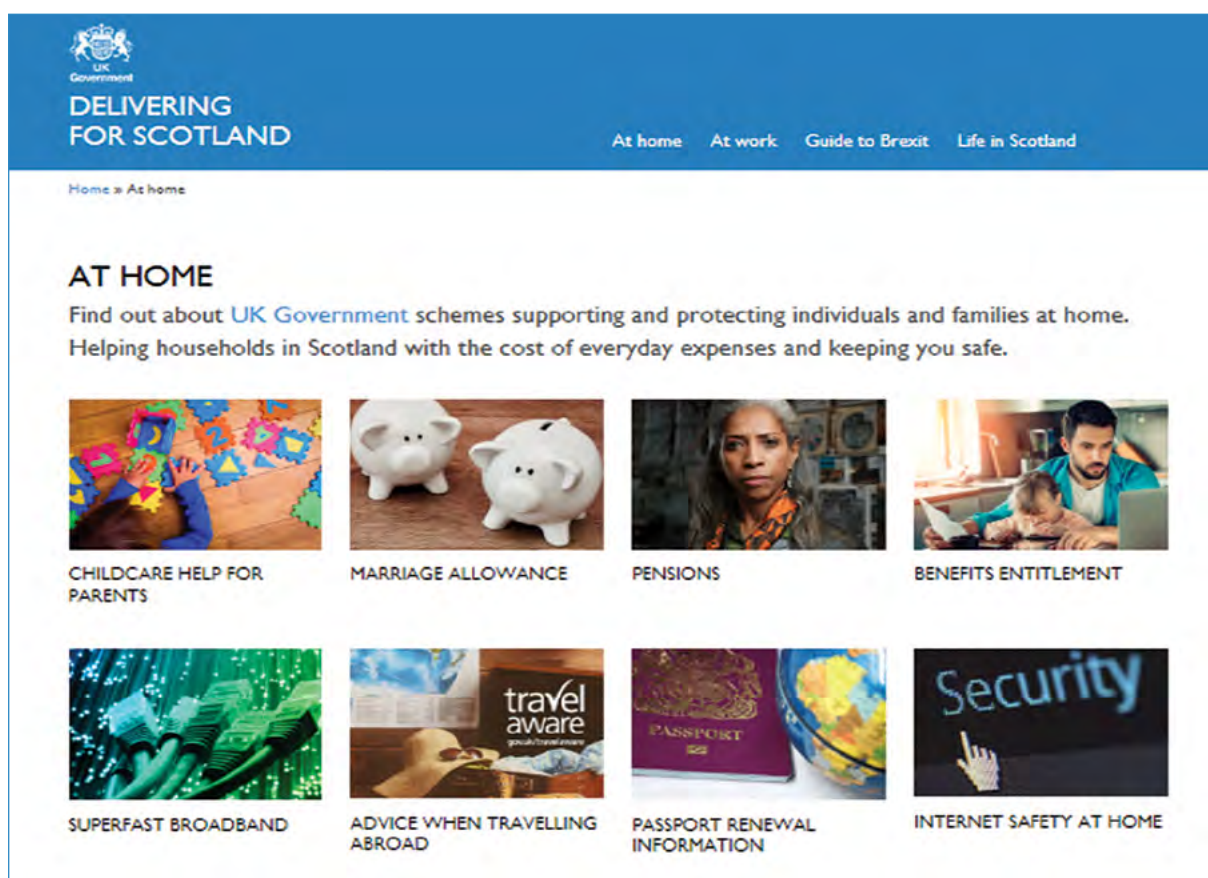


The UK Great campaign showcases the best of what our whole nation has to offer the rest of the world.

Delivering for Scotland

In early 2018 the Scotland Office launched a dedicated UK Government website (www.deliveringforscotland.gov.uk) for Scotland to encapsulate and promote the policies, initiatives and progress being made. The new site gives the public in Scotland clear information about UK Government benefits for those at home, at work and in business.

Through this campaign, and in close collaboration with other government departments, significant public information campaigns were promoted to relevant audiences during the year. This included activity to promote domestic UK Government policies such as tax-free childcare and Workplace Pensions and EU Exit updates as well as explainers celebrating the strong trading relationship that Scotland enjoys with the rest of the UK.



The Delivering for Scotland website gives the Scottish public clear information about UK Government policies.

Delivering for Scotland is now established at the core of all communication campaigns for the UK Government in Scotland. This will remain the focus for future communications and the Office will continue to promote examples where the UK Government is making a difference to people and business in Scotland.

Finally, the Office will strengthen the UK Government in Scotland network by supporting the development of new UK Government Hubs, improving linkages across the UK Government civil servants based in Scotland and improving devolution capability within the UK Government as a whole.

The Office will continue to make the case for a strong UK, to represent the interest of Scotland at the heart of the UK Government and to increase public awareness of how the UK Government continues to deliver for people in Scotland.

Part 2: Office of the Advocate General for Scotland Objectives in 2017-18

The Office of the Advocate General (OAG) set the following strategic objectives for 2017-18:

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, in particular, support the Advocate General for Scotland and the Secretary of State for Scotland.

The activity which OAG undertook in 2017-18 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 2017-18 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 2017-18, 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:

- Armed Forces (Flexible Working) Act 2018;
- Automated and Electric Vehicles Bill;
- Data Protection Bill;
- European Union (Withdrawal) Bill;
- Haulage Permits and Trailer Registration Bill;
- Overseas Electors Bill;
- Sanctions and Anti Money-laundering Bill;
- Smart Meters Bill;
- Taxation (Cross-border Trade) Bill; and
- Trade Bill.

Work on the implementation of the Scotland Act 2016 continued and the office also continued 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 in litigation relating to EU Exit.

As far as subordinate legislation is concerned, OAG was responsible for advising or leading on orders under the Scotland Act, covering a range of subjects such as insolvency, wild fisheries and criminal justice. 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 two of the appeals heard by the UK Supreme Court when it sat in Edinburgh for the first time in June 2017. He represented Home Office in the appeal of *Sadovska & Malik v SSHD* and Ministry of Justice in the appeal of *Billy Brown v Scottish Ministers & The Advocate General*.

The Advocate General also maintained his intervention in the significant devolution challenge raised by the *Scotch Whisky Association and Others*. This challenge to the Scottish Government's legislation relating to minimum alcohol pricing was rejected by the UK Supreme Court following a hearing in July 2017.

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 323 new cases were dealt with comprising 262 petitions for judicial review, 30 statutory applications for leave to appeal and 15 statutory appeals. There were also 13 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.

OAG represented the Secretary of State for Work and Pensions in a 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.

The Queen's Harbour Master was also represented by OAG in a judicial review relating to the respective rights of the Crown and commercial port authorities in the petition of *Petroineos Manufacturing Scotland Ltd v Clydeport Operations Ltd and others* (2017) CSOH 49. OAG is currently representing the Criminal Injuries Compensation Authority in an appeal which will be heard in the UK Supreme Court later this year – *Monica Allan v The Secretary of State for Justice* (UKSC 2017/0224) relating to eligibility under the Criminal Injuries Compensation Scheme.

OAG's dedicated HMRC division also handled a high volume of litigation in 2017-18 on behalf of HM Revenue & Customs. The litigation workload included 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). The Division also dealt with National Minimum Wage matters, principally in relation to recovery of sums due from employers.

Objective 3: Strengthening and Sustaining the Union

OAG undertook a variety of work in 2017-18 to support Scotland's continuing place within the UK. The most significant was OAG's continued role in providing legal advice to the Scotland Office and other government departments on the impact of EU Exit on Scots law and the Scottish devolution settlement. 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 2017-18. 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 continuing to advise on any orders needed under the Scotland Act. Such orders are one of the key mechanisms by which the Scotland Act ensures continuing coherence of the settlement. Continuing implementation of the Scotland Act 2016 was also an important strand of work this year.

To support the meeting of this objective, we maintained our efforts to build networks with Whitehall Departments and this paid dividends, especially with Bill teams from across Whitehall and our biggest litigation clients, such as HMRC and Home Office. This activity included provision of a wide variety of seminars, training on devolution and other engagement with “client” departments throughout the year. OAG also maintained its well established strong links with the Attorney General’s Office, Cabinet Office and Scotland Office, together with a range of other departments. Throughout 2017-18 we continued to engage with the Scottish Government to secure the delivery of common objectives and to resolve areas of disagreement in a proactive way.

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 2017-18, 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.

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 2017-18 session the Advocate General led for the Government on aspects of the Data Protection Bill and the European Union (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 his portfolio such as the promotion of legal services abroad.



