

# **The Scottish Government Consolidated Accounts for the year ended 31 March 2018**

**Laid before the Scottish Parliament  
By the Scottish Ministers  
27 September 2018**

SG/2018/160



Scottish Government  
Riaghaltas na h-Alba  
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## Foreword

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As Chief Financial Officer for the Scottish Government, it is my responsibility to oversee the processes that produce the financial reporting by and for the Scottish Government. I lead a team of finance professionals who support Scottish Ministers in their financial decision-making to secure the regularity, propriety and value for money of the funds provided by taxpayers to deliver devolved government in Scotland.

I am pleased to introduce these accounts, which are an important part of the reporting on the stewardship of the whole Scottish Budget approved by the Scottish Parliament. The accounts cover the bodies within the accounting boundary and present the financial outturn compared to the spending plans of Scottish Ministers for those elements for the financial year 2017-18 authorised by the Budget (Scotland) Act 2017 and are prepared in accordance with international accounting standards and related accounting guidance. I am pleased that the Auditor General's opinion on these accounts is, once again, unqualified.

It is important to note that these accounts are not a Ministerial document: it is the Principal Accountable Officer's responsibility to produce accounts, and a primary purpose of these accounts is to report on the stewardship of the sums authorised.

It is also important to recognise that these accounts are not the full picture of the fiscal activity of Scottish Ministers. Our financial reporting outputs are developing alongside the Scottish Government's increasing fiscal responsibility and in tandem with the developments associated with the implementation of the Budget Process Review Group recommendations:

- building on this account, a separate statement to Parliament brings together the Financial Outturn of the bodies within the Scottish Administration, to report against the statutory limit authorised by the Scottish Parliament in the Budget processes. This will be extended this year to include the other bodies funded from the Scottish Budget. These accounts together report on the spending authorised by the Scottish Parliament in the annual Budget Act.
- the wider picture of the funding available to the Scottish Budget is available in the separate account of the Scottish Consolidated Fund [gov.scot](http://gov.scot) which shows all the sums paid into and out of the Scottish Consolidated Fund in year. This also includes this year a statement of the borrowing position. A more detailed accounting of the Devolved Taxes is also available, published by Revenue Scotland, available online at [revenue.scot](http://revenue.scot).
- once the complete set of audited financial data for the relevant bodies is available, we will be developing a further consolidated account, which will bring together the revenue-raising and spending elements.
- in the meantime, the Fiscal Framework Outturn Report published on 20 September is a new report, which provides information in relation to devolved taxes, the use of borrowing powers and the operation of the Scotland Reserve.

The accounts also explain the context and recent publication of a revised National Performance Framework, links to where the higher level reporting can be found and do not repeat more specific performance information that can be found in the stand-alone accounts of delivery bodies within the consolidation.

A handwritten signature in black ink, appearing to read 'Gordon Wales', written in a cursive style.

**Gordon Wales**  
**Chief Financial Officer**  
**24 September 2018**

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# Performance Report

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## About the Scottish Government

The Scottish Government is the devolved government for Scotland and has a range of responsibilities that include: the economy, education, health, justice, rural affairs, housing, environment, equal opportunities, consumer advocacy and advice, transport and taxation.

Some powers are reserved to the UK Government. These include: immigration, the constitution, foreign policy and defence. Further changes to the responsibilities devolved to the Scottish Government and Scottish Parliament have resulted from the Scotland Act 2012 and the Scotland Act 2016.

After a Scottish Parliamentary election, the First Minister is formally nominated by the Scottish Parliament and appointed by Her Majesty the Queen. The First Minister then appoints the Scottish Ministers to make up the Cabinet with the agreement of the Scottish Parliament and the approval of The Queen.

## Scottish Cabinet Ministers and their responsibilities

The Cabinet is the main decision-making body of the Scottish Government. It is made up of the First Minister, all Cabinet Secretaries, Minister for Parliamentary Business and Permanent Secretary.

The First Minister appoints a Cabinet Secretary for each of the core portfolios described below, and additional Ministers to support the work of the Scottish Cabinet, and two Law Officers (Lord Advocate and Solicitor General for Scotland).

The previous parliament was dissolved in 24 March 2016, and following the Scottish Parliamentary election on 5 May 2016, the First Minister announced a new Scottish Cabinet, identifying education and the economy as priorities, along with the reform and improvement of public services and the ability to respond to challenges such as climate change in the years to come.

The Ministers serving in the Cabinet Team during 2017-18 were:

### **Nicola Sturgeon**

#### **First Minister**

The First Minister is head of the Scottish Government. Ultimately responsible for all policy and decisions. Nicola Sturgeon became First Minister on 20 November 2014.

The Cabinet Team members serving during 2017-18, who were appointed on 18 May 2016, are as follows:

### **John Swinney**

#### **Deputy First Minister and Cabinet Secretary for Education and Skills**

Responsibilities included: Government Strategy, Delivery and outcomes across portfolios, Resilience, School standards, Educational attainment and closing the attainment gap, National Improvement Framework, Quality and improvement, Teaching profession, School infrastructure and staffing, Qualifications, Behaviour, Measures to combat bullying, The Gaelic

and Scots languages, Modern languages, Historical Abuse Enquiry, Named person, Cross Government co-ordination of Public Service Reform, Childcare implementation, Early years, Child protection, Social services workforce, Adoption and Fostering, Children's rights, Looked after children, Children's hearings, Protection of vulnerable groups, Children's services, Widening Access, Higher education and universities, Further education and colleges, Student funding, Science and STEM, Youth work, Skills Development Scotland, Implementation of Wood recommendations, Non advanced vocational skills.

### **Derek Mackay**

#### **Cabinet Secretary for Finance and the Constitution**

Responsibilities included: Scottish Budget, Fiscal policy, Taxation, Budgetary monitoring and reporting, Scottish Public Finances and their sustainability, Public sector pay and pensions, Scottish Futures Trust, Efficient government, Public Bodies Policy, National Performance Framework, Registers of Scotland, Government procurement, Digital Public Services, Constitution, Government and Parliamentary business, Scottish Parliamentary elections and Local Government Elections, relations with other UK administrations, FOI, Open Government.

### **Keith Brown**

#### **Cabinet Secretary for Economy, Jobs and Fair Work**

Responsibilities included: The Scottish economy, infrastructure investment policy, Scottish Enterprise, trade & inward investment, innovation, internationalisation, increasing productivity, fair work and inclusive growth, labour market strategy, living wage, European structural funds, consumer advocacy and advice, employment policy, trades unions, bankruptcy policy and Accountant in Bankruptcy (AiB), business, industry and manufacturing, cities, energy and energy consent, regional economic forums, life sciences, financial services, low carbon economy, renewable energy industries, youth and women's employment, veterans, employability programmes.

### **Roseanna Cunningham**

#### **Cabinet Secretary for Environment, Climate Change and Land Reform**

Responsibilities included: Climate change, flood prevention, water quality, land reform, physical and marine environment, sustainable development, biodiversity, natural heritage, environmental protection, environmental and climate justice, national parks, Scottish Water, The Crown Estate.

### **Angela Constance**

#### **Cabinet Secretary for Communities, Social Security and Equalities**

Responsibilities included: Welfare policy, community empowerment, devolution to communities and reform of local government, equalities, religious and faith organisations, protection and development of social and human rights, third sector and social economy, democratic renewal, local government, housing, homelessness, community planning, planning, business improvement districts, town centres, building standards, social security, implementation of new powers, measures against poverty, disabilities, older people, tackling inequalities, social justice, regeneration.

## **Shona Robison**

### **Cabinet Secretary for Health & Sport**

Responsibilities included: NHS, Elective centres, Health and social care integration, Carers, Adult care and support, Implementing 2020 Vision and National Clinical Strategy, Patient services, NHS staff and pay, Problem alcohol use and recovery, Healthy working lives, National service planning, NHS performance, Acute services, Sporting events and legacy, Patient safety, Quality strategy, Public health, Health protection, Sport and physical activity, Primary care, Mental health, Allied healthcare services, Dentistry, Sexual health, medical records, Health improvement, Drugs policy, Child and maternal health.

## **Michael Matheson**

### **Cabinet Secretary for Justice**

Responsibilities included: The justice system, criminal law procedure, civil law, police, fire and rescue services, legal profession, violence reduction, anti-sectarianism, courts, sentencing, security, human rights, access to justice, community safety, anti-social behaviour, prisons and prisoners, female offenders, criminal justice social work, victims and witnesses, reducing reoffending, youth justice, liquor licensing.

## **Fiona Hyslop**

### **Cabinet Secretary for Culture, Tourism & External Affairs**

Responsibilities included: Culture and the arts, broadcasting, architecture, built heritage, national identity, cross government co-ordination on bringing major events to Scotland, national records, fair trade, tourism, international development, cross-government co-ordination on European Union and international relations, Scottish diaspora, creative industries.

## **Fergus Ewing**

### **Cabinet Secretary for Rural Economy and Connectivity**

Responsibilities included: Rural Scotland, Highlands Islands Enterprise, agriculture, forestry, fisheries, aquaculture, food and drink, crofting, transport, connectivity including 100 per cent broadband, cross government co-ordination on Islands, public transport.

## ***Additional Government Ministers during 2017-18***

The Cabinet was supported by the following ministerial team:

Mark McDonald (until Nov 2017)	Minister for Childcare and Early Years
Maree Todd (from Nov 2017)	Minister for Childcare and Early Years
Shirley-Anne Somerville	Minister for Further Education, Higher Education and Science
Jamie Hepburn	Minister for Employability and Training
Joe Fitzpatrick	Minister for Parliamentary Business
Aileen Campbell	Minister for Public Health and Sport
Maureen Watt	Minister for Mental Health

Alasdair Allan	Minister for International Development and Europe
Kevin Stewart	Minister for Local Government and Housing
Jeane Freeman	Minister for Social Security
Annabelle Ewing	Minister for Community Safety and Legal Affairs
Paul Wheelhouse	Minister for Business, Innovation and Energy
Humza Yousaf	Minister for Transport and the Islands
Michael Russell	Minister for UK Negotiations on Scotland's Place in Europe

### ***Law Officers during 2017-18***

James Wolffe QC	Lord Advocate
Alison Di Rollo	Solicitor General

Further information on Cabinet and Ministerial responsibilities is available from the Scottish Parliament and Scottish Government websites, at [parliament.scot](http://parliament.scot) and [gov.scot](http://gov.scot) respectively.

### ***The Civil Service and Government Officials***

The First Minister leads the Scottish Government, with the support of the Scottish Cabinet and Ministers. The civil service helps the government of the day develop and implement its policies as well as deliver public services. Civil servants are accountable to Ministers, who in turn are accountable to Parliament.

The Permanent Secretary leads the civil service in Scotland and supports the government in developing, implementing and communicating its policies; and is the principal policy adviser to the First Minister and Secretary to the Scottish Cabinet. The Permanent Secretary is also the Principal Accountable Officer with responsibility to ensure that the government's money and resources are used effectively and properly.

The government is structured into a number of directorates and their related public bodies. Directorates and agencies are managed by six Directors-General (DGs).

### ***Scottish Government Senior Management Team (Corporate Board)***

The Scottish Government Senior Management Team are responsible for ensuring that the Scottish Government is organised and managed in the most effective way to support Ministers in the implementation of their policies. The senior management team, formerly recognised as the Executive Board became the Corporate Board in January 2018. Further information on the management structure of the Scottish Government is available on the Scottish Government website at [gov.scot](http://gov.scot).

The Non-Executive Directors provide strategic challenge, advice and assurance to Scottish Government core business. Janet Hamblin, Non-Executive Director, is the Chair of the Scottish Government Audit and Assurance Committee.

The Executive Team was reshaped during 2017-18, with changes to DG roles and responsibilities coming into effect on the 1<sup>st</sup> of July 2017. Therefore the members of the Corporate Board in 2017-18 were:

Leslie Evans	Permanent Secretary
Sarah Davidson	DG Organisational Development and Operations
Liz Ditchburn	DG Economy
Paul Gray	DG Health & Social Care
Paul Johnston	DG Education, Communities & Justice
Alyson Stafford CBE	DG Scottish Exchequer
Ken Thomson	DG Constitution & External Affairs

The aforementioned move to become the Corporate Board in January 2018 resulted in the formal recognition of the following directors whom were a functional part of the senior management team for the full year:

Barbara Allison	Director of Communications, Ministerial Support and Facilities
Nicky Richards	Director of People
Gordon Wales	Chief Financial Officer

Non-executive members of the Corporate Board during 2017-18 were:

Janet Hamblin  
 Linda McKay  
 Ronnie Hinds  
 Hugh McKay (from January 2018)  
 Annie Gunner Logan (from January 2018)

### *Register of Interests*

Non-Executive Directors of the Corporate Board whom held company directorships and other significant interests during 2017-18 were:

Janet Hamblin: Partner of RSM; and Member of the Education Board of Merchant Company of Edinburgh  
 Ronnie Hinds: Deputy Chair of the Accounts Commission for Scotland and Chair of the Local Government Boundary Commission for Scotland  
 Hugh McKay: Non-Executive Director - Lloyds Development Capital; and Non-Executive Director - Trustee at The Chartered Bankers Institute (non-remunerated position).  
 Annie Gunner Logan: Director Coalition of Care and Support Providers in Scotland (CCPS)

### *SG2020 Transformation Programme*

Over the next parliament the Scottish Government faces the biggest ever shift in responsibilities - raising taxes as well as spending them. To meet the challenges ahead, the organisation is committed to being:



### **Open**

- accessible, trusted, an engaged and credible partner
- clear about roles and expectations of others
- valuing diversity and representative of the communities served

### **Capable**

- world class in the approach to government, transforming Scotland by designing and delivering excellent public services and supporting ministers
- accountable, efficient and effective in performance and approach to tax-raising and spending
- competent, professional, inclusive, skilled and knowledgeable: an exemplar of fair work and an employer of choice
- well-led with consistently good management of people and change

### **Responsive**

- ambitious for Scotland and confident about improving outcomes
- focused on priorities, flexible and effective in matching resources and capabilities
- designing better places, networks and systems

More detailed information about the actions planned by the Scottish Government to meet the challenges ahead is provided in the publication of the Government's Programme for Scotland 2017-2018<sup>1</sup>.

### **How the Scottish Budget is funded**

There are a number of sources of funding to support the expenditure planned and approved by the Scottish Parliament in the Scottish Budget Act. The majority of the receipts reported in these accounts are transferred to bodies within the Scottish Consolidated Accounting Boundary from the Scottish Consolidated Fund.

The Scottish Consolidated Fund was set up following devolution in 1999 and received its statutory powers under the Scotland Act 1998. The Scottish Consolidated Fund receives, from the Office of the Secretary of State for Scotland, sums which have been voted by the UK Parliament for the purpose of "grant payable to the Fund". Funding is drawn down by the Scottish Government from the Scottish Consolidated Fund to support the spending plans laid out in the draft budget.

The primary receipts to the Scottish Consolidated Fund are from: the block grant from HM Treasury; receipts collected by HMRC on behalf of the Scottish Government under the provisions for Scottish Income Tax; Devolved taxes collected by Revenue Scotland which are currently Land and Buildings Transaction Tax and Landfill Tax; and borrowing.

The block grant from UK Government is allocated to the Secretary of State for Scotland through the approval of the UK Parliament, and forms part of the UK public expenditure control regime. This requires the Scottish Government to plan, monitor and report its spending against the control aggregates set by the UK Parliament and HM Treasury alongside those set by the Scottish Parliament.

The Scotland Act 2016 empowered the Scottish Parliament to set Scottish Income Tax rates and bands. During 2017-18, £11.9 billion in income tax revenues derived from Scottish Income Tax were assigned to the Scottish Administration and paid to the Scottish Consolidated Fund. Identification of Scottish taxpayers and administering the tax are matters for the UK Government and Her Majesty's Revenue and Customs (HMRC).

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<sup>1</sup> <https://beta.gov.scot/publications/nation-ambition-governments-programme-scotland-2017-18/>

Under devolved powers from the 2012 Scotland Act, 2017-18 was the third year in which devolved taxes in respect of Land and Buildings Transactions and Landfill Tax have been managed in Scotland. A total of £707 million has been collected, £51 million above the initial estimates, which has been managed within the in-year budget. The block grant has been adjusted to take account of these locally raised tax receipts.

Revenue Scotland was established by the Revenue Scotland and Tax Powers Act 2014 to administer and collect both fully devolved taxes. Revenue Scotland is responsible for preparing an account of the devolved taxes (The Devolved Taxes Account). The taxes collected by Revenue Scotland are paid to the Scottish Consolidated Fund. The Devolved Taxes Account and the Scottish Consolidated Fund Account are prepared and published separately and can be accessed at [gov.scot](http://gov.scot).

A Scottish Cash Reserve facility was created in 2015-16 to support any future fluctuations in tax income, and the surplus of £74 million from cash receipts in 2015-16 was deposited in the Reserve. There was no change in the Scottish Cash Reserve in 2016-17, and the balance of £74 million was transferred to the Scotland Reserve on 1 April 2017 and is available for future deployment. The opening balance was supplemented by the £453 million provisional cash underspend reported to the Scottish Parliament by the Cabinet Secretary for Finance and The Constitution in June 2018. The provisional balance at 31 March 2018 is sufficient to cover the additional spending commitments announced for 2018-19, leaving a modest amount available to support management of future budget volatility.

As further powers are devolved to Scotland, and the ability to use the existing fiscal levers to influence the funds available is increasing, the impact of accurate tax forecasting becomes greater. As a consequence, the institutional landscape of Scotland required a new body to support this growing fiscal responsibility and The Scottish Fiscal Commission was established in June 2014 as a non-statutory body to provide independent scrutiny of Scottish Government forecasts of receipts from taxes devolved to Scotland. By March 2016 the Scotland Act 2016 devolving more fiscal powers to Scotland was passed, and associated Fiscal Framework was agreed between the Scottish Government and UK Government. The Fiscal Framework changed the remit of the Scottish Fiscal Commission as reflected in the Scottish Fiscal Commission Act 2016 which received Royal Assent on 14 April 2016. Further information about the Scottish Fiscal Commission can be found at [fiscal.scot](http://fiscal.scot).

Further information can be found in the Scotland's Budget: Draft Budget for 2017-18<sup>2</sup>.

The total budget approved by the Scottish Parliament includes activities not included in these accounts. Note 21 to these accounts (page 120) provides a reconciliation to the total budget.

The fiscal activity of the Scottish Government is described in a suite of accounts information: the Scottish Consolidated Fund account, incorporating additional reporting on the use of borrowing powers and the related Devolved Taxes Account report on the funding available to the Scottish Government in the financial year; the Scottish Government Consolidated Accounts, the annual accounts of the other bodies within the Scottish Administration and of the bodies funded directly from the Scottish Budget together report on the use of resources authorised by the Scottish Parliament for the financial year.

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<sup>2</sup> <https://beta.gov.scot/publications/scotlands-budget-draft-budget-2017-18/>

## **Accounting Boundary**

These accounts reflect the consolidated assets and liabilities and the results of all entities within the Scottish Government consolidation accounting boundary as required by and defined in the Government Financial Reporting Manual (FRM). This consists of ten internal Portfolios, supported by Administration, their Executive Agencies (each linked to a specific portfolio), the Crown Office and Procurator Fiscal Service and the NHS Bodies responsible for the planning, promotion, commissioning and the delivery of healthcare. The portfolio analysis in these accounts reflects the portfolios designated by the First Minister from 18 May 2016. The consolidation boundary includes the following:

### **Finance and the Constitution Portfolio**

Executive Agency : Scottish Public Pensions Agency ([www.sppa.gov.uk](http://www.sppa.gov.uk))

### **Health and Sport Portfolio**

Other Consolidated Bodies : The NHS Bodies in Scotland  
Mental Welfare Commission ([www.mwcscot.org.uk](http://www.mwcscot.org.uk))

### **Education and Skills Portfolio**

Executive Agencies : Disclosure Scotland  
([www.mygov.scot/organisations/disclosure-scotland](http://www.mygov.scot/organisations/disclosure-scotland))  
Education Scotland ([education.gov.scot](http://education.gov.scot))  
Student Awards Agency for Scotland ([www.saas.gov.uk](http://www.saas.gov.uk))

### **Economy, Jobs and Fair Work Portfolio**

Executive Agency : Accountant in Bankruptcy ([www.aib.gov.uk](http://www.aib.gov.uk))

### **Justice Portfolio**

Executive Agency : Scottish Prison Service ([www.sps.gov.uk](http://www.sps.gov.uk))

### **Communities, Social Security and Equalities Portfolio**

### **Environment, Climate Change and Land Reform Portfolio**

### **Culture, Tourism and External Affairs Portfolio**

### **Rural Economy and Connectivity Portfolio**

Executive Agency : Transport Scotland ([www.transportscotland.gov.uk](http://www.transportscotland.gov.uk))

**Other Consolidated Bodies:** The Crown Office and Procurator Fiscal Service  
([www.copfs.gov.uk](http://www.copfs.gov.uk))

In addition to inclusion within these consolidated accounts, the executive agencies and other bodies detailed above also publish separate accounts providing greater detail about their income and expenditure and assets and liabilities. The accounts can be accessed at the websites noted above.

The Scottish Government is also the sole shareholder of Caledonian Maritime Assets Ltd, David MacBrayne Ltd, Highland and Islands Airports Limited, Scottish Futures Trust and Prestwick Holdco Limited, and sponsor of a number of executive, advisory and tribunal Non-Departmental Public Bodies. These bodies are regarded as related parties with which the

Scottish Government has had various transactions during the year, but do not fall within the Scottish Government consolidation accounting boundary. Further details of Scottish Public Bodies are available on our website<sup>3</sup>.

The financial statements of NHS Boards include NHS Endowment Funds. These Endowment Funds are Registered Charities with the Office of the Scottish Charity Regulator (OSCR) and they are also required by OSCR to prepare audited financial statements. NHS Endowment Funds are not part of the Scottish Government accounting boundary, and therefore they have not been included in Scottish Government consolidated accounts. These accounts report actual outturn compared to the budget authorised by the Scottish Parliament. The Scottish Government also routinely reports to Parliament each year on the Final Outturn for the Scottish Administration in an additional statement, and the report is published at the same time as these accounts. This brings together the audited information from the bodies within the Scottish Administration to show this against the Budget limit authorised by the Scottish Parliament.

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<sup>3</sup> [www.gov.scot/Topics/Government/public-bodies](http://www.gov.scot/Topics/Government/public-bodies)

## *Performance Overview*

### *The Budget Framework*

The Scottish Government set out its spending plans for 2017-18 in December 2016 in *Scottish Budget: Draft Budget 2017-18*. Approval for a detailed budget for 2017-18 was given by the Parliament in March 2017 in the Budget (Scotland) Act 2017. The annual Budget is refined through in-year budget revisions, Parliamentary approval for which is given by statutory instrument.

### *Scotland's Economic Strategy*

**The Scottish Government's Purpose is to focus government and public services on creating a more successful country with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.**

This remains the Government's ambition to which all our efforts and actions are directed and is at the core of Scotland's Economic Strategy (SES), published in March 2015. The SES is built around two interdependent pillars: increasing competitiveness and tackling inequality. The Scottish Government's National Economic Strategy is available online<sup>4</sup>.

### *Infrastructure Investment*

Infrastructure investment in support of better and modern public services and growth in the Scottish economy is a top priority for the Scottish Government.

The Scottish Government is taking forward a comprehensive infrastructure investment programme and further detail about the infrastructure investment plan can be found online<sup>5</sup>.

### *Exit from the EU*

Following the referendum held on UK membership of the EU held in June 2016, in which the UK voted to leave the EU by 52% to 48%, the UK Government has given notice of intention to withdraw from the European Union-the triggering of article 50.

As negotiations between the UK government and the European Union around the settlement arrangements continue, it is not yet possible to fully quantify the impact of this decision on Scotland, but the fluctuations in exchange rates and other economic features will inevitably be reflected in the financial performance reported in these and future accounts.

There remains a level of uncertainty on the impact of the referendum result on jobs and the economy in the medium to long-term.

The Scottish Government has been engaging with the UK Government to ensure that Scotland's fiscal interests are safeguarded as the UK leaves the European Union.

At present Scotland remains part of the EU and current EU-funding remains in place. All programmes that have been approved by the European Commission up to March 2019 will continue as they do now.

The First Minister appointed Michael Russell as Minister for UK in Negotiations on Scotland's Place in Europe, and he leads the discussions with the UK Government on our future relationship with Europe.

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<sup>4</sup> <http://www.gov.scot/Topics/Economy/EconomicStrategy>

<sup>5</sup> <http://www.gov.scot/Topics/Government/Finance/18232/IIP>

Further information can be found online<sup>6</sup>.

### *National Performance Framework*

Introduced in 2007 and refreshed in 2011 and 2016, the Scottish Government's National Performance Framework (NPF) sets out in the Purpose and the National Outcomes, a clear, unified vision for Scotland and how our actions would improve the quality of life for the people of Scotland. The vision for a successful Scotland was described and measured in five parts which supported and reinforced each other:

- **The Scottish Government's Purpose** set out the direction and ambition for Scotland.
- **Purpose Targets** were high level targets that show progress towards the Purpose.
- **Strategic Objectives** described where we focused our actions.
- **National Outcomes** described what the Scottish Government wanted to achieve and the kind of Scotland we wanted to see.
- **National Indicators** enabled us to track progress towards the Purpose and National Outcomes.

Following the introduction of the Community Empowerment (Scotland) Act 2015, Scottish Ministers now have a duty to consult on, develop and publish a new set of National Outcomes for Scotland and to review them at least every five years.

A series of public, expert and internal consultation exercises were conducted in 2017-18 and significant changes to the National Outcomes led to a review of the overall framework, including the National Indicator set and overarching Purpose. The new NPF was formally launched in June 2018.