In October, Lord Keen launched the Legal Services are GREAT campaign in Singapore and attended the International Bar Association Conference in Sydney to promote UK Legal Services. During this visit he also met with the Australian Attorney General George Brandis QC (see below). Also in October, on behalf of the Secretary of State for Justice he attended the Commonwealth Law Ministers Meeting in The Bahamas alongside Justice Ministers and Attorneys General from across the Commonwealth to discuss the theme of “Strengthening the Rule of Law through Technology”.



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 2017-18, which can be accessed at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669344/2017-18_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: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/585344/greening-government-commitments-overview-reporting-requirements-2016-2020.pdf

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 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.

For the UK Parliamentary Election on 8 June 2017:

- The Parliamentary Elections (Returning Officers' Charges) Order 2017 (SI 637) which came into force on 3 May 2017.

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 2017-18 related to advances to Returning Officers totalling £8,083k: final settlement of claims totalling £1,739k; and candidates free mailing costs of £3,001, which related to the 2017 UK Parliamentary Election. The receipts were in relation to bank interest and forfeited deposits of £37k. The bank interest and forfeited deposits 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 2018

	2017-18	2016-17
RECEIPTS	£000	£000
<i>Balance b/f from previous elections</i>		
Unused funding 2015 UK Parliament Election	-	1,595
Funding		
Funding for the 2017 UK Parliament Election	13,779	-
Other Receipts		
Bank Interest	-	-
Forfeited Deposits	37	-
Total	13,816	1,595
PAYMENTS		
Local Authority Claims		
Funding Advances	8,083	-
Final Settlements (including accrued costs)	2,008	198
Other Expenditure		
Royal Mail Costs	3,001	-
Total	13,092	198
Excess of receipts over payments before amounts surrendered to the Exchequer	724	1,397
Accrued Expenditure	269	(1,067)
Less: Amounts Surrendered to the Exchequer in Respect of:		
Forfeited Deposits	37	-
Bank Interest Received	-	-
Unused Funds	-	330
Total	37	330
Statement of Balances as at 31 March 2018	956	-

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

In 2017-18 within the Parliamentary Supply Estimates (Supplementary Estimate) for the Scotland Office and the Office of the Advocate General the provision totalled £28.684 billion. The Scotland Office and the Office of the Advocate General voted provision was £10.091 million and the payment to the Scottish Consolidated Fund totalled £28.674 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 2017-18

At the start of the year the Scotland Office and the Office of the Advocate General were voted £28.6 billion in its Main Estimate. By the final Single Supplementary Estimate, this had increased by £100.8 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 1.5% (£432 million) on the Estimate provision of £28.7 billion. The Statement of Parliamentary Supply 1.1: Analysis of net resource outturn by section, and The Statement of Parliamentary Supply 1.2: 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	9,150	9,391	241	2.57%

The Scotland Office and the Office of the Advocate General Annually Managed Expenditure provision relates to a provision for dilapidations in their Edinburgh Office.

Spending in Annually Managed Expenditure	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Scotland Office and Office of the Advocate General	170	200	30	15%

Boundary Commission for Scotland

The underspend for the Boundary Commission for Scotland in 2017-18 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 was 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	304	400	96	24%

Grant payable to the Scottish Consolidated Fund

The sum of £431.18 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 2017-18. 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.

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.

Spending in Departmental Expenditure Limits	Outturn £000	Estimate £000	Underspend £000	Percentage of Estimate
Grant payable to the Scottish Consolidated Fund	16,385,100	16,816,280	431,180	2.56%
Scottish Rate of Income Tax	11,858,000	11,858,000	0	0%
Total	28,243,100	28,674,280	431,180	1.5%

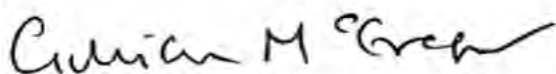
Scotland Office and the Office of the Advocate General – Capital

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 Office of the Advocate General	76	100	24	24%

Reconciliation of Resource Expenditure between Estimate, Accounts and Budgets

	Estimate £000	Outturn £000
Net Resource Outturn (Estimates)	28,698,050	28,265,816
Net Expenditure for the year	28,698,050	28,265,816
Voted Expenditure outside the budget	28,674,280	28,243,100
Resource Budget Outturn (Budget)	9,791	9,454



Gillian McGregor

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

11 July 2018

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 2017-18 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 (until 8 June 2017);
- Lord Duncan of Springbank, Parliamentary Under Secretary of State for Scotland (from 23 June 2017);
- The Rt Hon The Lord Keen of Elie QC, HM Advocate General for Scotland;
- Francesca Osowska, Scotland Office Director and Accounting Officer (until 1 October 2017) ;
- Gillian McGregor, Scotland Office Director and Accounting Officer (from 12 October 2017);
- Michael Chalmers, Office of the Advocate General Director (until 16 June 2017);
- Neil Taylor, Office of the Advocate General Director (from 21 August 2017).

The Senior Managers were supported by the Deputy Director for Corporate Services and Governance and the Legal Secretary to the Advocate General who attend meetings of the Scotland Office and OAG 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 2017-18, 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 2017-18
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 1158 pieces of correspondence (1539 in 2016-17) and replied to 978 (84.5%) within the target time. The Office of the Advocate General received 1 piece of correspondence which was replied to 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 286 FOI requests in 2017-18 (165 in 2016-17) and replied to 260 (90.9%) within 20 working days either substantively or explaining the reason for an extension. The Office of the Advocate General received 51 FOI requests in 2017-18 (24 in 2016-17) and replied to 47 (92.2%) 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 98.5% of invoices within five days. The Office of the Advocate General paid 94.2% of invoices within five days.

Ministerial correspondence

There were **1158** items, compared to 1539 in 2016-17.

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, **272** out of **284 (96%)** 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 2017/18, on:

- 19 April 2017;
- 19 July 2017;
- 25 October 2017;
- 6 December 2017;
- 24 January 2018; and
- 7 March 2018.

	Ordinary Written Questions		Named Day Questions	
	Total Received	Answered on Time	Total Received	Answered on Time
House of Commons	212	208	72	64
House of Lords	0	n/a	n/a	n/a
Total	212	208 (98%)	72	64 (89%)

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 an item at the Senior Leadership Team meeting and periodic reports to the Offices' Audit Committee. In 2017-18 we had an Internal Audit on Information Assurance. 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 February 2018. 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.

During the period 1 April 2017 to 31 March 2018, there was one Health and Safety related issue which required attention, namely the discovery of Asbestos within basement areas of Dover House. This is currently being addressed with our Landlords, MoJ Facilities Management and specialist contractors.

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 2017-18 (together with data for 2016-17 and 2018-19) can be found in chapter 4. Alongside this grant, the Scottish Government's funding in 2017-18 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 2017-18 was **£28,243,100,000**

The Scottish Government published details of how it allocated its budget for 2016-19. These are contained in Scotland's Draft Budget 2017-18 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 2017-18 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 space in our premises to other UK Government bodies.

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, mainly from the Ministry of Justice, Cabinet Office 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, Cabinet Office 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 and Cabinet Office for the cost of the services they supply.

For the procurement of goods and services the Offices generally use framework contracts negotiated by the Crown Commercial Service, the Ministry of Justice, Cabinet Office and the Scottish Government. The Scotland Office also provides services to other government bodies by making space available in its buildings. 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 3 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.

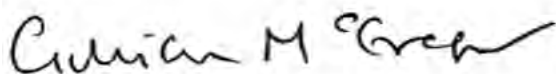
HM Treasury has appointed the Director of the Scotland Office as Accounting Officer of the Scotland Office and the Office of the Advocate General. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer 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 (2016-17: £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.



Gillian McGregor

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

11 July 2018

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 Boundary Commission for Scotland. 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 2017 to 31 March 2018. I sought assurance from Ministers, the Audit and Risk Assurance 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 2017-18.

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 or "the Board"), chaired by the Secretary of State for Scotland. The JMB follows the enhanced departmental board model. Details of the membership and the JMB's sub committees, including the Audit and Risk committee, can be found in this chapter. In line with Central Government guidance, the Board is at the apex of the Offices' corporate governance.

The Board has successfully managed significant change in the 2017-18 reporting year. Lord Duncan of Springbank joined the Scotland Office Ministerial team as the Parliamentary Under Secretary of State for Scotland. There was a change in both the heads of the Scotland Office and OAG. Francesca Osowska, the Director for the Scotland Office, left in September to take up a post with Scottish Natural Heritage and I

succeeded her in October. Neil Taylor was appointed Director of the Office of Advocate General following Michael Chalmers' departure. Non-Executive membership of the Board also saw changes with Edward Adams, Chair of the Audit Committee stepping down from this role as his term of office expired. Graeme Bissett, an existing member of the Audit Committee took over as Chair from August 2017, in addition to his role as the NED leading on risk management. Jayne Scott, was recruited from December 2017 to the Audit and Risk Assurance Committee.