During the 2017-18 financial year however, the previously published NPF was in operation and therefore the Purpose, Purpose targets, Strategic Objectives, National Outcomes and National Indicators were set out as per the 2016 published NPF<sup>7</sup>

### *Strategic Objectives, National Outcomes and National Indicators*

For 2017-18 financial year the five Strategic Objectives supported delivery of the Government's overarching Purpose *to focus government and public services on creating a more successful country, with opportunities for all Scotland to flourish, through increasing economic sustainable growth*. These Objectives were supported by 16 National Outcomes which described in more detail what the Scottish Government wanted to achieve. The Five Strategic Objectives were:

#### *Wealthier and Fairer*

Enable businesses and people to increase their wealth and more people to share fairly in that wealth.

#### *Smarter*

Expand opportunities for Scots to succeed from nurture through to life-long learning ensuring higher and more widely shared achievements.

<sup>6</sup> <http://www.gov.scot/Topics/International/Europe>

<sup>7</sup> <https://www.gov.scot/About/Performance/scotPerforms/pdfNPF>

### *Healthier*

Help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.

### *Safer and Stronger*

Help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life.

### *Greener*

Improve Scotland's natural and built environment and the sustainable use and enjoyment of it.

The sixteen National Outcomes described what the Government wanted to achieve over the ten years, articulating more fully the Government's Purpose. They helped to sharpen the focus of government, enabled our priorities to be clearly understood and provided a clear structure for delivery. The sixteen national outcomes were:

- We live in a Scotland that is the most attractive place for doing business in Europe.
- We realise our full economic potential with more and better employment opportunities for our people.
- We are better educated, more skilled and more successful, renowned for our research and innovation.
- Our young people are successful learners, confident individuals, effective contributors and responsible citizens.
- Our children have the best start in life and are ready to succeed.
- We live longer, healthier lives.
- We have tackled the significant inequalities in Scottish society.
- We have improved the life chances for children, young people and families at risk.
- We live our lives safe from crime, disorder and danger.
- We live in well-designed, sustainable places where we are able to access the amenities and services we need.
- We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
- We value and enjoy our built and natural environment and protect it and enhance it for future generations.
- We take pride in a strong, fair and inclusive national identity.
- We reduce the local and global environmental impact of our consumption and production.
- Our people are able to maintain their independence as they get older and are able to access appropriate support when they need it.
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

The new NPF launched in June 2018 now comprises;

- **Our Purpose** which sets out the direction and ambition for Scotland. It is a simple statement that is inclusive beyond government and public services, and gives equal prominence to economic, environmental and social progress, and focuses on reducing inequalities.
- **Our Values** describes the underpinning principles that we share as a nation, and the particular approach that we take to government and the delivery of public services in Scotland.
- **11 National Outcomes** describe what the Scottish Government wants to achieve and the kind of Scotland we want to see. These Outcomes were selected after extensive review in 2016-2017; and

- a set of **81 National Indicators** will enable us to track progress towards the Purpose and National Outcomes. The set provides a broad measure of national wellbeing, incorporating a range of economic, social and environmental indicators.

Performance is reported on the new NPF website<sup>8</sup> which is updated as soon as new data becomes available. It includes performance on equality groups and area based inequalities, the last publication of performance data was 23 August 2018.

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<sup>8</sup> <http://nationalperformance.gov.scot/>



## Performance Analysis

### Outturn against Budget

These accounts report actual outturn compared to the budget authorised by the Scottish Parliament. The annual budget authorised by the Scottish Parliament is the budget for the wider Scottish Administration and includes the funding of activities which are not within the Scottish Government, and therefore outside the required accounting boundary of these accounts. There are also some differences between the HMT required budgeting rules and the government financial reporting accounting requirements that have to be accommodated in any comparison. These accounts therefore compare the actual outturn to the budget, both stated on the same accounting basis. There is a reconciliation and explanation of the budget reflected in the accounts with that shown in the annual budget documents provided in Note 21.

As described above, spending plans for financial year 2017-18 were set out in *Scottish Budget: Draft Budget 2017-18* published in December 2016. After consideration by the Scottish Parliament Finance and Constitution Committee and other Committees, these plans were presented in the Budget Bill introduced in January 2017 and received Royal Assent as the Budget (Scotland) Act 2017 in March 2017. Parliamentary approval for the in-year revisions to the plans set out in the Budget (Scotland) Act was granted in the Autumn Budget Revision made in September 2017 and Spring Budget Revision, made in February 2018.

The budget of £34,800 million reported in these accounts is net of adjustments to reflect those activities not included in the accounting boundary as described above. This is made up of an operating budget of £32,736 million and a capital budget of £2,064 million.

The financial results for the year are reported in the attached accounts. They record a Net Resource Outturn of £32,449 million resulting in an underspend of £287 million. The Net Capital Outturn for the year was £2,012 million resulting in an underspend of £52 million. Total underspend of £339 million represents approximately 0.97 per cent of the total budget. An explanation of the major variances is included in these accounts in the portfolio outturn statements. Of the total resource outturn of £32,449 million, £10,462 million (32%) is funding to local government.

Under the current devolution settlement, the Scottish Parliament is not allowed to overspend its budget. As a consequence, the Scottish Government consistently adopted a position of controlling public expenditure to ensure we live within the budget caps that apply, but remain able to carry forward some spending power resources for use in a future year.

The provisional outturn announcement made by the Cabinet Secretary for Finance and the Constitution in June 2018 indicated that the fiscal cash budget in 2017-18 would be underspent by £453 million. The announcement reported the position in terms of Scottish Government expenditure against totals as set by HM Treasury. The two sets of outturn information are not strictly comparable. The scope of what is included in these accounts is determined by the requirements of the Government's Financial Reporting Manual (FRoM) and covers elements that are not included in the HM Treasury figures.

### Statement of Financial Position

The primary purpose of these accounts is to reflect the use of resources. The Statement of Financial Position reflects the assets held and liabilities arising from the spending plans which support policy choices. Assets are held not for their income generation capability or their inherent value but for their service potential or as a direct consequence of particular policies, for example providing healthcare in hospitals and the provision of funding to students in the

form of loans. Similarly, liabilities arise as a consequence of the timing of commitments relating to spending and policy choices.

The Consolidated Statement of Financial Position, known previously as the balance sheet, (page 64) is one of the primary financial statements in the Consolidated Accounts. It summarises what is owned and owed by the Scottish Government. This shows taxpayers' equity – an accounting measurement of the amount invested by taxpayers that has continuing public benefit. It shows how much of this has arisen from the application of revenues (including the Scottish Block Grant) and that which has resulted through changes over time in the value of physical assets.

It is important to note that the consolidated accounts bring together the “balance sheets” of bodies that are significant in their own right. Detailed financial and narrative information on the major items, for example the road network, is available in the accounts and related reports of the relevant body - Transport Scotland; similarly, information about NHS bodies is in the detailed accounts for each body; the Student Awards Agency also provides separate reporting around student loans i.e. the loans are not within SAAS' accounts but they do provide information about their administration, and the loans themselves are reported within these consolidated accounts.

The Statement of Financial Position includes:

- items which are owned, have already been funded from revenues and will provide continuing economic benefit in future periods. These increase taxpayers' equity.
- items which are owed and expected to require to be funded from future revenues. These decrease taxpayers' equity.
- items owed to the Scottish Government.
- an analysis between amounts that will release or require funding within a year and those which will be carried into future years.

### *Assets and liabilities*

Physical assets are the highest value group of assets in the Consolidated Accounts with a value of £29,380 million at 31 March 2018, of which 66 per cent (£19,395 million) relates specifically to the road network. The Consolidated Accounts provide details of changes in the year. There were additions of £883 million that resulted from capital investment, offset by disposals and the net effect of depreciation and revaluations.

Most physical assets are valued by professional valuers in line with recognised methodologies. This provides an assessment of the continuing benefit they provide in financial terms. Where these assets have been funded by traditional means through capital then there are no continuing liabilities relating to them (maintenance and repair costs will arise). Those funded through other means (such as Public Finance Initiatives, Non Profit Distributing Projects and Scottish Government borrowed funds) also lead to liabilities representing the amounts that will require to be met from future budgets. Only physical assets that are deemed surplus and 'held for sale' (£17 million, page 88) will release resources previously invested for future use.

Financial assets include loans made directly to other organisations and individuals, investment funds used to deliver development programmes and investments in nationalised industries plus fully or part owned companies. These assets are of continuing benefit to the Scottish Government, and have the potential over time to release the resources currently invested for future use – including reinvestment, in accordance with the terms of the loan or other investment made.

The Scottish Government brokered an agreement in April 2018 to secure the long term future of Burntisland Fabrications (BiFab), a major fabrication supplier to the oil and gas sector; offshore renewables and wider infrastructure industries. As part of this agreement the Scottish Government will increase a previous loan facility made available to BiFab and convert that loan to a minority equity stake in the new company. That loan facility has been made on a fully commercial basis. The extent of that shareholding will be determined by the extent to which the loan facility is utilised but will not exceed 38%.

The Scottish Government is also supporting commercial shipbuilding through the provision of two loan facilities to Ferguson Marine Engineering Limited (FMEL). A £15 million loan facility was made available in September 2017 and drawn down in financial year 2017/18. A further loan facility of £30 million was provided in June 2018 to provide working capital to help FMEL diversify its business. This is a strategic investment in Scotland's industrial capability as both the marine engineering sector and commercial shipbuilding have vital roles to play in Scotland's economic future.

The Consolidated Accounts show that the largest financial assets are voted loans of £2,875 million that have been made to Scottish Water, to finance its capital investment programmes (an increase of £167 million from 31 March 2017), and student loans valued at £3,691 million (an increase of £434 million from 31 March 2017). The latter are made under the terms of the student loans scheme, administered by the Student Loans Company Limited. Loans to Prestwick Airport, a wholly owned subsidiary of Transport Scotland, of £38 million are also included here.

The total value of taxpayers' equity, reported in the Statement of Financial Position, is £32,606 million at 31 March 2018, an increase of £1,435 million (4.6%) from 31 March 2017.

The elements of the Statement of Financial Position are measured and disclosed in accordance with accounting standards and notes to the accounts provide analysis and explanation. More detailed information on the Statements of Financial Position of the individual entities included within these consolidated accounts can also be found in the entity's published accounts by following the links provided on page 11 above.

### *Pensions*

The SG consolidated accounts include as expenditure the employers' contributions payable for the financial year. Staff in the Core Scottish Government, Executive Agencies and Crown and Procurator Fiscal Service are members of the Principal Civil Service Pension Scheme (PCSPS). There is no pension liability in respect of the PCSPS within the SG consolidated accounts, because it is a UK scheme, administered by the Cabinet Office and it is not possible to identify the "Scottish share" of the underlying assets and liabilities of the scheme. The Cabinet Office produces separate pension scheme accounts, covering all members across the UK.

Staff in the NHS consolidated bodies can choose between the PCSPS and the NHS Superannuation Scheme for Scotland, which is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The NHS scheme is administered by the Scottish Public Pensions Agency and annual scheme accounts are produced.

The liabilities to be met over time are not met from investments but paid out each year from the funding of the relevant schemes. The NHS scheme is funded within the Scottish Administration in the Scottish Budget; the PCSPS is dealt with through the UK annual process.

### National Accounts Classification

Changes in EU statistical accounts classification rules (ESA10) in September 2014 triggered a review of the classification of some Non Profit Distributing (NPD) projects. There are no issues around the accounting entries, as infrastructure assets are recorded in the accounts in accordance with international accounting standards, which largely reflect the statistical national accounts rules. However the ESA10 rules have impacted on how public expenditure is measured against budgets.

The Office of National Statistics reclassification of some NPD projects has resulted in the initial capital value of some NPD projects during their construction period being charged against the capital outturn budget (CDEL), rather than the associated revenue funding over the contractual period when cash payments are made.

### Capital Borrowing

Under Section 32 of the Scotland Act 2012, as amended by Scotland Act 2016 Section 20, additional borrowing powers were conferred on Scottish Ministers with effect from 1 April 2015. Any sums borrowed and repaid under these provisions must do so via the Scottish Consolidated Fund and hence be reflected in those accounts. The first exercise of the borrowing powers took place in 2017-18 where £450 million (the maximum available) has been drawn down to the Scottish Consolidated Fund from the National Loans Fund.

The repayment of borrowing is scheduled as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<1 year	7.1	7.7	14.8
1 – 5 years	59.0	31.7	90.7
>5 years	383.9	81.4	465.3
<b>Total</b>	<b>450.0</b>	<b>120.8</b>	<b>570.8</b>

An arrangement was agreed with HM Treasury for notional borrowing in 2015-16 and 2016-17 to meet the budget implications of the classification decision related to the introduction of ESA10 which required the capital value of a small number of NPD projects to be budgeted for in the years of asset construction. This required the notional amounts borrowed to be recorded against the Scottish Government's borrowing cap in each of these years, however no actual borrowing was undertaken.

### Payment Policy

The Scottish Government policy requires that all suppliers' invoices not in dispute are paid within the terms of the relevant contract. The Scottish Government aims to pay 100% of invoices, including disputed invoices once the dispute has been settled, on time in these terms.

As part of its plan for supporting economic recovery in Scotland, the First Minister announced on 9 October 2008 that the Scottish Government would aspire to a 10-day target for paying bills to businesses in Scotland. This aspiration is above and beyond our contractual commitment to pay suppliers within 30 days. Paying supplier bills within ten working days is seen as a key objective, and an important expression of the Scottish Government's commitment to supporting business through the current economic downturn.