The Lead Non-Executive Director (NED), Keith Cochrane, stood aside from his role in January 2018 whilst investigations into Carillion are on-going. After consultation with the Cabinet Office and No.10, Shonaig Macpherson took over as Interim Lead NED on the Board. Details of the Board membership during 2017-18 are given below.

The Board continued to meet and operate effectively throughout the year and continued to build on the recommendations from the Board Effectiveness Evaluation Review Report.

The visibility of the Non-Executive Board Members has continued to increase across UK Government. Our lead NED continued as a member of the Lead Non-Executive network, chaired by, 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 bring 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 on a one-to-one basis. 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.

Our NEDs engagement with their network across UK Government departments has supported the Office's work to heighten awareness of devolution across Whitehall and provided more opportunities for the Scotland Office to have influence and engage with departments when dealing with issues affecting Scotland at an earlier stage.

A significant event which contributed to raising the profile of devolution capability and of the Scotland Office and OAG was the UK Government NED Devolution Conference on the 4 May 2017. Our Lead NED chaired this event was supported by the UKG Lead NED, Sir Ian Cheshire, the UK Governance Group Director, Philip Rycroft, and the Directors of the Scotland Office, Wales Office and Northern Ireland Offices. The objective of the event was to raise the profile of devolution capability at Board level across Whitehall and demonstrate the importance of the different devolution settlements across the UK when developing and delivery policy. The event successfully created an increased understanding of devolution as a policy consideration and Non-Executive Directors were interested in how they could use their network to work with the Territorial Offices.

The JMB formally met on three separate occasions during the 2017-18 reporting year, and the Non-Executive Board members continued to provide advice on a number of occasions outside of meetings, most notably on: stakeholder engagement; communications; City Deals: the Department's approach to EU Exit; the Scotland Office and Office of the

Advocate General Business Plans and performance management/KPMI frameworks. Non-Executive Directors supported the Joint Management Board in delivery and performance through deep-dive sessions with the Offices' Senior Leadership Teams on issues related to the Business Plan Strategic objectives and through mentoring officials in projects such as City Deals, Industrial Strategy and EU Exit.

In addition to the formal corporate governance structure, I am in regular contact with the Director of OAG to ensure that I can fulfil my responsibilities as Principal Accounting Officer in respect of this Office. Various means are available to provide me with assurances 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 and the Scotland Office and OAG Lead NED has established a good working relationship with the Deputy of the BCS, Lord Matthews to consolidate that effective dialogue. I had additional reassurance from the internal audit field 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 and a follow-up Audit in 2017. This established that all of the recommendations in the Internal Audit Report had been carried out and effective governance structures and reporting mechanisms had been put in place as a result; this included a revised MoU and risk management policy for the BCS.

Membership and Business of the Joint Management Board (JMB)

The Board in 2017-18 comprised:

- **Rt Hon David Mundell MP** - Secretary of State for Scotland;
- **Lord Dunlop** Parliamentary Under Secretary of State for Scotland (Until June 2017);
- **Lord Duncan of Springbank**- Parliamentary Under Secretary of State for Scotland (from June 2017);
- **Lord Keen of Elie QC** HM Advocate General for Scotland;
- **Francesca Osowska** Director of the Scotland Office and Principal Accounting Officer (until October 2017)
- **Gillian McGregor** - Director of the Scotland Office and Principal Accounting Officer (from October 2017) ;
- **Michael Chalmers** Director of the Office of the Advocate General OAG sub-committee OAG sub-committee (until June 2017)
- **Neil Taylor** - Director of the Office of the Advocate General OAG sub-committee OAG sub-committee (from August 2017);
- **Keith Cochrane** - Lead Non-Executive (Until January 2018);
- **Edward Adams** - Non-Executive Member and Chair of the Audit Committee (Until July 2017);
- **Graeme Bissett** - Non-Executive Member and Chair of the Audit Committee from August 2017;
- **Joyce Cullen** - Non-Executive Member and OAG sub-committee member; and
- **Shonaig Macpherson** - Non-Executive Member and Interim Lead NED from January 2018.

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.

In 2017-18, there were:

- three formal JMB meetings; and
- monthly meetings of the Scotland Office Senior Leadership Team;
- six weekly meetings of the Office of the Advocate General Senior Management Team;
- five meetings of the Audit and Risk Assurance Committee; and
- seven meetings of the Office of the Advocate General sub-committee.

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 four sub-committees:

- the Scotland Office Senior Leadership Team;
- the Office of the Advocate General Senior Management Team;
- the Audit and Risk Assurance 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. 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 and Risk Assurance Committee is to advise the Principal Accounting Officer and provide assurance on the way that the Offices are being managed. The Audit and Risk Assurance Committee operates in accordance with the Treasury's Audit Committee Handbook and meets at least quarterly, and in the 2017-18 reporting year the Audit Committee met five times. A separate report by the Chairman of the Audit and Risk Assurance Committee on the Committee's work in 2017-18 is annexed to this Governance Statement.

During 2017-18 the Audit Committee had a quorum of three members: Edward Adams (until July 2017), Gillian Carty, Graeme Bissett and Jayne Scott (from December 2017). There were five meetings during the reporting year. Following two, three year terms as Chair, Edward Adams left the Audit and Risk Assurance Committee and Joint Management Board in July 2017. The Committee remained quorate with two non-executive members present at meetings of the Committee.

Officials of the National Audit Office and Government Internal Audit Agency (GIAA) attend the Audit and Risk Assurance 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 2017-18 the Office consolidated its appetite and approach to risk management. The Audit and Risk Assurance 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. The framework for managing risk with the Offices is intended to ensure a consistent approach in risk identification and management.

The Scotland Office has continued to develop its risk management strategy and enhanced its Risk Register to link in the work at Divisional level on Business Plans and performance management. This revised risk register and approach to managing risk allows for Divisions to discuss, manage, and, if necessary, escalate risk as part of everyday business planning and to report risk to the SLT, including for 'deep-dives' into specific risks. Where SLT consider appropriate strategic risks are reported up to the Board.

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 Leadership Team and through the close and routine contact with all of them which is greatly facilitated by the small size of the two Offices.

The most important external source of assurance is provided by the Non- Executive Directors and the Audit Committee. The Chair of the Audit Committee's report on its work in 2017-18 is in **Annex B** to this Chapter.

Internal Audit services are provided to the Scotland Office and the Office of the Advocate General by the 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 is therefore informed by their knowledge of our closest comparators in government.

During 2017-18 Internal Audit reports were produced on the following subjects and made available to the Audit Committee:

- Boundary Commission for Scotland;
- Information assurance, Records Management and GDPR (General Data Protection Regulation); and
- Accommodation planning.

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.

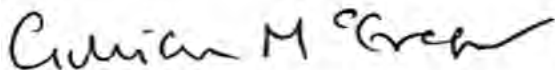
External audit is provided by the National Audit Office on behalf of the Comptroller and Auditor General. His certificate and report on these accounts is at Page 64. In addition to these departmental accounts the National Audit Office also audited the National Loan Fund accounts 2017-18.

Propriety and Assurance

In the Scotland Office, the Office of the Advocate General, and the Boundary Commission for Scotland, during 2017-18, 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 2017-18, 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.



Gillian McGregor

Director of the Scotland Office and Principal Accounting Officer

11 July 2018

Annex A: Scotland Office and Office of the Advocate General Lead Non-Executive Board Member's Report

Composition

Board Membership changed significantly during the 2017-18 reporting year with changes in membership seen in both the Scotland Office and OAG Ministerial and Senior Leadership Teams of the Scotland Office and OAG, as well as change in the Non-Executive team. This is not dissimilar to other Boards and usual and natural in any management board and the change and succession planning was managed well and effectively by the Secretariat to enable the Board to continue to operate effectively and support Ministers and officials in delivering the priorities and objectives in the departments' business plans.

Quality

Following the Board Evaluation Exercise for Reporting Year 2016-2017 Board agendas had a greater focus on substantive projects for each Office including:

- impact of EU Exit;
- implementation of the Scotland Act 2016;
- deep dives into projects such as City Deals, Digital Connectivity and the UK Government Hub in Scotland;
- Stakeholder Engagement and Communications Capability; and
- Departmental Performance Management Indicators and Business Plans.

The logistics of meetings and communications were well managed with effective support from the Board Secretariat. The Secretary of State as Chair encouraged contribution and challenge from all Board Members and from individuals invited to present papers to the Board.

Departmental involvement of Non-Executive Directors (NEDs)

NEDs have continued to support each Office outside formal Board Meetings. The Office of the Advocate General sub-committee of the Board continued to operate and consider issues specific to OAG including talent development and adoption of new ways of working. A notable achievement during the year was the co-ordination and delivery, in conjunction with other Territorial Offices, of a Devolution Capability Awareness Seminar for other members of the UK Government NED network. Numerous other activities have involved NEDs including participation in All Staff Business Planning Days, mentoring of individuals and deep dive discussions with officials around City Deals, the proposed UK Government Hub in Edinburgh and issues arising from the UK's exit from the European Union. The annual Board dinner, attended by Ministers, Directors of the Scotland Office and Office of the Advocate General and NEDs continues to provide an opportunity for less formal engagement. NEDs have also attended several UK Government NED Network events and have met individually with several NEDs from other UK Government Departments through the year to promote specific Office priorities across wider UK Government.

Conclusion and Evaluation of Board Effectiveness Recommendations

The JMB continues to be an effective forum and decision-making body. In a period of great change in personnel, the Scotland Office and Office of the Advocate General have ensured that the NEDs have remained engaged in the work of each Office and

have been able to contribute their expertise and experience. Following the completion of the evaluation of Board Effectiveness for 2017-18 a work plan has now been agreed for 2018-2019, identifying substantive topics for discussion at each meeting. To support the work of the JMB, meetings with Non- Executive Directors and the Senior Leadership Team have been scheduled in advance of each JMB to prepare for JMB meetings and to ensure that the focus of JMB meetings is retained. A priority for JMB's NEDs in 2018-2019 will be to ensure that the Scotland Office and Office of the Advocate General constantly reviews its priorities, workload and resources to meet the demands presented by addressing EU Exit and the on-going requirement to continue to deliver other objectives for each of the Offices.

Shonaig Macpherson

Lead Non Executive Member

Scotland Office and Office of the Advocate General

Annex B: Annual Report of the Audit and Risk Assurance Committee

Scotland Office / Office of The Advocate General Audit and Risk Assurance Committee

Report for the year 2017-18 from the Chair

Background

Gillian McGregor succeeded Francesca Osowska in October 2017 as the Director of the Scotland Office and is Principal Accounting Officer for the Scotland Office (SO) and Office of the Advocate General (OAG) (the Offices). The Accounting Officer needs to have confidence that the Offices have effective corporate governance, risk management and financial management policies and procedures in place.

Most of that assurance is obtained directly from the senior staff within the Offices, but with important support from internal and external audit agencies. The Audit and Risk Assurance Committee (ARAC) supports this process by providing independent scrutiny and advice. Specifically, the Committee monitors the operation of corporate governance, risk management and financial management policies and procedures; the independence, effectiveness and coordination of internal and external audit; and the quality of routine and annual financial reporting. The Committee provides a forum for discussion on all relevant matters, bringing together Officials, independent non-executive directors and representatives of the internal and external audit agencies.

I succeeded Edward Adams as Chair of ARAC in September 2017 and I would like to record my own and colleagues' great thanks for the excellent service provided to the Offices by Edward during his period as Chair.

Activity

ARAC met five times during 2017-18 to execute its main business. In addition, a meeting was held with the Head of Finance to review in detail the annual accounts prior to their finalisation.

Membership and attendance

We were delighted to welcome Jayne Scott to the Committee after a recruitment process which attracted an excellent slate of candidates. The Committee now comprises Jayne, Gillian Carty and myself. The Committee has two members with recent and relevant financial experience. All members attended each meeting and continue to be paid a daily rate for their duties.

Main Issues

The Committee was satisfied that the systems in place in the Offices over 2017-18 in relation to governance, risk and financial management were in general appropriate and fit for purpose. The Committee was conscious that the Offices had once again coped with a continuing intense level of activity, primarily related to two matters, the implementation of the Scotland Act 2016 and the wide-ranging impact on Scotland

of the EU exit process. The Committee has found Officials to be cost conscious in its operations but adequacy of resourcing to address these matters effectively has been a continuing theme in the Committee's deliberations and one which the Committee believes must be kept under constant review by Ministers and Officials.

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.

The Offices' approach to risk management continues to evolve to meet the demands of a complex and fluid environment. In June 2016, the Committee approved a revised Risk Management Framework for the Offices, which represented a step change over its predecessors and satisfied the requirements of *Management of Risk in Government* published in 2016 by the Cabinet Office. Valuable effort has been made by Officials to further embed risk management procedures as part of routine management practice and this is augmented by overview of risk registers by the Committee and deep dive reviews of specific risks at each meeting. The Committee has made two recommendations which should enhance future risk management practices. Firstly that the Joint Management Board should receive and review regularly the corporate level risk register, addressing its completeness and relevance and the effectiveness of mitigating actions ; and secondly that the current Offices' risk registers be refreshed and their consistency with each other be re-confirmed.

The Committee reviewed at each meeting the Offices' financial performance 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.

Links with Other Departments

As well as participating in the periodic meetings of all non-executives of Government Departments, I attended a meeting of the 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 Jon Whitfield (Chief Executive of the Government Internal Audit Agency). The main theme was the effect of EU exit work on departmental resources, a concern which was consistent with our own. The meeting was useful in building contacts across Whitehall and assists in communicating the importance of taking proper account of devolution in the work of Audit and Risk Assurance Committees and their respective departments.

Audit

External Audit continued to be provided by the National Audit Office and internal audit service was provided by the Government Internal Audit Agency. Both agencies provided strong support to the Committee throughout the year, attending all the meetings.

Committee Self-Assessment

The Committee undertook a self-assessment, the results of which were communicated to the Accounting Officer on 29 May 2018.

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, that it described accurately the processes of corporate governance within the Offices and that it properly addressed the relevant issues.

Future Work

The overall format of the Committee's annual agenda will be similar to that which has operated well in recent years. A structured approach to the interactions between Ministers, Officials and independent non-executives has been developed to ensure that all key issues are addressed in the right forum and in a timely manner. The Committee has an important role to play in those interactions and will ensure high quality reporting of its views and concerns to the Joint Management Board.

The primary challenge to be monitored by the Committee in 2018-19 will continue to be the management of risk against the backdrop of the wide-ranging impact of EU exit on matters within the Offices' responsibilities. The breadth of work required of Officials which is important to government in Scotland cannot be over-estimated and requires constant assessment of the adequacy and quality of available resources and the means by which related risk is managed.

Graeme Bissett

Chair, Audit and Risk Assurance Committee

April 2018

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.

The following sections are all subject to audit: ministers' remuneration, Board members' remuneration, pay multiples, fees paid to Non-Executive Board Members, ministers' pension benefits, Board members' pension benefits, compensation for loss of office, staff costs, reporting of Civil Service and other compensation schemes, average number of persons employed'.

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 www.ome.uk.com

Board members and senior civil servants remuneration

The salaries of Scotland Office and Office of the Advocate General senior managers were determined by the government body from which they were seconded in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

Performance based pay awards are based on an assessment of performance against objectives agreed between the individual and 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: 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 (£74,962 from 1 April 2016, £76,911 from 1 April 2017) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords are 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 2017-18 or 2016-17.

Remuneration (salary and pensions)

Ministers	Salary (£)		Pension benefits (to nearest £1000) ⁽¹⁾		Total (to nearest £1,000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
The Rt Hon David Mundell MP Secretary of State for Scotland ⁽²⁾	67,505	18,000	18,000	86,000	86,000	84,000
Lord Duncan of Springbank, Parliamentary Under Secretary of State for Scotland (since 23 June 2017) ⁽³⁾	81,142	n/a	14,000	n/a	95,000	n/a
Lord Dunlop of Helensburgh, Parliamentary Under Secretary of State for Scotland (until 8 June 2017) ⁽³⁾⁽⁵⁾	19,848	105,076	n/a	n/a	20,000	93,000
The Rt Hon The Lord Keen of Elie QC, Advocate General for Scotland ⁽⁴⁾⁽⁵⁾	128,121	107,801	n/a	n/a	128,000	108,000

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. The Secretary of State waived his increase.
3. 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.
4. Full year equivalent £128,121 (The Advocate General waived his increase). This includes the House of Lords Office Holders Allowance of £36,366).
5. Both ministers waived the right to their pension entitlement.