For financial year 2017-18, the Scottish Government, its Executive Agencies and the Crown Office and Procurator Fiscal Service made 98.2% of all payments within 10 days (2016-17: 98.6%). The specific payment performance of the individual bodies consolidated here will be reported separately within their individual accounts. The core Scottish Government made 98.8% of payments within 10 days (2016-17: 99.0%). The NHS bodies in Scotland made 82.9% of all payments within 10 days (2016-17: 84.6%).

The payment performance of the Scottish Government, its Executive Agencies and the Crown Office and Procurator Fiscal Service for 2017-18 was 99.5% (2016-17: 99.8%) of all transactions settled within the terms of its contractual 30 day payment policy. The specific payment performance of the individual bodies consolidated here will be reported separately within their individual accounts. The core Scottish Government made 99.7% (2016-17: 99.8%) of all payments within the terms of its contractual 30 day payment policy. The NHS bodies in Scotland made 92.7% (2016-17: 93.6%) of all payments within the terms of their contractual 30 day payment policy.

### *Sustainability and Environmental Reporting*

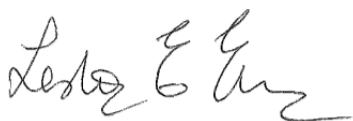
The Scottish Government has developed guidance for central government and the wider public sector on the preparation of sustainability reports to complement Annual Reports and Accounts. The guidance is intended to form a key element of a sustainability reporting framework for the Scottish public sector (referred to as the Scottish Sustainability Reporting Framework). The Framework will aim to inform best-practice across the public sector and demonstrate a coherent approach which meets statutory and non-statutory sustainability reporting requirements in the most cost effective and least burdensome manner to help drive improvements in sustainability performance.

The guidance relates specifically to information to be included in Scottish Public Sector Sustainability Reports intended to complement Annual Reports and Accounts and expected to be consistent with the reporting requirements flowing from the Climate Change (Scotland) Act 2009 and the principles for sustainability reporting contained in HM Treasury guidance.

The Scottish Government's current reporting on sustainability is focused on the environmental aspects of sustainability; it currently publishes an annual report on environmental performance against a range of targets in respect of the core estate including emissions from energy use, waste arisings and recycling rates, transport & travel emissions, water consumption and biodiversity. The development of the Scottish Sustainability Reporting Framework includes consideration of how the current reporting format can be enhanced to embrace other aspects of sustainability performance.

Environmental reporting for the Scottish Government can be found on the Government On-Line Sustainable Performance Information Exchange (GOLSPIE) portal<sup>9</sup>. GOLSPIE is a dynamic platform which provides up-to-date access and reporting on the Scottish Government's environmental targets, indicators and performance.

The Scottish Government annually publishes a high level Carbon Assessment alongside the Scottish Government's Draft Budget<sup>10</sup>.



**Principal Accountable Officer**  
**24 September 2018**

<sup>9</sup> <http://www.scotland.gov.uk/Topics/Government/sustainabilityperformance>

<sup>10</sup> <https://beta.gov.scot/publications/carbon-assessment-2017-18-draft-budget/>

## *Accountability Report*

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### *Corporate Governance*

Information about the structure of the Scottish Government and details of the Scottish Government Ministers and senior officials can be found in the Performance Report and in the Governance Statement.

### *Statement of Accountable Officer's Responsibilities*

In accordance with the accounts direction (reproduced on page 122) issued under Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 the Scottish Ministers are required to prepare resource accounts for each financial year in the form and on the basis set out in the Government Financial Reporting Manual, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Scottish Ministers during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Scottish Government, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Permanent Secretary is the most senior member of the staff of the Scottish Administration and as the Principal Accountable Officer is the Accountable Officer responsible for preparing the accounts and submitting them to the Auditor General for Scotland.

In preparing the accounts the Principal Accountable Officer was required to comply with the Government Financial Reporting Manual (FReM) and in particular to:

- observe the accounts direction including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Principal Accountable Officer confirms that the Annual Report and Accounts as a whole are fair, balanced and reasonable.

The responsibilities of the Principal Accountable Officer are described in the Memorandum to Accountable Officers from the Principal Accountable Officer published in the Scottish Public Finance Manual<sup>11</sup>.

For the purposes of the audit, so far as the Principal Accountable Officer is aware, there is no relevant audit information of which the auditors are unaware and all necessary steps have been taken by the Principal Accountable Officer to ensure awareness of relevant audit information and to establish that the Scottish Government's auditors are aware of that information.

The Principal Accountable Officer authorised these accounts for issue on 24 September 2018.

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<sup>11</sup> [www.scotland.gov.uk/Topics/Government/Finance/spfm/Intro](http://www.scotland.gov.uk/Topics/Government/Finance/spfm/Intro)

## **Governance Statement**

### *Scope of Responsibility*

As Permanent Secretary to the Scottish Government I am responsible for ensuring that appropriate arrangements are in place for governance and that these arrangements support the Scottish Government's purpose and the achievement of Scottish Ministers' policies, aims and objectives.

As Principal Accountable Officer for the Scottish Administration (under the terms of the Public Finance & Accountability (Scotland) Act 2000), I am also responsible for ensuring the propriety and regularity of finances and the economic, efficient and effective use of resources. In discharging these overall responsibilities I am supported by the designated Accountable Officers within the core Scottish Government, in the Crown Office and Procurator Fiscal Service, in Scottish Government Executive Agencies and in Health Bodies.

Detailed information on the role and responsibilities of Accountable Officers is set out in the Accountability chapter of the Scottish Public Finance Manual<sup>12</sup>.

### *Governance Framework*

The Governance Review commissioned in November 2015 was implemented in 2016-17 with the Scottish Government's governance arrangements being revised with effect from 1 October 2016. As a result of this review, until January 2018, the Governance framework was as set out at Figure 1. Further improvements have, in 2017-18, been identified by a follow up review and these are set out in Figure 2 and the text below.

The governance frameworks that were in place throughout the 2017-18 financial year complied with all governance related guidance in the Scottish Public Finance Manual, the Civil Service Code<sup>13</sup> and relevant elements of the Good Governance Standard for Public Services<sup>14</sup> produced by the Independent Commission on Good Governance in Public Services.

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<sup>12</sup> <http://www.gov.scot/Topics/Government/Finance/spfm/Accountability>

<sup>13</sup> <https://beta.gov.scot/publications/civil-service-code/>

<sup>14</sup> <https://www.jrf.org.uk/file/36131/download?token=4RVMWPvz&filetype=full-report>

Figure 1 (position at start of the reporting year)

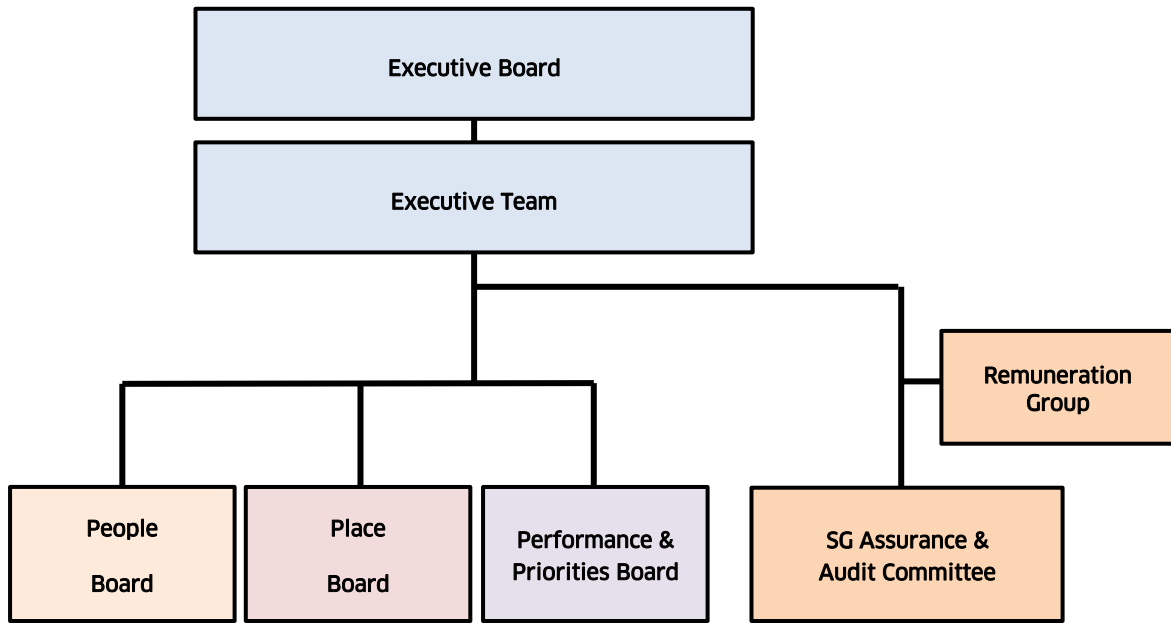
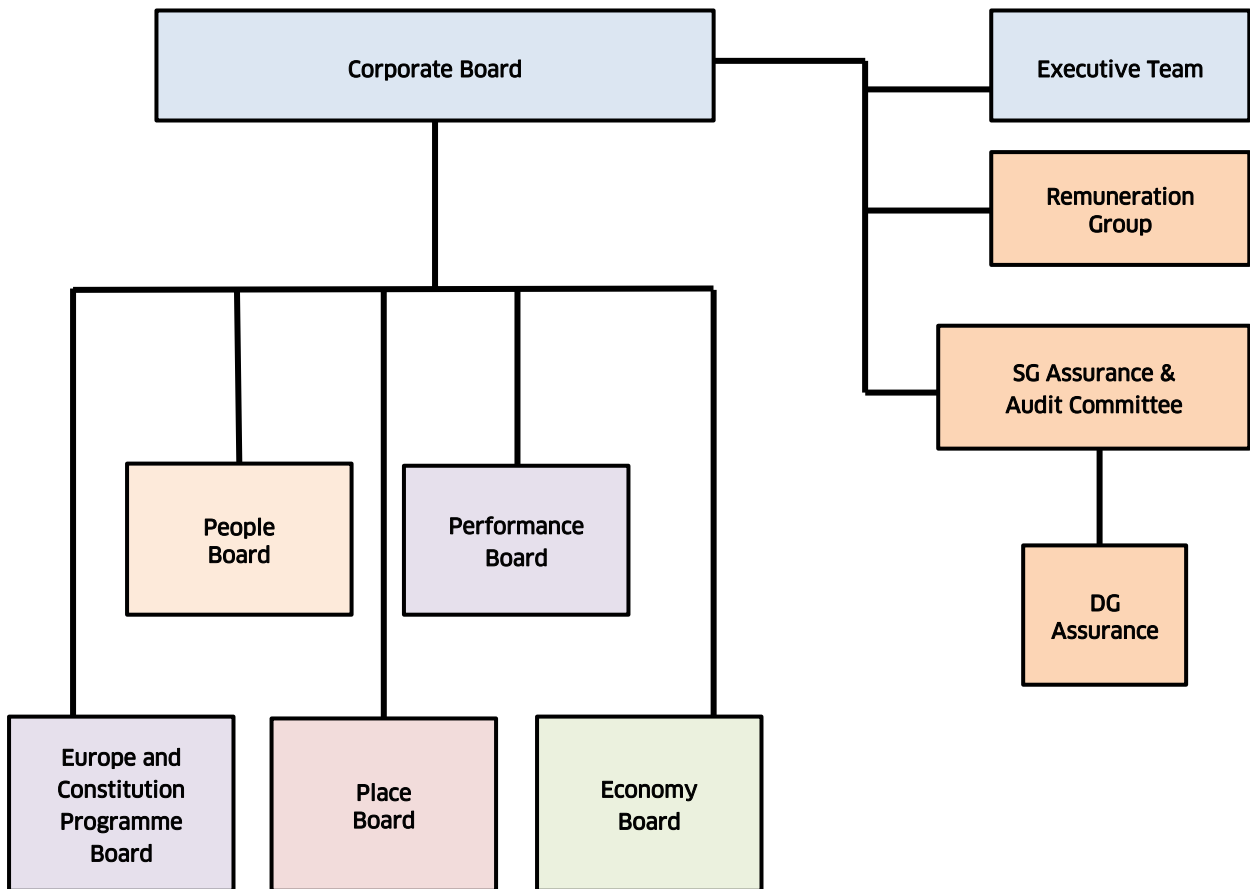


Figure 2 (position at the end of the reporting year)





The Scottish Government's improvement priorities as the Civil Service supporting the Scottish Government are encapsulated in our SG2020 vision – to be more open, capable and responsive. Responsibility for the delivery of this vision rests with the Executive Team, consisting of myself and the six Directors General. The Executive Team meets twice a week. The Executive Team reported directly to the Executive Board (April 2017 to January 2018) and under the new governance arrangements it now reports to the Corporate Board (January – March 2018).