Pension Benefits

Ministers	Accrued Pension at age 65 as at 31 March 2018	Real increase in pension at age 65	CETV at 31 March 2018	CETV at 31 March 2017	Real increase/ (decrease) in CETV £000
	£'000	£'000	£'000	£'000	£'000
The Rt Hon David Mundell MP Secretary of State for Scotland	5-10	0-2.5	107	85	9
Lord Duncan of Springbank, Parliamentary Under Secretary of State for Scotland (since 23 June 2017)	0-5	0-2.5	10	-	4
Lord Dunlop of Helensburgh, Parliamentary Under Secretary of State for Scotland (until 8 June 2017)	n/a	n/a	n/a	n/a	n/a
The Rt Hon The Lord Keen of Elie QC, Advocate General for Scotland	n/a	n/a	n/a	n/a	n/a

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 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2016-17 relate to performance in 2015-16.

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

Remuneration (salary and pensions)

Single total figure of remuneration										
Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000) ⁽¹⁾		Total (£'000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Gillian McGregor Scotland Office Director and Accounting Officer (Started 12 October 2017)	25-30 ⁽²⁾	n/a	-	n/a	-	n/a	49	n/a	75-80	n/a
Francesca Osowska, Scotland Office Director and Accounting Officer (Left 1 October 2017)	45-50 ⁽³⁾	95-100	-	-	18,100	11,000	17	37	80-85	145-150
Neil Taylor, Office of the Advocate General Director (Started 21 August 2017)	55-60 ⁽³⁾	n/a	-	n/a	-	n/a	77	n/a	135-140	n/a
Michael Chalmers, Office of the Advocate General Director (Left 16 June 2017)	15-20 ⁽³⁾	95-100	-	-	-	-	7	37	20-25	135-140

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 - full year equivalent 85-90

(3) Part year - full year equivalent 90-95

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 2018	Real increase in pension and related lump sum at pension age at 31 March 2018	CETV at 31 March 2018	CETV at 31 March 2017	Real increase/decrease in CETV
	£'000	£'000	£'000	£'000	£'000
Gillian McGregor Scotland Office Director and Accounting Officer	25-30 plus a lump sum of 85-90	0-2.5 plus a lump sum of 5-7.5	600	548	43
Francesca Osowska, Scotland Office Director and Accounting Officer	25-30 plus a lump sum of 70-75	0-2.5 plus a lump sum of 0-2.5	462	435	6
Neil Taylor, Office of the Advocate General Director	25-30 plus a lump sum of 60-65	2.5-5 plus a lump sum of 5-7.5	424	363	51
Michael Chalmers, Office of the Advocate General Director	20-25	0-2.5	249	249	2

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 director in the Scotland Office in the financial year 2017-18 was £90-95k (2016-17, £95-100k). This was 2 times (2016-17, 2.1 times) the median remuneration of the workforce, which was £46,889 (2016-17, £46,442).

In 2017-18, no employees (2016-17 the figure was also nil) received remuneration in excess of the highest-paid director. Remuneration ranged from £17.6k to £93k (the 2016-17 figures were £17.2k to £95.8k).

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 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 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 2017-18 is shown in the following table:

	2017-18					2016-17
	£000					
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Wages and salaries	-	5,960	297	122	6,379	6,678
Social security costs	-	565	39	15	619	730
Other pension costs	-	1,086	-	21	1,107	1,383
Sub Total	-	7,611	336	158	8,105	8,791
Less recoveries in respect of outward secondments	-	-	-	-	-	-
Total net costs	-	7,611	336	158	8,105	8,791

The staff costs comprise of:

	Charged to Admin Budgets	Charged to Programme Budgets	Charged to Admin Budgets	Charged to Programme Budgets
	2017-18		2016-17	
	£000		£000	
Core Department	7,887	-	8,486	-
Other Designated Bodies	-	218	-	305

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](http://www.civilservice-pensions.gov.uk)

For 2017-18, employers' pension contributions of £1,107k (2016-17: £1,383k) were payable to the PCSPS at one of four rates in the range 20% to 24.5% (2016-17: 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 (2016-17: £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% (2016-17: 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 (2016-17:£0).

Staff Numbers

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

	2017-18					2016-17
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Scotland Office	-	67	2	2	71	72
Office of the Advocate General	-	46	1	-	47	47
Boundary Commission	-	4	-	-	4	5
Total	-	117	3	2	122	124

Staffing Levels

At 31 March 2018 the number of staff in post in the Scotland Office totalled 68, of which 54% were based in Melville Crescent, Edinburgh and 46% in Dover House, London. The Office of the Advocate General had 53 staff in post, 91% of which were based in Victoria Quay in Edinburgh and 9% at Dover House in London.

Reporting of Civil Service and other compensation schemes - exit packages

Exit Package Costs Band	2017-18			2016-17		
	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-£50,0000	-	-	-	-	-	-
£50,000-£100,000	-	-	-	-	-	-
>£100,000	-	-	-	-	-	-
Total Number of Exit Packages	-	-	-	-	-	-
Total Cost £000	-	-	-	-	-	-

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.

Trade Union (Facility Time Publication Requirements) Regulations 2017 (Statutory Instruments 328)

The Trade Union Facility Time Regulations do not apply to the Scotland Office and Office of the Advocate General as we are not employers. The Ministry of Justice and Scottish Government as the employers provide trade union representation for staff.

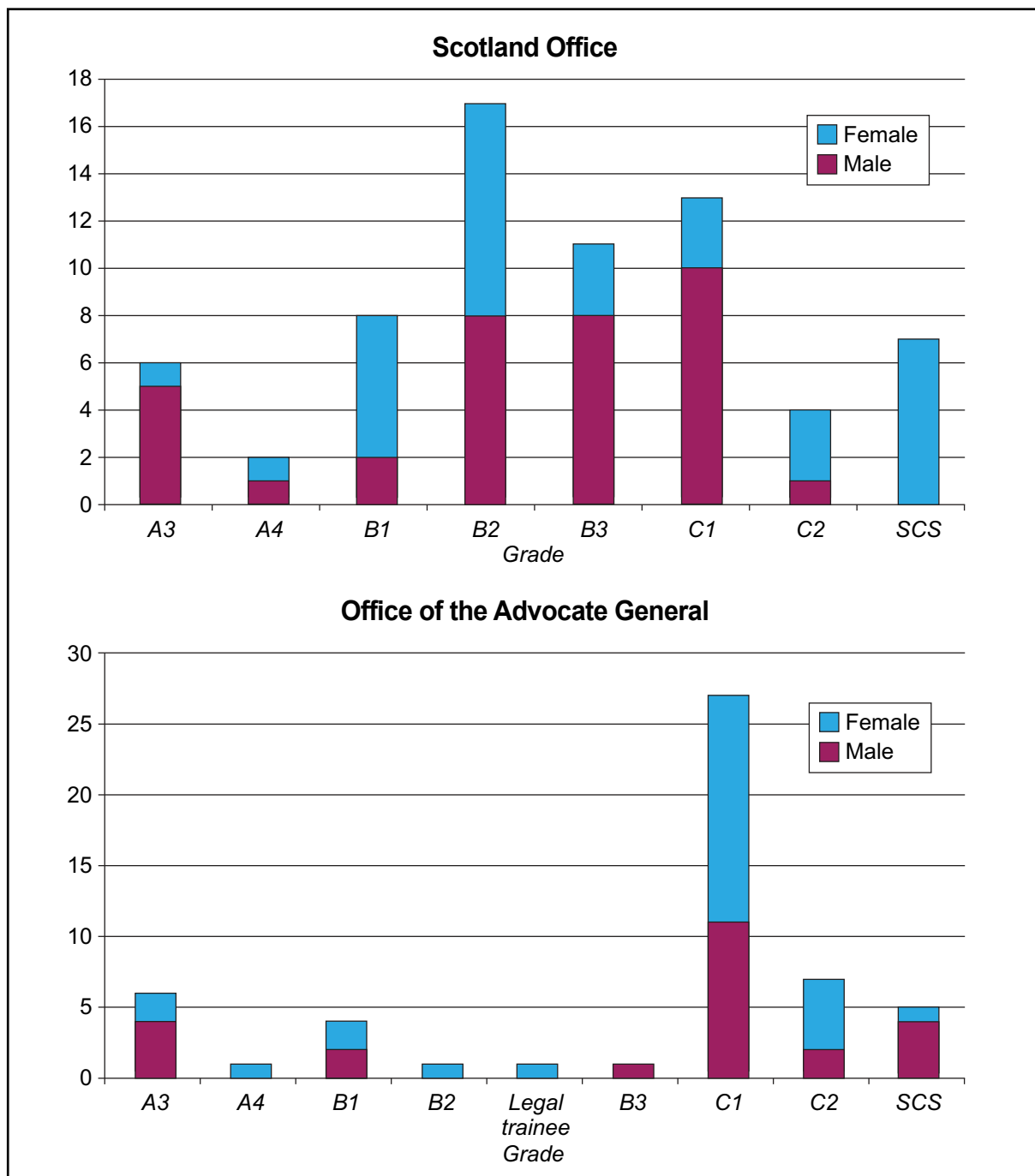
Senior Civil Service

At 31 March 2018 there were seven senior civil service posts in the Scotland Office and five posts in the Office of the Advocate General.