The Scottish Government Assurance and Audit Committee (SGAAC) has met quarterly over the year and attendees include myself, all Directors General, the Chief Financial Officer, the Director of Internal Audit, Audit Scotland as well as the Committee's members, four of our Non-Executive Directors of the Scottish Government who are Janet Hamblin (Chair); Annie Gunner Logan; Linda McKay and Hugh McKay. Director General Assurance meetings also occur quarterly and highlight issues to the SGAAC as required. These meetings are attended by the partner Non-Executive Director, and both the Chair of the Scottish Government Assurance and Audit Committee and Audit Scotland have an open invitation to attend as they deem fit. Both have used the opportunity to do so having attended an assurance meeting for each Director General family during the period of this report.

In recognition of emerging areas of importance for the Scottish Government, the Corporate Board has agreed to the creation of new sub-boards. The remit of the Economy Board was approved by Corporate Board in February 2018 and the Board met for the first time in May 2018. This sub-board will meet every two months and will ensure a coordinated approach to sustainable economic growth. The Constitution and Europe Programme Board has also been formally brought into the Corporate Governance structure. Further improvements, including the creation of an Exchequer Board to support the work of the Director General Scottish Exchequer, will be implemented in reporting year 2018-19.

### *Corporate Governance Review*

To give me assurance as Principal Accountable Officer that the new Governance arrangements were meeting the original principles and objectives established for the new structures I asked the Director of Internal Audit and the Crown Agent to conduct a review of the arrangements. This follow up review identified further recommendations to maximise the efficiency and effectiveness of our governance arrangements and these, along with an implementation plan, were agreed by the Executive Board on 3 October 2017.

The key accepted recommendations of the review, along with the relevant sections of the implementation plan, are as follows:

**That the Executive Board be re-named the Corporate Board and its membership be reviewed to give consideration to the balance of executive and non-executive members.**

The first meeting of the Corporate Board took place on 23 January 2018 with a refreshed membership. The number of Non-Executive Directors has been increased to five (from three) with introductory support for new members. The Corporate Board section of the internal website Saltire has also been updated and a programme of communications activity has been undertaken to promote the change across the organisation.

**That the function of the Corporate Board be clearly separated from the Executive Team, with the former focusing on strategic issues, and clarity provided on the delegation of responsibilities to each sub-board.** New terms of reference for the Corporate Board have been agreed. A review of each of the sub-boards has also been undertaken to articulate more clearly the delegation of roles and responsibilities to each from the Corporate Board. The updated terms of reference will inform an updated Governance Manual which will be reviewed

annually. The Corporate Board will have, in addition to regular Board meetings, a minimum of two off-site strategic sessions each year.

**That the role of 'Board Secretary' be established to ensure efficiency and synergy between the work of all the Corporate Boards.** A short term appointment of a Board Secretary was made in December 2017. This will be reviewed in March 2019 to confirm that the grading of the post is appropriate and the role still required in its current form.

**That a formal programme of on-going Board development should be undertaken.** This programme, led by the Board Secretary with DG Organisational Development and Operations and People Director, began in January 2018 and continues to be developed over 2018.

**That the Non- Executive Director cohort be expanded and support for all Non-Executive Directors to evolve.** A process to recruit additional Non-Executive Directors is underway. Work is also underway to ensure that all Non-Executive Directors receive a consistent level of support, including support from the Director of Communications, Ministerial Support and Facilities and Board Secretary in Non-Executive Director network meetings, as well as regular one to one meetings supported by regular updates and tailored communications on developments in the Scottish Government.

**That a senior Non-Executive Director be appointed.** The Non-Executive Director paired with myself, Ronnie Hinds, already fulfils this role and I am working with him to consider how the role might evolve further in future.

**That membership of the Scottish Government Assurance and Audit Committee be reviewed.** The requirement for Non-Executive Director attendance has been reduced from five to four, with three required to be quorate. The Chief Financial Officer, with the support of the Director of Internal Audit and the Board Secretary, is leading the work to further improve the effectiveness of the Scottish Government Assurance and Audit Committee's financial scrutiny in consultation with the chair and its members.

**That the Scottish Government looks to strengthen the support it gives to Audit Scotland to discharge their functions.** Audit Scotland now attend Director General Assurance meetings and meet regularly with the Board Secretary to discuss the support provided and any further improvements. There are also regular meetings throughout the year with the Chief Financial Officer on the relationship with Audit Scotland, as well as the overall audit programme and its effectiveness in driving scrutiny.

#### *Governance arrangements for separate accounting entities*

The separate accounting entities within the Scottish Government consolidation boundary have corporate governance arrangements in place appropriate to their individual circumstances and in compliance with relevant guidance. The effectiveness of governance arrangements for the separate accounting entities is addressed in the governance statements provided by the entities concerned as part of their annual accounts. As with the Scottish Government, these arrangements comply with relevant guidance in the Scottish Public Finance Manual and generally accepted best practice principles

#### *National Performance Framework*

The effectiveness of Scottish Government governance arrangements is ultimately linked to the achievement of policies, aims and objectives set by the Scottish Ministers. Further information on how the NPF operated with the Scottish Government during the 2017-18 Financial year is detailed within the Performance Review Section of this document.

The introduction of the National Performance Framework (NPF)<sup>15</sup> and the outcomes approach to government in 2007 have been the foundation for a transformative shift in how policy is made and for our organisational evolution and development as civil servants. Our “Scottish Approach” is focused on outcomes – on driving improvement; on building on the strengths and assets of individuals and communities; and on services which are shaped and co-produced by both service providers and the people and communities who receive and engage with those services.

The NPF sets out in the Purpose and the National Outcomes, a clear, unified vision for Scotland. A wide range of indicators are used to assess progress towards this vision. These provide a broad measure of national and societal wellbeing, incorporating a range of economic, social and environmental indicators and targets. Progress against the measures can be found on the Scotland Performs website<sup>16</sup>. After ten years, the principles of the NPF have stood the test of time and they are as relevant now as they were ten years ago. Introduced in 2007 the NPF has been refreshed twice since and respectively in 2011 and 2016. With the introduction of the Community Empowerment (Scotland) Act 2015 the outcome-based approach has been put on a statutory footing and the Scottish Government has taken this opportunity to undertake a wholesale review of the NPF. The scope of the review, included building wider consensus around the framework, improving alignment with the UN Sustainable Development Goals, and other frameworks, such as Scotland’s National Action Plan for Human Rights<sup>17</sup> and Scotland’s Economic Strategy<sup>18</sup>, simplifying the language and look of the framework to make it more accessible, hence more meaningful.

The new NPF has been developed as a result of an extensive consultation and engagement process, and following the statutory scrutiny period by the Scottish Parliament as required by Community Empowerment (Scotland) Act 2015,<sup>19</sup> the new NPF was formally launched in June 2018. Making real and sustained progress toward Scotland’s National Outcomes must be a collective endeavour and all sectors of society have a role to play. To achieve the vision for Scotland set out in the NPF will require us all to behave in ways that promote trust, collaboration and partnership.

### *Budget Process Review Group*

The Budget Process Review Group made recommendations for the Scottish Parliament’s budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016. The Group recommended that the revised budget process should include a full year approach involving parliamentary committees, a continuous cycle of scrutiny, a focus on outcomes, fiscal responsibility and an understanding of the interdependence between policies within the budget.

As a result, the Scottish Government made changes to the budget process for 2018-19 to provide a greater delineation between factual content and policy priorities, to provide further numerical detail and to publish the associated data digitally. Further changes resulting from the Group’s recommendations have followed during 2018-19 including a revised Written Agreement with the Parliament’s Finance Committee, publication of a Medium Term Financial Strategy and publication of a Fiscal Framework Outturn Report.

<sup>15</sup> <http://www.gov.scot/Resource/0049/00497339.pdf>

<sup>16</sup> <http://nationalperformance.gov.scot>

<sup>17</sup> <http://www.snaprights.info/>

<sup>18</sup> <https://beta.gov.scot/publications/scotlands-economic-strategy/>

<sup>19</sup> [http://www.parliament.scot/S5\\_Local\\_Gov/Meeting%20Papers/20180418\\_PublicPapers.pdf](http://www.parliament.scot/S5_Local_Gov/Meeting%20Papers/20180418_PublicPapers.pdf)

## *Assurance Framework*

An annual assurance on the adequacy and effectiveness of the core Scottish Government's internal control system, including risk management and safeguards against losses - and the extent to which it can be relied upon is provided through the professional opinion of the Scottish Government's Director of Internal Audit. In the annual assurance report submitted to the Scottish Government Assurance and Audit Committee on 13 July 2018, the Director of Internal Audit confirmed that reasonable assurance could be placed on the internal control arrangements.

In their role as External Auditors to the Scottish Government, Audit Scotland assess the extent to which they will use the individual reviews undertaken by Internal Audit to inform their opinion on the financial statements, and meet their wider responsibilities, depending on their direct relevance to their work. Each year they also undertake a review of Scottish Government's Internal Audit arrangements. Audit Scotland confirmed that their work did not identify any internal audit reports where the underlying evidence would suggest an incorrect audit opinion or conclusion. The Scottish Government Audit and Assurance Committee has therefore concluded that it can use the work of the Internal Audit function to inform its assessment of the overall controls and assurance environment operating across Scottish Government.

Following the Strategic Review of the Internal Audit function undertaken by the Scottish Government in 2015-16 a significant range of improvements have been taken forward within the function. However, this year the Audit Scotland review of Internal Audit identified a number of important areas, particularly in terms of planning, documentation, reporting and management review, where improvement is needed for compliance with Public Sector Internal Audit Standards. Internal Audit has already recognised these and as a result has undertaken a project to address them. The Scottish Government Audit and Assurance Committee will continue to monitor the Internal Audit Directorate to ensure on-going continuous improvement and compliance with Public Sector Internal Audit Standards.

The process for the provision of annual assurances by senior staff within the core Scottish Government (and the other constituent parts of the Scottish Administration) is set out in the Scottish Public Finance Manual<sup>20</sup>.

The culmination of this process is the provision of Certificates of Assurance from Directors General to me, which reflect any internal control issues raised by Directors as well as any other issues raised throughout the course of the year in either the DG Assurance or SGAAC meetings, by Non-Executive Directors, the annual assurances by Internal Audit and consideration of information on control issues received in respect of any associated executive agencies, non-ministerial departments and sponsored bodies.

Each portfolio reports annually to the Scottish Government Assurance and Audit Committee to provide assurances that they are operating in accordance with Scottish Public Finance Manual guidance and to draw the Committee's attention to relevant issues. Directors General have sought assurance from their respective Directors and have met with the Scottish Government Assurance and Audit Committee, prior to the finalisation of the Scottish Government consolidated accounts, to discuss their reports and any relevant issues. At this meeting on 24 September 2018, no significant control weaknesses were raised.

The Scottish Government Assurance and Audit Committee provides me with an annual assurance, timed to support the signature of the Scottish Government consolidated accounts

<sup>20</sup> <https://www.gov.scot/Topics/Government/Finance/spfm/assurancecerts>

and the associated governance statement, following consideration of the accounts by Corporate Board on 4 September 2018. In providing such assurance the Scottish Government assurance framework, the reliability and integrity of assurances provided and the findings of both internal and external auditors. The Scottish Government Assurance and Audit Committee also advises on which, if any, issues arising during the financial year, and the period up to signature of the accounts, would warrant being recorded in the governance statement for the Scottish Government consolidated accounts. This process was completed in the course of the Scottish Government Assurance and Audit Committee meeting on 24 September 2018.

A similar process is in place in each of the separate accounting entities within the Scottish Government consolidation boundary.

### *Counter Fraud Activity*

Guidance on the prevention, detection, reporting and handling of fraud is included in the Scottish Public Finance Manual (SPFM)<sup>21</sup>.

The Integrity Group is responsible for improving fraud prevention measures across the Scottish Government as well as monitoring relevant cases of suspected external and internal wrongdoing made through formal reporting lines. This includes supporting and reporting on the concerns that are raised under the Public Interest Disclosure Act 1998. The Group is also available to advise on the handling of specific allegations of external and internal wrongdoing where required.

The Scottish Government has continued to engage with cross-government groups, sharing our approach and supporting the prevention agenda through the Fraud, Error and Debt Team within the UK Cabinet Office.

The Scottish Government also continues to participate in the biennial National Fraud Initiative (NFI) data matching exercise led by Audit Scotland to help public bodies minimise fraud and error in their organisations and is also working with Audit Scotland to consider improvements to the NFI in Scotland, following the Public Audit and Post-legislative Scrutiny Committee report in September 2017.

### *Data Security Framework*

Information assurance and security are strategic risks for the Scottish Government. Director General Organisational Development and Operations, as the Senior Information Risk Owner, is the owner for these risks at Executive Team level. Corporate policies and guidance are in place to ensure that the Scottish Government meets its legislative and procedural obligations to protect our information assets and minimise the likelihood of a data loss incident.

Eighteen data security incidents were internally reported to the SG Data Protection and Information Assets team in 2017-18, of which four were reported to the Information Commissioner's Office (ICO) throughout the year. While no enforcement action was taken by the Information Commissioner, appropriate actions were taken in each case to ensure that the probable impact of any loss was minimised. Additional local procedures were also put in place to minimise the likelihood of any future recurrence.

A programme to manage the implementation of the new General Data Protection Regulation (GDPR) successfully completed ahead of the new Regulation coming into force on 25<sup>th</sup> May 2018. The programme developed a range of internal guidance to support Information Asset Owners and staff across the organisation to meet their obligations under GDPR, published a

<sup>21</sup> <http://www.gov.scot/Topics/Government/Finance/spfm/fraud>

mandatory e-learning package on data protection which all staff are expected to complete on an annual recurring basis, and appointed a new Data Protection Officer (DPO) for Scottish Government.

In addition, the Scottish Government has continued to make good progress towards implementing actions set out in the Public Sector Action Plan on Cyber Resilience<sup>22</sup>, which will enhance the cyber and information security controls already in place within the organisation.

### *Risk Management Arrangements*

The Scottish Government approach to risk management is consistent with the principles highlighted in the Scottish Public Finance Manual<sup>23</sup> and is published on the Scottish Government intranet and website.

The Scottish Government operates in a dynamic environment, delivering the priorities of the Scottish Ministers whilst managing associated risks and opportunities. Over the last year a number of key risks have been scrutinised at a corporate level in the organisation. These include:

- Through Common Agricultural Policy (CAP) the delivery of accurate, timely payments worth around £0.5 billion to farm business and crofters.
- New powers over social security are successfully implemented, with smooth transition from DWP to new Scottish policies and administrative arrangements.
- The Scottish Government's capability and capacity to deliver the Government's priorities while maintaining high standards of competence.
- The Scottish Government's strategy to ensure that Scotland's interests are protected in the UK withdrawal from the EU.
- Health and Social Care Partnerships to assure the quality of outcomes achieved and sustainability of services.
- The Scottish Government ensures the long term sustainability of the public finances through effective budget-setting and medium term strategic financial planning, providing clarity on financial management and spending priorities, and contributing to achieving value for money and delivery of key outcomes.
- Public Service Reform activities expedite the delivery of improved outcomes and contribute to the sustainability of public services.
- Maintaining the confidence of survivors in the independence of the Scottish Child Abuse Inquiry and in our commitment to deliver wider measures, particularly the possibility of financial redress.
- The Scottish Government's ability to respond to cyber-attacks and its role in ensuring a common approach to achieving higher standards of cyber resilience amongst Scotland's public sector organisations.

<sup>22</sup><https://beta.gov.scot/publications/cyber-resilience-strategy-scotland-public-sector-action-plan-2017-18/>

<sup>23</sup><https://www.gov.scot/Topics/Government/Finance/spfm/risk>

- The Scottish Government's capacity to support our business critical IT systems and robustly deliver business critical IT/digital dependent projects.
- Resilience arrangements, staffing levels, skills and understanding across Scottish Government are sufficient to deal with major and sustained incidents in a changing threat landscape and that disrupt everyday activities in Scotland.
- Enterprise and business initiatives are appropriately developed, targeted and implemented to boost sustainable economic growth by improving the long-run drivers of economic competitiveness and by tackling inequality through boosting investment and innovation, promoting internationalisation, and encouraging inclusive growth.
- Culture in Scottish Government supports and enables greater diversity and inclusion, demonstrating it is an exemplar employer by committing to and working towards our published equality outcomes for 2017-18.
- Ensuring policy decisions are tested against European Commission State aid rules to maintain Scottish Government reputation and minimise risk of aid being clawed back from the beneficiary with interest. State aid regulation will be an important part of future trading arrangements with the EC.

### *Significant Internal Control Issues*

**Freedom of Information (FOI):** In order to address concerns regarding FOI performance, throughout the period 2017-18, the Director General Constitution and External Affairs has taken a range of steps to support the organisation in raising its performance. As an organisation we have progressed from responding in time to 83% of requests in 2017 (against a target of 85%) to 93% of requests on time (against a 90% target) in the first eight months of 2018. For reviews, we have improved from responding in time to 65% in 2017 (against a target of 85%) to 87% (against a 90% target) for the first eight months of 2018.

The Scottish Government has co-operated fully with the Scottish Information Commissioner's intervention into FOI process and practice. The Commissioner has published a report requiring us to produce, by September 2018, a draft action plan - for his approval - setting out how we will address his recommendations.

While we have made significant progress on our FOI performance and work has started on the draft action plan, to maintain sufficient progress work will be required across all Directorates to ensure we do.

**Constitution and Europe (EU Exit) Programme:** The Scottish Government has developed cross-government structures to support readiness for EU exit. Those structures have enabled readiness assessments by Directorates across the Scottish Government, indicating that challenges relate most significantly to capacity and capability, financial implications and the ability to influence decisions taken by the UK Government and the EU. They extend across the whole organisation, with the most significant impact in the areas most involved in EU regulation, payments and policy initiatives, in particular the Parliamentary Counsel Office, Legal Directorate and Directorates for External Affairs and Strategy and Constitution.

All Directors General and their staff have been working to ensure that we are as prepared as possible, supported by clear governance structures which now includes consideration by Directors General of EU exit issues as part of this formal assurance work. While I am assured that Scottish Government Directorates are well focussed on readiness work, I am not yet fully assured of readiness for a withdrawal from the EU whose terms and timings remain subject to

significant uncertainty. These risks are monitored and managed within our programme and standing governance processes.

**Making payments to farmers:** Agriculture and Rural Economy Directorate continued to experience a risk to the delivery of IT functionality and necessary controls to support implementation of the Common Agricultural Policy (CAP) and payments of around half a billion pounds to farmers. The 95.24% threshold for Pillar 1 payments was, however, met in June 2018, avoiding late payment penalties. In 2017-18, we also faced risk in relation to the paying agency accreditation audit in relation to Audit Scotland's assessment of the quality of relevant internal audit reports. Through significant management action, the EU accounts were submitted to the European Commission by the February 2018 deadline. The Commission proposed the accounts for clearance and paying agency accreditation status was maintained. The priorities for 2018-19 include maintaining the delivery of IT functionality, working to minimise disallowance penalties, improving the quality of the control statistics submitted annually to the EC, which were the subject of a qualification on the Management Declaration for the EU accounts, and the delivery of Internal Audit Directorate's improvement action plan to manage future accreditation risk.

**NHS Boards Financial Position:** In 2017-18, three boards forecast an outturn deficit that required brokerage amounting to £50.7 million – NHS Tayside, NHS Ayrshire and Arran, and NHS Highland. Arrangements have been put in place to escalate the position of all three Boards, with additional support provided to help address the financial challenge in 2018-19 and beyond.

### NHS Tayside

- Ministerial Intervention at NHS Tayside:** As a result of NHS Tayside's financial position and issues identified in relation to eHealth funding and endowment fund monies, the Cabinet Secretary for Health and Sport exercised Ministerial powers of intervention under section 78a of the National Health Service (Scotland) Act 1978 and moved NHS Tayside to the highest level of escalation. Following this, steps were taken to strengthen the Board's leadership and a new Chair and Chief Executive were appointed.
- eHealth Funding:** On 23 February 2018 it was identified that inappropriate allocations were being issued relating to eHealth projects to NHS Tayside via NHS National Services Scotland (NSS). Grant Thornton were appointed to carry out a review to identify control deficiencies and recommend improvements. A number of improvement actions have subsequently been taken since this report was published on 23 March 2018, with a further review carried out by Grant Thornton at NHS Tayside, an Internal Audit review at NHS NSS and a review by the Scottish Government's Internal Audit team also being undertaken in order to consider improved controls in both the Health Finance and eHealth teams.
- NHS Endowment Funds:** On 3 April the Scottish Government became aware that in 2013-14, Trustees of NHS Tayside's Endowment Fund had suspended their rules to allow for the retrospective approval of funding for projects, which had previously been approved for exchequer funding. OSCR opened an inquiry into the NHS Tayside Endowment Fund, and wrote to all Boards, asking for assurance to be provided that endowment funds are being used appropriately. Responses have been shared with OSCR, who will consider what further action may be required for all NHS Boards. The Scottish Government also commissioned an independent review by Grant Thornton of the financial governance of NHS Tayside, including the circumstances relating to the



use of endowment funds to bridge the Board's financial position in 2013-14. The review reported in May 2018.

#### *Written Authority*

Under the terms of the Public Finance & Accountability (Scotland) Act 2000 there is a statutory duty on the Principal Accountable Officer and designated Accountable Officers to obtain written authority from, as the case may be, Ministers or governing boards before taking any action which we consider to be inconsistent with the proper performance of our functions as Accountable Officers.

No such written authority was required during the 2017-18 financial year, or the period up to the signature of the accounts, by Accountable Officers within the Scottish Government consolidation boundary.

## *Remuneration and Staff Report*

The information in the Performance and Accountability Reports is reviewed by the external auditors for consistency with the financial statements, and the information relating to the remuneration and pension benefits of ministers, law officers, senior management and non-executive directors; staff numbers; staff Costs and number of exit packages has been audited by them.

### *Appointments*

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Principles, which require appointments to be on merit on the basis of fair and open competition but also include the circumstances when appointments may otherwise be made.

Directors-General members of the Scottish Government Corporate Board are appointed following approval by the Head of the Home Civil Service, following consultation with the First Minister in accordance with the Constitutional Reform and Governance Act 2010. Prior to the introduction of the Constitutional Reform and Governance Act 2010, appointments were approved by the Prime Minister.

All of the Executive members of the Scottish Government Corporate Board, covered by this report, hold appointments which are open-ended until they choose to retire. The rules for termination of appointments are set out in chapter 11 of the Civil Service Management Code. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. The Scottish Government, its Agencies and the Crown Office and Procurator Fiscal Service, in line with the rest of the UK Civil Service, introduced a policy of no mandatory retirement age for the Senior Civil Service from 1 October 2009, in line with the implementation of the Employment Equality (Age) Regulations 2006. Under current arrangements, an individual's pension will become payable from age 60 if they were employed in the Civil Service prior to 30 July 2007, and in these circumstances that employee can choose to leave work and collect his or her pension at any time from age 60, subject only to compliance with the basic notice of leave requirements. The Government announced a number of reforms to civil service pensions which were applied from 1 April 2015.

The Civil Service Commissioners website<sup>24</sup> provides further information about their work.

Independent Non-Executive Directors of the Scottish Government Corporate Board are appointed by the Permanent Secretary up to a maximum of six years. Such appointments can be terminated with one month's notice period.

### *Remuneration Policy*

The salaries of the Scottish Government Ministers were established under section 81(1) and (2) of the Scotland Act 1998. They are paid through the Scottish Parliamentary Corporate Body (SPCB).

The remuneration of senior civil servants (SCS) is set in accordance with the Civil Service Management Code (available via [civilservice.gov.uk](http://civilservice.gov.uk)) and with independent advice from the Review Body on Senior Salaries (SSRB).

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<sup>24</sup> [civilservicecommission.independent.gov.uk](http://civilservicecommission.independent.gov.uk)

In reaching its recommendations, the SSRB is to have regard to the following considerations:

- The need to recruit, retain, motivate and where relevant, promote suitably able and qualified people to exercise their different responsibilities;
- Regional/local variations in labour markets and their effects on the recruitment, retention and, where relevant, promotion 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.

Further information about the work of the SSRB can be found via the Office of Manpower Economics<sup>25</sup>.

Within the Scottish Government, the Top Level Pay Committee, comprising the Permanent Secretary, the Directors-General, Chief Executive of the Crown Office and Non-executive members of the Corporate Board, ensures that the Pay and Performance Management policy falls within the parameters set by the SSRB and Cabinet Office. The Scottish Government's Top Level Pay Committee has agreed that for SCS pay in 2017-18:

- all SCS staff, apart from poor performers and those near the maximum of the pay range will receive a 1% uplift to their base pay;
- Deputy Directors and Directors who have over 5 substantive years in the grade as at 31 March 2017 and are at the lowest end of the pay range will receive a higher increase; and
- in line with Scottish Public Sector Pay Policy there will be no non-consolidated performance payments.

The Permanent Secretary's salary and performance-related pay are set as part of a UK Cabinet Office framework and agreed by the Prime Minister.

Non-Executive Directors receive a flat quarterly fee for their role. Non-Executive Directors' expenses incurred in attending these meetings are also reimbursed.

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<sup>25</sup> <http://www.ome.uk.com>

## Remuneration

The remuneration of the Ministers who served over the year to 31 March 2018 and members of the Scottish Government Corporate Board is noted below.

### Ministers and Law Officers

The remuneration of the First Minister and the Cabinet Ministers during the year to 31 March 2018 is shown in the table below. Ministerial salaries are additional to salaries and entitlements as MSPs. The full year salary rate for the First Minister is £89,493 (2016: £87,910) and for all other Cabinet Ministers is £46,426 (2016: £45,605).