Diversity

Women make up 51.5% of staff in the Scotland Office and 54.7% of staff in the Office of the Advocate General. The following charts show the number of women and men in each grade in the two Offices.

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 2018 was 1.6 days. This remains well below the Civil Service average.

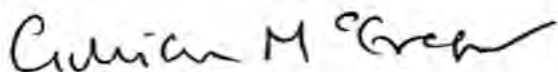
Spend on Consultancy and Temporary Staff

The Scotland Office and Office of the Advocate General had no spend on consultancy in 2017-18. 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 2017-18 was £447,651 (2016-17 £326,414).

Off Payroll Appointments

In 2017-18 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.



Gillian McGregor

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

11 July 2018

Parliamentary Accountability and Audit Report

This information has been subject to audit.

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.

Summary of Resources and Capital Outturn 2017-18

	£000	2017-18							2016-17
		Estimate			Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
		SOPS Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Total
Departmental Expenditure Limit									
- Resource	1.1	9,791	13,779	23,570	9,454	13,092	22,546	337	10,475
- Capital	1.2	100	-	100	76	-	76	24	45
Annually Managed Expenditure									
- Resource	1.1	200	-	200	170	-	170	30	-
- Capital	1.2	-	-	-	-	-	-	-	-
Total Budget		10,091	13,779	23,870	9,700	13,092	22,792	391	10,520
Non-Budget									
- Resource	1.1	28,674,280	-	28,674,280	28,243,100	-	28,243,100	431,180	27,957,900
Total		28,684,371	13,779	28,698,150	28,252,800	13,092	28,265,892	431,571	27,968,420
Total Resource		28,684,271	13,779	28,698,050	28,252,724	13,092	28,265,816	431,547	27,968,375
Total Capital		100	-	100	76	-	76	24	45
Total		28,684,371	13,779	28,698,150	28,252,800	13,092	28,265,892	431,571	27,968,420

Net Cash Requirement 2017-18

	£000	SOPS Note	2017-18 Estimate	2017-18		2016-17
				Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
Net Cash Requirement		2	28,684,065	28,251,697	432,368	27,968,237

Administration Costs 2017-18

		Estimate 2017-18	Outturn 2017-18	Outturn 2016-17
Administration Costs	1.1	9,326	9,262	9,738

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

Explanations of variances between Estimate and outturn are given in the Financial Review for the Scotland Office and Office of the Advocate General.

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

2017-18									2016-17	
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	13,278	4,186	9,092	58	-	58	9,150	9,391	241	9,793
B - Boundary Commission for Scotland	-	-	-	304	-	304	304	400	96	484
Total Voted Expenditure in DEL	13,278	4,186	9,092	362	-	362	9,454	9,791	337	10,277

Non-Voted

C - Election Expenses	-	-	-	13,092	-	13,092	13,092	13,779	687	198
Total Non-Voted	-	-	-	13,092	-	13,092	13,092	13,779	687	198

Spending in Annually Managed Expenditure (AME) Voted Expenditure

D - Provisions	170	-	170	-	-	-	170	200	30	-
Total voted AME	170	-	170	-	-	-	170	200	30	-

Non-Budget

E - Grant to the Scottish Consolidated Fund	-	-	-	16,385,100	-	16,385,100	16,385,100	16,816,280	431,180	23,057,900
F - Payover of Scottish Rate of Income Tax to Scottish Consolidated Fund	-	-	-	11,858,000	-	11,858,000	11,858,000	11,858,000	-	4,900,000
Total Non-Budget	-	-	-	28,243,100	-	28,243,100	28,243,100	28,674,280	431,180	27,957,900

Total voted in Estimate	13,448	4,186	9,262	28,256,554	-	28,256,554	28,265,816	28,698,050	432,234	27,968,375
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SOPS 1.2 Analysis of Net Capital Outturn by Section

2017-18						2016-17
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	76	-	76	100	24	45
Total Voted Expenditure in DEL	76	-	76	100	24	45
Total for Estimate	76	-	76	100	24	45

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	28,698,050	28,265,816	432,234
Capital Outturn	1.2	100	76	24
Accruals to cash adjustment				
Adjustments to remove non-cash items:				
Depreciation		(65)	(58)	(7)
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		-	(556)	556
Increase/(decrease) in payables		-	(549)	549
Creation of provisions		(200)	(170)	(30)
Removal of non-voted budget items:				
Consolidated Fund Standing Services		(13,779)	(12,823)	(956)
Net cash requirement		28,684,065	28,251,697	432,368

SOPS 3. Income Payable to the Consolidated Fund

3.1 Consolidated Fund Income

Consolidated Fund income shown in note 3.1 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 2017-18 £000	Outturn 2016-17 £000
Forfeited election deposits and interest	(37)	-
Fines and penalties	(13)	(25,689)
Other income (unused election costs)	-	(330)
Less:		
Costs of collection - where deductible	-	-
Uncollectible debts	-	-
Amount payable to the Consolidated Fund	(50)	(26,019)
Balance held at the start of the year	-	-
Payments into the Consolidated Fund	50	26,019
Balance held on trust at the end of the year	-	-

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

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

Opinion on financial statements

I certify that I have audited the financial statements of the Scotland Office for the year ended 31 March 2018 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.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2018 and of the Department's net expenditure 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 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 2018 and shows that those totals have not been exceeded; and
- the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Scotland Office in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scotland Office's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scotland Office's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Scotland Office and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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 Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

12 July 2018

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 2018

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.

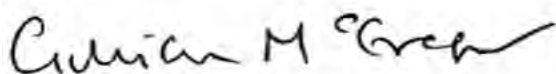
		2017-18	2016-17
		£000	£000
	Note	<u> </u>	<u> </u>
Income from sale of goods and services	4	(2,006)	(1,665)
Other operating income		(2,180)	(2,662)
Total operating income		<u>(4,186)</u>	<u>(4,327)</u>
Staff Costs	3	8,105	8,791
Purchase of goods and services	3	5,477	5,758
Other operating expenditure	3	170	-
Depreciation and impairment charges	3	58	55
Grant to the Scottish Consolidated Fund	3	16,385,100	23,057,900
Payover of Scottish Rate of Income Tax to Scottish Government	3	11,858,000	4,900,000
Election expenses	3	13,092	198
Total operating expenditure		<u>28,270,002</u>	<u>27,972,702</u>
NLF interest receivable		(43,422)	(44,648)
NLF interest payable		43,422	44,648
Net expenditure for the year		<u>28,265,816</u>	<u>27,968,375</u>
Other Comprehensive Net Expenditure			
Net (gain) loss on revaluation of property, plant and equipment	5	(1)	(1)
Comprehensive expenditure for the year		<u>28,265,815</u>	<u>27,968,374</u>

The notes on pages 71 to 84 form part of these accounts.

Statement of Financial Position as at 31 March 2018

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 2018	31 March 2017
		£000	£000
	Note		
Non-current assets:			
Property, plant and equipment	5	343	323
Financial assets (NLF)	8	1,035,677	623,856
Total non-current assets		1,036,020	624,179
Current Assets:			
Trade and other receivables	10	691	1,247
NLF receivables	10	47,407	39,246
Cash and cash equivalents	9	1,657	198
Total current assets		49,755	40,691
Total Assets		1,085,775	664,870
Current liabilities			
Trade and other payables	11	(5,283)	(3,273)
NLF payables	11	(47,407)	(39,246)
Total current liabilities		(52,690)	(42,519)
Non-current assets plus/less net current assets/liabilities		1,033,085	622,351
Non-current liabilities			
Provisions		(170)	-
Other payables (NLF)	11	(1,035,677)	(623,856)
Total non-current liabilities		(1,035,847)	(623,856)
Assets less liabilities		(2,762)	(1,505)
Taxpayers' Equity and other reserves			
General fund		(2,767)	(1,509)
Revaluation Reserve		5	4
Total equity		(2,762)	(1,505)



Gillian McGregor

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

11 July 2018

The notes on pages 71 to 84 form part of these accounts.

Statement of Cash Flows for the period ended 31 March 2018

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.