	Salary	Salary	Pension Benefits	Pension Benefits	Total Remuneration	Total Remuneration
	2017-18	2016-17	*2017-18	*2016-17	2017-18	2016-17
	£	£	£	£	£	£
Nicola Sturgeon, MSP (1)	92,680	91,024	29,937	44,016	122,617	135,040
John Swinney, MSP	46,426	45,605	15,530	22,832	61,956	68,437
Keith Brown, MSP	46,426	45,605	17,461	18,601	63,887	64,206
Roseanna Cunningham, MSP	46,426	45,605	17,461	18,601	63,887	64,206
Angela Constance, MSP	46,426	45,605	19,622	20,800	66,048	66,405
Shona Robison, MSP	46,426	45,605	15,530	22,832	61,956	68,437
Michael Matheson, MSP	46,426	45,605	17,461	18,601	63,887	64,206
Fiona Hyslop, MSP	46,426	45,605	15,530	22,832	61,956	68,437
Derek Mackay, MSP (2)	46,426	39,721	17,868	15,497	64,294	55,218
Fergus Ewing, MSP (2)	46,426	39,721	17,868	15,497	64,294	55,218
Alex Neil, MSP (3)	-	6,007	-	-	-	6,007
Richard Lochhead, MSP (3)	-	6,007	-	-	-	6,007

(1) The First Minister's salary and total remuneration includes a benefit-in-kind for 2017-18 of £3,187 arising from the provision of accommodation at Bute House (restated 2016-17: £3,114). Due to an error by the Scottish Government when the benefit-in-kind was calculated for the financial years from 2007 to 2017, an Employer Settlement of £16,765 was reached with HM Revenue & Customs in 2017-18.

(2) Derek Mackay and Fergus Ewing were appointed as Cabinet Ministers on 18 May 2016. The full year equivalent salary in 2016-17 was £45,605.

(3) Alex Neil and Richard Lochhead resigned as Cabinet Ministers on 18 May 2016. The full year equivalent salary is £45,605. Pension benefits information was not gathered in 2016-17 and therefore is not available to publish as a prior year figure.

\* Pension benefits are 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.

### *Scottish Government Ministers' Pay Freeze Commitment*

The Scottish Parliament Corporate Body (SPCB) is required under Chapter 46, Section 81 of the Scotland Act 1998 to make provision for the payment of salaries to MSPs, Officeholders of the Parliament and Ministers. A resolution of the Parliament to pay salaries in accordance with the Scottish Parliamentary Salaries Scheme was passed by the Parliament on a free vote on 21 March 2002. The Scheme determines that the Scottish Parliamentary Corporate Body should decide the salary levels for Members and Officeholders including the Law Officers. The Scheme determines that Members' and Officeholders' salary rates should be increased annually from 1 April in line with public sector pay rises in Scotland, using the Annual Survey of Hours and Earnings published by the Office for National Statistics.

Scottish Government Ministers and the Law Officers have previously agreed to freeze pay as at their April 2009 pay level. The Salaries Scheme does not give the power to withhold an annual increase. To achieve the required reduction, pay increases are deducted from the Ministers' and the Law Officers' net salaries and repaid to the Scottish Consolidated Fund. The disclosure reflects the salary awarded under the Scottish Parliamentary Salaries Scheme.

### *Law Officers*

The remuneration, comprising of salary and pension benefits, of the serving Law Officers for the year to 31 March 2018 is shown below:

	Salary	Salary	Pension Benefits	Pension Benefits	Total Remuneration	Total Remuneration
	2017-18	2016-17	*2017-18	*2016-17	2017-18	2016-17
	£'000	£'000	£'000	£'000	£'000	£'000
James Wolffe, QC (1)	122	100	47	39	169	139
Alison Di Rollo, QC (2)	106	86	41	34	147	120
Frank Mulholland, QC (1)	-	21		9	-	30
Lesley Thomson, QC (2)	-	18		8	-	26

\*Pension benefits are calculated as real increase in pension multiplied by 20 plus the real increase in any lump sum 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.

(1) On 2nd June 2016 James Wolffe QC superseded Frank Mulholland QC as Lord Advocate. The full year equivalent gross salary for James Wolffe QC was £120,000.

(2) On 2nd June 2016 Alison Di Rollo QC superseded Lesley Thomson QC as Solicitor General. The full year equivalent gross salary for Alison Di Rollo QC was £104,000.

No Law Officers received benefits-in-kind.

### Senior Management Team

The remuneration for the Permanent Secretary and members of the Scottish Government Corporate Board for the year to 31 March 2018 were as follows:

	Salary	Salary	Pension Benefits	Pension Benefits	Total Remuneration	Total Remuneration
	2017-18	2016-17	*2017-18	*2016-17	2017-18	2016-17
	£'000	£'000	£'000	£'000	£'000	£'000
Leslie Evans	165-170	160-165	22	28	185-190	190-195
Sarah Davidson	115-120	115-120	40	46	155-160	160-165
Graeme Dickson (1)	-	15-20	-	3	-	20-25
Liz Ditchburn (2)	115-120	110-115	30	124	145-150	230-235
Paul Gray	145-150	145-150	-	-	145-150	145-150
Paul Johnston	115-120	115-120	41	93	155-160	205-210
Alyson Stafford CBE	140-145	135-140	45	53	185-190	190-195
Ken Thomson	120-125	115-120	21	11	140-145	125-130
Gordon Wales (3)	105-110	15-20	29	23	130-135	40-45
Nicola Richards (4)	90-95	-	37	-	130-135	-
Barbara Allison (4)	95-100	-	15	-	110-115	-

\*Pension benefits are calculated as real increase in pension multiplied by 20 plus the real increase in any lump sum 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.

(1) Graeme Dickson left on 31 May 2016. The full year salary band was £115-£120k.

(2) Liz Ditchburn joined on 18 April 2016. The full year salary band was £115-120k.

(3) Gordon Wales joined on 30 January 2017 and he was Acting DG until the end of June 2017 when he became Chief Financial Officer. The full year salary band was £105-110k.

(4) Barbara Allison and Nicola Richards joined on 1<sup>st</sup> April 2017.

No members of the Scottish Government Corporate Board received benefits-in-kind.

In accordance with the FReM, reporting bodies are required to disclose the relationship between the remuneration of the highest-paid member of the Senior Management Team in their organisation and the median remuneration of the organisation's workforce. The median calculation includes directly employed staff paid through SG Core payroll. It covers both permanent staff and those on fixed term contracts. It does not include temporary agency staff paid locally by invoice, as these invoices are not processed through the payroll system. The ratio is calculated as the mid-point of the highest band divided by the median total remuneration.

The pay system within Scottish Government is such that there are a large number of staff on relatively few pay steps with significant gaps between some of them, resulting in a median pay figure occasionally changing markedly from one year to the next.

	<b>2017-18</b>	<b>2016-17</b>
	<b>£'000</b>	<b>£'000</b>
Minimum Total Remuneration	18	17
Maximum Total Remuneration	165	164
Band of Highest Paid member of the Corporate Board Total Remuneration (1)	165-170	160-165
Median Total Remuneration	34,764	31,811
Ratio	4.8	5.1

Equivalent information relating to senior managers of the other bodies consolidated within these accounts is given in their respective annual accounts.

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.

### *Non-Executive Directors*

#### *Remuneration*

Fees are paid on a quarterly basis for their position as Scottish Government Non-Executive Director.

#### *Benefit-in-Kind*

The monetary value of benefits-in-kind covers any benefits provided by the Scottish Government and treated by HM Revenue and Customs as a taxable emolument.

No Non-Executive Members of the Scottish Government Corporate Board received benefits-in-kind. The Non-Executive members do not participate in the Civil Service Pension Scheme.

The fees for the Non-Executive Directors who are members of the Scottish Government Corporate Board are as follows:

	<b>2017-18</b>	<b>2016-17</b>
	<b>Fees</b>	<b>Fees</b>
	<b>£'000</b>	<b>£'000</b>
Christina Allon (until September 2016)	-	5-10
Janet Hamblin (from September 2015)	5-10	5-10
Linda McKay	5-10	5-10
Ronnie Hinds (from October 2016)	5-10	0-5
Hugh McKay (from January 2018)	0-5	-
Annie Gunner Logan (from January 2018)	0-5	-

*Pension Benefits**Ministers and Law Officers*

The pension entitlements of the Cabinet Team for the year to 31 March 2018 are shown below:

	<b>Accrued pension at age 65 as at 31-Mar-18</b>	<b>Real increase in pension at age 65</b>	<b>CETV at 31-Mar-18</b>	<b>CETV at 31-Mar-17</b>	<b>Real Increase in CETV</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Nicola Sturgeon	20-25	0-2.5	278	241	21
John Swinney, MSP	10-15	0-2.5	170	147	14
Fiona Hyslop, MSP	10-15	0-2.5	170	147	14
Angela Constance, MSP	0-5	0-2.5	55	39	12
Shona Robison, MSP	10-15	0-2.5	161	139	13
Keith Brown, MSP	0-5	0-2.5	59	40	12
Michael Matheson, MSP	0-5	0-2.5	47	31	9
Roseanna Cunningham, MSP	0-5	0-2.5	75	51	16
Derek Mackay, MSP	0-5	0-2.5	21	10	7
Fergus Ewing, MSP	0-5	0-2.5	37	16	15

New factors are used in the calculator for the CETV values at the start and end of the period. This means CETV values shown at 31 March 2017 may not match those shown in last year's accounts.

*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, and not just their current appointment as a Minister. The Ministers are members of the Scottish Parliamentary Pension Scheme, full details of which are available from [www.sppa.gov.uk](http://www.sppa.gov.uk).

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 pension entitlements of the Law Officers are shown below:

	Accrued pension at pension age as at 31-Mar-18	Real increase in pension at pension age	CETV at 31-Mar-18	CETV at 31-Mar-17	Real Increase in CETV
	£'000	£'000	£'000	£'000	£'000
James Wolffe, QC *	5-10	2.5-5	83	36	33
Alison Di Rollo, QC *	0-5	2.5-5	74	32	29

\* On 2nd June 2016 James Wolffe QC and Alison Di Rollo QC superseded Frank Mulholland QC and Lesley Thomson QC as Lord Advocate and Solicitor General respectively.

### Senior Management Team

The pension entitlements of the Permanent Secretary and executive members of the Scottish Government Corporate Board are as follows (equivalent information relating to senior managers of other bodies consolidated within these accounts is given in their respective annual accounts):

	Accrued pension at pension age and related lump sum as at 31-Mar-18	Real increase in pension and related lump sum at pension age	CETV at 31-Mar-18	CETV at 31-Mar-17	Real Increase in CETV
	£'000	£'000	£'000	£'000	£'000
Leslie Evans	70-75 plus lump sum 210-215	0-2.5 plus lump sum 2.5-5	1,649	1,525	22
Sarah Davidson	35-40 plus lump sum 85-90	0-2.5 plus lump sum 0	566	514	15
Liz Ditchburn	35-40 plus lump sum 15-20	0-2.5 plus a lump sum 0	704	631	28
Paul Johnston	25-30 plus lump sum 65-70	2.5-5 plus lump sum 0	395	354	13
Alyson Stafford CBE	30-35	2.5-5	526	470	20
Ken Thomson	55-60	0-2.5	1,019	939	17
Gordon Wales	35-40 plus lump sum 100-105	0-2.5 plus lump sum 0-2.5	674	631	19
Nicola Richards	25-30 plus lump sum 15-20	0-2.5 plus lump sum 0-2.5	427	381	17
Barbara Allison	25-30 plus lump sum of 85-90	0-2.5 plus lump sum 2.5-5	631	578	13

Paul Gray, Director General for Health & Social Care, chose not to be covered by the Civil Service pension arrangements during the reporting year.

There is no automatic right to a lump sum for officials who are members of the Premium Pension Scheme or the Nuvos Pension Scheme.

New factors are used in the calculator for the CETV values at the start and end of the period. This means CETV values shown at 31 March 2017 may not match those shown in last year's accounts.

### *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 4.6% and 8.05% for members of **classic**, **premium**, **classic plus**, **nuvos** and **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 8% and 14.75% (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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium and classic plus**, 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](http://www.civilservicepensionscheme.org.uk)

### *Cash Equivalent Transfer Values for Civil Service pensions*

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

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

### *Real increase in CETV*

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

For 2017-18 Scottish Government employers' contributions of £61m (2016-17: £59m) were payable to PCSPS at one of four rates in the range 20% to 24.5% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

For 2017-18 the value of Scottish Government employers' contributions relating to the partnership pension account is £391k (2016-17: £384k). There were no contributions due to the partnership pension or prepaid at the balance sheet date.