		2017-18	2016-17
		£000	£000
	Note		
Cash flows from operating activities			
Net operating cost		(28,265,816)	(27,968,375)
Adjustments for non-cash transactions	3	97	94
(Increase)/Decrease in trade and other receivables		(7,605)	(5,448)
Less: Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure ⁽¹⁾		8,161	5,575
Increase/(Decrease) in trade payables		10,170	2,249
Increase/(Decrease) in Provisions		170	-
Less: Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure ⁽¹⁾		(9,687)	(3,363)
		(28,264,510)	(27,969,268)
Cash flows from investing activities			
Purchase of Plant & Machinery and Fixtures and Furnishings	5	(10)	(234)
(Repayments) from other bodies	8	30,106	24,106
		30,096	23,872
Cash flows from financing activities			
From the Consolidated Fund (Supply) - Current Year ⁽²⁾		28,252,200	27,967,808
From the Consolidated Fund (Non-supply)		13,779	-
Repayment of loans from the National Loans Fund ⁽³⁾		(30,106)	(24,106)
Repayment of unspent election funding		-	(330)
		28,235,873	27,943,372
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		1,459	(2,024)
Income payable to the Consolidated Fund		(50)	(26,019)
Income paid to the Consolidated Fund ⁽⁴⁾		50	26,019
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund			
		1,459	(2,024)
Cash and cash equivalents at the beginning of the period	9	198	2,222
Cash and cash equivalents at the end of the period	9	1,657	198

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

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

⁽⁴⁾ Cash paid over to the Consolidated Fund under any category.

The notes on pages 71 to 84 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

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 2016	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
Comprehensive 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
Net Parliamentary Funding	(28,265,978)	-	(28,265,978)
Deemed Supply	(198)	-	(198)
Unused election funding	-	-	-
Supply Payable	1,657	-	1,657
CFER transferred to CF	-	-	-
Net expenditure for the year	28,265,816	-	28,265,816
Auditors Remuneration	(39)	-	(39)
Fixed assets revaluation	-	(1)	(1)
Balance at 31 March 18	2,767	(5)	2,762

The notes on pages 71 to 84 form part of these accounts.

Notes to the Accounts for the Year Ended 31 March 2018

1. Statement of Accounting Policies

1.1 Basis of Preparation

These financial statements have been prepared in accordance with the 2017-18 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 a Statement of Parliamentary Supply and its supporting notes. These 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 (£) rounded to the nearest thousand pound.

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 the 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. With effect from 1 April 2015, under Section 32 of the Scotland Act 2012, as amended by section 20 of the Scotland Act 2016, additional borrowing powers were conferred on Scottish Government Ministers. During 2017-18 the Scottish Administration borrowed additional funds from the NLF for the first time since 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 pay 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 Provisions

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

Provisions reflect the best estimate of the expenditure required to settle the obligation. Where the effect of discounting is material, provisions are measured at their present value using the real rate set by HM Treasury, currently 2.4% (2016–17: 2.7%).

1.12 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.

1.13 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.

1.14 Cash and Cash Equivalents

Cash and cash equivalents recorded in the Statement of Financial Position and Statement of Cash Flow include cash in hand and deposits held at call with banks.

1.15 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.

Provision for Liabilities and Charges

The provisions for liabilities and charges reported at note 11 reflect judgements about the likelihood that a future transfer of economic benefits will arise as a result of past events. Where the likelihood of a liability crystallising is deemed probable and where it is possible to quantify the effect with reasonable certainty, a provision is recognised. Where the likelihood of potential liabilities crystallising is judged to be possible, a contingent liability is disclosed.

Lease accounting

Judgement is required in the initial classification of leases as either operating leases or finance leases.

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

1.16 Impending Application of Newly Issued Accounting Standards Not Yet Effective

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

- IFRS 9 - Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and has an effective date of 1st January 2018. The FReM applies the EU adopted IFRS which is consistent with the Government Resource Accounts Act 2000. The new standard has is to be applied in central government from 2018-19.

- IFRS 9 provides a more principles-based approach to the accounting for financial instruments, including their classification and measurement. The Office does not expect this standard to have an impact on future accounts.
- IFRS 15 - Revenue from Contracts with Customers replaces IAS 18 Revenue Recognition and is to be applied in central government from 2018-19. The core principle of this standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Office does not expect this standard to have an impact on future accounts.
- IFRS 16 - Leases replaces IAS 17 Leases and related interpretations and has an effective date of 1st January 2019. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The new standard is expected to be applied in central government from 1st April 2019.

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.

	2017-18 £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	7,568	5,938	304	16,385,100	11,858,000	13,092	43,422	28,313,424
Income	(497)	(3,689)	-	-	-	-	(43,422)	(47,608)
Net Expenditure	7,071	2,249	304	16,385,100	11,858,000	13,092	-	28,265,816
	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

Description of segments

Scotland Office

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

Office of the Advocate General

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

Boundary Commission

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

Grant to the Scottish Consolidated Fund

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

	2017-18	2016-17
	£000	£000
Wages and salaries	6,161	6,481
Social security costs	619	704
Other pension costs	1,107	1,301
Total net costs	7,887	8,486

Other Administration Costs

	2017-18	2016-17
	£000	£000
Rentals under operating leases	576	576
Accommodation Costs	1,541	1,144
Legal Costs	2,225	2,783
Travel and Subsistence Costs	546	628
Other Administrative Expenditure	464	409
Non-cash items:		
Auditors' remuneration	39	39
Provision	170	-
Total Administration Costs	5,561	5,579

Programme Costs

	2017-18	2016-17
	£000	£000
Boundary Commission Staff Costs	218	305
Boundary Commission Operating Costs	86	179
Grant paid to Scottish Consolidated Fund	16,385,100	23,057,900
Payover of Scottish Rate of Income Tax to Scottish Consolidated Fund	11,858,000	4,900,000
Depreciation	58	55
Election expenses	13,092	198
Total	28,256,554	27,958,637
Total Operating Expenditure	28,270,002	27,972,702

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

	2017-18	2016-17
	£000	£000
Hire of Office Facilities	(497)	(427)
Legal fees and charges to clients	(2,006)	(1,665)
Recovery of legal outlays from other Government Bodies	(1,683)	(2,235)
Total	(4,186)	(4,327)

5. Property, Plant and Equipment

2017-18	Leasehold Improvements £000	Plant Machinery & Equipment £000	Furniture & Fittings £000	Total £000
Cost or valuation				
At 1 April 2017	283	143	50	476
Additions	-	66	10	76
Revaluation	2	-	-	2
Disposals	-	-	-	-
At 31 March 2018	<u>285</u>	<u>209</u>	<u>60</u>	<u>554</u>
Depreciation				
At 1 April 2017	(46)	(97)	(10)	(153)
Charged in year	(28)	(24)	(5)	(57)
Disposals	-	-	-	-
Revaluation	(1)	-	-	(1)
At 31 March 2018	(75)	(121)	(15)	(211)
Carrying amount at 31 March 2018	210	88	45	343
Carrying amount at 31 March 2017	237	46	40	323
2016-17	Leasehold Improvements £000	Plant Machinery & Equipment £000	Furniture & Fittings £000	Total £000
Cost or valuation				
At 1 April 2016	243	136	50	429
Additions	38	7	-	45
Revaluation	2	-	-	2
Disposals	-	-	-	-
At 31 March 2017	<u>283</u>	<u>143</u>	<u>50</u>	<u>476</u>
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

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.

	2017-18	2016-17
	£000	£000
Buildings		
Not later than one year	483	483
Later than one year and not later than five years	2,269	2,176
Later than five years	2,737	3,313
Total	5,489	5,972

The lease for Dover House was transferred to the Government Property Agency on 1 April 2018.

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 and also a loan made to the Scottish Government post devolution. 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	653,962
Adjustment	
Loans repayable within 12 months transferred to debtors	(30,106)
Balance at 31 March 2017	623,856
Additions	450,000
Loans repayable within 12 months transferred to debtors	(38,179)
Balance at 31 March 2018	1,035,677

History of Accounts

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

The National Loan Fund (NLF) outstanding balances at 31 March 2018 include loans 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 and a loan made to the Scottish Government under the terms of the Scotland Act 2016.

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

	2017-18 £000	2016-17 £000
Balance at 1 April 2017	198	2,222
Net change in cash and cash equivalents	1,459	(2,024)
Balance at 31 March 2018	1,657	198
The following balances at 31 March 2018 were held at:		
Government Banking Service	1,653	198
Commercial Banks	4	-
Balance 31 March 2018	1,657	198

10. Trade Receivables Financial and Other Assets

	2017-18 £000	2016-17 £000
Amounts falling due within one year:		
VAT	159	86
Trade receivables	380	901
Deposits and advances	-	-
NLF interest receivables	9,228	9,140
Prepayments and accrued income	152	260
Current part of NLF loan	38,179	30,106
Total	48,098	40,493
	2017-18 £000	2016-17 £000
Amounts falling due after more than one year:		
Instalments due on NLF loans	1,035,677	623,856
Total	1,035,677	623,856

11. Trade Payables and Other Current Liabilities

	2017-18 £000	2016-17 £000
Amounts falling due within one year:		
Trade payables	61	30
VAT	-	-
NLF interest payable	9,228	9,140
Accruals and deferred income	3,565	3,045
Current part of NLF loans	38,179	30,106
Unused Election Funding	956	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	701	198
Total	52,690	42,519
	2017-18 £000	2016-17 £000
Amounts falling due after more than one year:		
NLF loans	1,035,677	623,856
Total	1,035,677	623,856

12. Provisions for Liabilities and Charges

	Leasehold Dilapidation Costs £'000	Total £'000
Balance as at 1 April 2017	-	-
Provided in year	170	170
Provisions not required written back	-	-
Provisions utilised in year	-	-
Balance as at 31 March 2018	170	170

The leasehold dilapidation costs are the potential future sums payable on exiting the lease for the Edinburgh Office.

13. Contingent Liabilities disclosed under IAS 37

The Scotland Office does not have any contingent liabilities.

14. 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 Scotland Office and the Office of the Advocate General also have Service Level Agreements with the Home Office (UK Border Agency), Department for Work and Pensions, HM Revenue and Customs and Cabinet Office 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.

15. Entities within the departmental boundary

The entities within the boundary during 2017–18 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>

16. 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.

The lease for Dover House, the Scotland Office headquarters in London, was transferred to the newly formed Government Property Agency in April 2018.

The Accounting Officer authorised these financial statements for issue on 12 July 2018.

Chapter 4: Public Expenditure Financial Tables

Table 1 - Spending by Scotland Office and Office of the Advocate General & Scottish Government 2013-14 to 2019-20

	2013-14	2014-15	2015-16	2016-17	2017-18	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Plans	Outturn ⁽⁷⁾	Plans	Plans
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Scotland Office & Office of the Advocate General Expenditure								
Resource expenditure within Administration Costs	7,219	7,771	8,731	9,738	9,326	9,262	9,050	9,240
Other resource expenditure	132	80	135	539	465	362	430	430
Non-voted Election Expenditure	583	11,152	13,647	198	13,779	13,092	-	-
Scotland Office Resource ⁽²⁾	7,934	19,003	22,513	10,475	23,570	22,716	9,480	9,670
Scotland Office Capital	-	53	225	45	100	76	50	50
Scotland Office Resource + Capital DEL ⁽²⁾	7,934	19,056	22,738	10,520	23,670	22,792	9,530	9,720
<i>less depreciation & impairments</i>	<i>(19)</i>	<i>(20)</i>	<i>(29)</i>	<i>(60)</i>	<i>(30)</i>	<i>(58)</i>	<i>(30)</i>	<i>(30)</i>
Scotland Office DEL ⁽³⁾	7,915	19,036	22,709	10,460	23,640	22,734	9,500	9,690
Scottish Government Expenditure (The Scottish Block) ⁽⁶⁾								
Scottish Government Resource (Before Block Grant Adjustment)	26,090,827	26,372,507	26,934,335	26,874,496	27,934,249	27,505,995	27,966,393	28,046,533
<i>less Block Grant Adjustment</i>	<i>0</i>	<i>0</i>	<i>(600,000)</i>	<i>(5,500,000)</i>	<i>(12,540,000)</i>	<i>(12,540,000)</i>	<i>(12,473,500)</i>	<i>(12,794,500)</i>
Scottish Government Resource ⁽⁶⁾	26,090,827	26,372,507	26,334,335	21,374,496	15,394,249	14,965,995	15,492,893	15,252,033
Scottish Government Capital	2,920,989	3,288,989	3,163,543	3,246,158	3,634,248	3,626,448	3,899,293	4,242,211
Scottish Government Resource + Capital DEL ^{(3) (5)}	29,011,816	29,661,496	29,497,878	24,620,654	19,028,497	18,592,443	19,392,186	19,494,244
<i>less depreciation & impairments</i>	<i>(663,154)</i>	<i>(752,952)</i>	<i>(771,459)</i>	<i>(778,679)</i>	<i>(906,744)</i>	<i>(784,186)</i>	<i>(1,105,206)</i>	<i>(1,145,340)</i>
Scottish Government Total DEL ^{(3) (5)}	28,348,662	28,908,544	28,726,419	23,841,975	18,121,753	17,808,257	18,286,980	18,348,904

(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 - Cash grant paid to the Scottish Consolidated Fund 2016-17: Provision & Final Outturn

	Original Provision £m	Final Provision £m	Final Outturn £m
Expenditure Classified as Departmental Expenditure Limit ⁽²⁾	24,767.371	24,932.936	24,620.654
Expenditure Classified as Annually Managed Expenditure	3,779.937	4,133.278	4,147.193
Expenditure Financed by Scottish Taxes	5,571.000	5,571.000	5,532.995
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	37,402.342
Adjustments to cash requirement			
Non-budgetary cash items	144.337	219.337	152.337
Depreciation and Impairments	(1,066.738)	(1,082.684)	(895.016)
Other Cash to accruals adjustments	(2,765.724)	(3,023.119)	(2,863.741)
Non Domestic Rates Income	(2,843.500)	(2,843.500)	(2,843.500)
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 ⁽³⁾	(5,571.000)	(5,571.000)	(5,532.995)
Capital Borrowing	(315.800)	(333.000)	(333.000)
Change to balance held in Scottish Consolidated Fund	-	(42.509)	(30.725)
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 - Scottish Block Grant

⁽³⁾ Scotland Act 1998, Section 64 (2)

**Table 3 - Cash grant paid to the Scottish Consolidated Fund 2017-18:
Provision and Provisional Outturn**

	Original Provision	Final Provision	Provisional Outturn
	£m	£m	£m
Expenditure Classified as Departmental Expenditure Limit ⁽²⁾	18,763.315	19,028.497	18,592.443
Expenditure Classified as Annually Managed Expenditure	5,064.895	5,543.998	5,225.570
Expenditure Financed by Scottish Taxes	12,485.000	12,514.000	12,563.651
Expenditure Financed by Capital Borrowing	450.000	450.000	450.000
Expenditure Financed by Non Domestic Rates	2,665.800	2,665.800	2,665.800
Total Managed Expenditure	39,429.010	40,202.295	39,497.464
Adjustments to cash requirement			
Non-budgetary cash items	152.057	97.057	57.057
Depreciation and Impairments	(1,156.744)	(1,060.541)	(892.983)
Other Cash to accruals adjustments	(4,064.545)	(4,382.533)	(4,496.186)
Non Domestic Rates Income	(2,665.800)	(2,665.800)	(2,665.800)
National Insurance Fund Payments towards Scottish NHS	(2,014.477)	(2,093.338)	(2,093.338)
Income from Scottish Taxes	(12,485.000)	(12,514.000)	(12,563.651)
Capital Borrowing	(450.000)	(450.000)	(450.000)
Change to balance held in Scottish Consolidated Fund	-	(187.842)	(7.463)
Cash Grant payable to Scottish Consolidated Fund by Scotland Office ⁽³⁾	16,744.501	16,945.298	16,385.100

Notes

(1) Totals may not sum due to rounding

(2) Resource and capital DEL including depreciation - Scottish Block Grant

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

Table 4 - Cash grant paid to the Scottish Consolidated Fund 2018-19: Provision

	Original Provision £m
Scottish Block Grant ⁽²⁾	19,392.186
UK Government Funded AME	4,930.021
Expenditure Financed by Scottish taxes	12,801.927
Expenditure Financed by Capital Borrowing	450.000
Expenditure Financed by Non Domestic Rates	2,636.000
Total Managed Expenditure	40,210.134
Adjustments to cash requirement	
Non-budgetary cash items	152.057
Depreciation and Impairments	(1,205.206)
Other Cash to accruals adjustments	(3,837.210)
Non Domestic Rates Income	(2,636.000)
National Insurance Fund Payments towards Scottish NHS	(2,107.480)
Income from Scottish Taxes	(12,809.000)
Repayments of Loan Principal	7.073
Capital Borrowing	(450.000)
Cash Grant payable to Scottish Consolidated Fund by Scotland Office ⁽³⁾	17,324.368

Notes

(1) Totals may not sum due to roundings

(2) Resource and capital DEL including depreciation - Scottish Block Grant

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

Following the Treasury's publication of Block Grant Transparency data (<https://www.gov.uk/government/publications/block-grant-transparency-december-2017-publication>), the table that appeared in previous editions of the Scotland Office's Annual Report and Accounts reconciling changes in the Scottish Block from one year to the next has been discontinued. Users of this information should instead refer to the Treasury Block Grant Transparency data.