## People and Culture

### Staff numbers and related costs

	No of Special Advisers	Perman- ent Staff	Other	2017-18 Total	Restated 2016-17 Total
<b>Staff numbers (Full time equivalent)</b>					
Finance and the Constitution	0	648	28	676	701
Health and Sport	0	144,437	2,123	146,560	145,292
Education and Skills	0	1,114	200	1,314	1,571
Economy, Jobs and Fair Work	0	248	26	274	259
Justice	0	4,597	19	4,616	4,648
Communities, Social Security and Equalities	0	611	67	678	527
Environment, Climate Change and Land Reform	0	132	3	135	119
Culture, Tourism and External Affairs	0	102	12	114	71
Rural Economy and Connectivity	0	1,859	240	2,099	2,128
Crown Office and Procurator Fiscal Service	0	1,464	134	1,598	1,617
Administration	14	1,153	111	1,278	1,301
SG Corporate Board	0	7	0	7	7
<b>Total</b>	<b>14</b>	<b>156,372</b>	<b>2,963</b>	<b>159,349</b>	<b>158,241</b>
				<b>2017-18 £'m</b>	<b>2016-17 £'m</b>
<b>Staff costs</b>					
Wages and Salaries (Permanent staff)				5,699	5,517
Social security costs (Permanent staff)				581	555
Other pension costs (Permanent staff)				767	749
<b>Sub-total</b>				<b>7,047</b>	<b>6,821</b>
Non-Permanent Staff (including Agency, temporary, contract staff and inward secondments)				215	284
<b>Total</b>				<b>7,262</b>	<b>7,105</b>
Less recoveries in respect of outward secondments				(45)	(37)
<b>Total net costs</b>				<b>7,217</b>	<b>7,068</b>

### Number and cost of exit packages

Exit Packages Cost Band	No of departures agreed 2017-18	Cost of exit packages 2017-18 £000	No of departures agreed 2016-17	Cost of exit packages 2016-17 £000
<£10,000	22	138	23	124
£10,000 to £25,000	17	269	50	834
£25,000 to £50,000	30	1,098	40	1,406
£50,000 to £100,000	15	1,047	31	2,174
£100,000 to £150,000	4	472	1	122
£150,000 to £200,000	0	0	0	0
£200,000 to £250,000	0	0	0	0
£250,000+	1	274	0	0
Total number / cost of exit packages	89	3,297	145	4,660

There were no compulsory redundancies in 2017-18 or 2016-17.

### *Staff Relations, Diversity and Equal Opportunities*

The Scottish Government corporate vision is to be a world-leading, diverse employer where people can be themselves at work. This is articulated clearly in our equality outcomes which state that we will increase our workforce diversity to reflect the general Scottish population by 2025; and will foster an inclusive workforce culture that values the contribution of employees from all backgrounds. Our approach to diversity and inclusion is being implemented through our People Plan which describes a collaborative and whole-systems approach to mainstreaming diversity and inclusion.

The Scottish Government supports the wider Civil Service Diversity and Inclusion Strategy in its drive to position the Civil Service as the most inclusive employer in the UK by 2020 through focusing actions across the twin priorities of increased representation and inclusion. As part of this, we have agreed challenging targets with UK Government Cabinet Office for disabled staff in the SCS grades. The Scottish Government is also committed to meeting its public sector duties under the Equality Act 2010.

Scottish Government has a number of arrangements in place to deliver on our equality outcomes. Our vision is being implemented through our People Plan which describes a collaborative and inclusive approach to delivering its work streams. Our Equal Opportunities policy states that all staff must be treated equally irrespective of their sex, marital/civil partnership status, age, race, ethnic origin, sexual orientation, disability, religion or belief, work pattern, employment status, gender identity (transgender), maternity or paternity status, caring responsibility or trade union membership.

Diversity and equality considerations underpin our employment policies and practices, and employment and promotion are solely on merit. Our recruitment approach carries positive action statements that welcome applications from all suitably qualified people, in particular those from under-represented groups, and we have made changes to our recruitment and promotion practices to remove any risk of discrimination wherever possible and to mitigate the impacts of unconscious bias. We are committed to developing all our staff, whilst ignoring all irrelevant differences in their management and development, and positively valuing the different perspectives and skills of all our staff and make full use of these in our work.

Policies are in place to guard against bullying, harassment and discrimination, to ensure that there is no unfair or unlawful discriminatory treatment or any barriers to employment or advancement in the Scottish Government.

Scottish Government has a dedicated Diversity & Inclusion team whose remit has recently been refreshed to position it as a central subject matter resource for policy areas and stakeholders and an enabler of others, empowering and working through internal D&I stakeholders to effect organisation-wide change that staff will see, hear and experience. Scottish Government has a number of staff diversity networks which play a key role in raising profile of lived experience, shifting perceptions and helping to shape inclusive policies and practices. We have appointed senior Champions who support staff networks and act as advocates, forging connections and supporting cultural change in the workplace to enable us all to be ourselves at work. In the past year we have implemented mutual mentoring between members of our Race Equality Network and Senior Civil Service.

The Scottish Government is committed to becoming an exemplar employer on LGBTI equality and inclusion. We have undertaken Stonewall's Role Models and Allies training for our staff and Champions and are currently refreshing our existing trans policy to create a comprehensive policy and support package for trans, intersex and non-binary staff and managers.

In 2017-18 an average of 7.6 working days (2016-17: 7.4) were lost per staff year for the Scottish Government. The NHS Bodies in Scotland report their sickness absence rates based on contracted hours lost rather than days lost due to different shift patterns in the NHS Scotland workforce. The sickness absence rate across NHS Scotland for the year to 31 March 2018 was 5.4% of total contracted hours (2016-17: 5.2% of total contracted hours). Sickness absence rates for agencies and other consolidated bodies can be found in their individually published annual accounts.

During 2017-18 there were 45,697 male staff, 148,017 female staff and 9 who prefer not to say. Within these totals were 1,619 male and 1,282 female Senior Civil Servants or equivalent. These are measured as head count numbers and not full time equivalents as used in the staff numbers table.

Facility time used by recognised trade union representatives of the Scottish Government has been reported for the period between 1 April 2017 and 31 July 2018<sup>26</sup>.

### *Employment of Disabled People*

The Scottish Government follows Civil Service good practice guidance on the employment of disabled people and has been awarded the Disability Confident Level 3 standard which recognises organisations' evidence of best practice in employing, retaining and developing disabled applicants and disabled staff. As such, the Scottish Government ensures that there is no discrimination on the grounds of disability and that access to employment and career advancement is based solely on merit, competence and suitability for the work.

The Scottish Government has also been awarded the Carers Kitemark for its policies and commitment to carers in the organisation and by carrying the "Happy to Talk Flexibly" strapline is open about the commitment to ensuring staff are able to work flexibly and have a positive work life balance.

Scottish Government is committed to reducing by half the employment gap between disabled and non-disabled people, and are developing a recruitment and retention plan to increase the proportion of disabled people in our workforce. This includes a programme of innovative work, in collaboration with disabled employees, to refresh our approach to reasonable adjustments and ensure that we design and deliver services that empower disabled people and remove unnecessary barriers in the workplace.

The average number of disabled employees employed by the Scottish Government, its Executive Agencies, Health Bodies and the Crown Office and Procurator Fiscal Service over the year to 31 March 2018 was 2,492 (2016-17: 1,791).

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<sup>26</sup> <https://beta.gov.scot/publications/facility-time-by-scottish-government-trade-union-representatives-transparency-data/>

## Losses and special payments

The following losses and special payments have been audited by the Scottish Government's auditors. Losses and special payments are in the nature of transactions which Parliament cannot be supposed to have contemplated when approving the annual Budget Act and subsequent Amendment Orders. The Scottish Public Finance Manual requires a formal approval procedure to regularise such transactions and their notation in the annual accounts.

### Losses Statement

	2017-18 No of Cases	2017-18 £m	Restated 2016-17 £m
<b>Portfolio</b>			
Finance and the Constitution	1	0.04	-
Health and Sport	4,551	3.64	3.11
Education and Skills	2	0.22	0.05
Economy, Jobs and Fair Work	1,395	4.44	1.67
Justice	534	0.06	0.48
Communities, Social Security and Equalities	1	0.002	-
Rural Economy and Connectivity	42	1.04	0.48
Culture, Tourism and External Affairs	1	0.01	-
Administration	19	0.01	0.20

Details of cases over £0.25m:

<b>Portfolio</b>	<b>Details</b>	<b>2017-18 £m</b>
Rural Economy and Connectivity	A grant to support the building of a new processing facility but the scheme was subsequently abandoned.	0.80
Economy, Jobs and Fair Work	In year write offs relating to current and historic cases.	2.38

There was one case over £0.25m in 2016/17.

## Special Payments

<b>Portfolio</b>	<b>2017-18 No of Cases</b>	<b>2017-18 £m</b>	<b>2016-17 £m</b>
Finance and the Constitution	15	0.02	0.03
Health and Sport	1,096	32.53	32.89
Justice	283	3.67	1.53
Rural Economy and Connectivity	-	-	0.03
Administration	25	0.14	0.02

Details of cases over £0.25m:

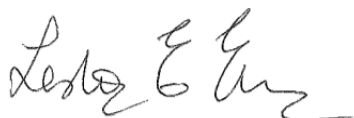
<b>Portfolio</b>	<b>2017-18 No of Cases</b>	<b>Details</b>	<b>2017-18 £m</b>	<b>2016-17 £m</b>
Health and Sport: NHS Boards:		Clinical Compensation Payments:		
	2	Ayrshire and Arran Health Board	2.27	0.5
	4	NHS Dumfries and Galloway	1.90	-
	2	Fife Health Board	2.76	3.17
	-	Forth Valley Health Board	-	3.02
	4	Grampian Health Board	2.02	0.83
	-	Greater Glasgow and Clyde Health Board	-	3.14
	-	NHS Highland	-	0.35
	4	Lanarkshire Health Board	1.89	2.60
	3	Lothian Health Board	1.29	2.04
	2	Tayside Health Board	0.80	0.54
	-	NHS 24	-	0.53
	-	Western Isles Health Board	-	0.27
Justice	1	Industrial Tribunal - non-operational staff claim	2.45	-

## Gifts

The Scottish Government made gifts in the year as follows:

<b>Portfolio</b>	<b>2017-18 No of Cases</b>	<b>2017-18 £m</b>	<b>2016-17 £m</b>
Administration	93	0.002	0.002

There were no cases over £0.25m in 2017/18 (2016/17: £nil).



**Principal Accountable Officer**  
**24 September 2018**



## *Report of the Auditor General for Scotland to the Scottish Parliament*

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This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### *Report on the audit of the financial statements*

#### *Opinion on financial statements*

I have audited the financial statements in the Scottish Government Consolidated Accounts for the year ended 31 March 2018 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Summary of Total Outturn, the Summary of Resource Outturn, the Summary of Capital Outturn, the eleven Portfolio Outturn Statements, the Consolidated Statement of Financial Position, the Consolidated Statements of Comprehensive Net Expenditure and Changes in Taxpayers' Equity, the Consolidated Cash Flow Statement, and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2017/18 Government Financial Reporting Manual (the 2017/18 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of affairs of the Scottish Government and the consolidation of the entities within the departmental accounting boundary as at 31 March 2018 and of the net resource outturn and resources applied to objectives for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

#### *Basis of opinion*

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Scottish Government in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my 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.

#### *Conclusions relating to going concern basis of accounting*

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Scottish Government has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to

adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### *Responsibilities of the Principal Accountable Officer for the financial statements*

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Principal Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Principal Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Principal Accountable Officer is responsible for using the going concern basis of accounting unless deemed inappropriate.

### *Auditor's responsibilities for the audit of the financial statements*

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. 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.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### *Other information in the Scottish Government Consolidated Accounts*

The Principal Accountable Officer is responsible for the other information in the Scottish Government Consolidated Accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, 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 except on certain matters to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the Scottish Government Consolidated Accounts 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

### *Report on regularity of expenditure and income*

#### *Opinion on regularity*

In my opinion in all material respects:

- the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

### *Responsibilities for regularity*

The Principal Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### *Report on other requirements*

#### *Opinions on other prescribed matters*

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

### *Matters on which I report by exception*

I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.



**Caroline Gardner**  
**Auditor General for Scotland**  
**102 West Port**  
**Edinburgh**  
**EH3 9DN**

**25 September 2018**

## Summary of Resource Outturn

2016-17 Outturn £m		Outturn £m	2017-18 Budget £m	Variance £m
<b>Programme Resources</b>				
87	Finance and the Constitution	64	70	(6)
12,875	Health and Sport	13,092	13,128	(36)
2,666	Education and Skills	2,831	2,921	(90)
302	Economy, Jobs and Fair Work	334	383	(49)
2,403	Justice	2,463	2,453	10
10,783	Communities, Social Security & Equalities	10,825	10,780	45
162	Environment, Climate Change and Land Reform	163	189	(26)
260	Culture, Tourism and External Affairs	263	274	(11)
2,041	Rural Economy and Connectivity	2,130	2,249	(119)
109	Crown Office and Procurator Fiscal Service	109	109	-
<b>31,688</b>	<b>Total Programme Outturn</b>	<b>32,274</b>	<b>32,556</b>	<b>(282)</b>
174	Administration	175	180	(5)
<b>31,862</b>	<b>TOTAL OUTTURN</b>	<b>32,449</b>	<b>32,736</b>	<b>(287)</b>

## Summary of Capital Outturn

2016-17 Outturn £m		Outturn £m	2017-18 Budget £m	Variance £m
<b>Programme Resources</b>				
4	Finance and the Constitution	2	4	(2)
478	Health and Sport	433	431	2
480	Education and Skills	519	544	(25)
18	Economy, Jobs and Fair Work	52	31	21
2	Justice	15	24	(9)
176	Communities, Social Security & Equalities	158	240	(82)
41	Environment, Climate Change and Land Reform	169	168	1
4	Culture, Tourism and External Affairs	-	-	-
794	Rural Economy and Connectivity	650	605	45
4	Crown Office and Procurator Fiscal Service	4	4	-
<b>2,001</b>	<b>Total Programme Outturn</b>	<b>2,002</b>	<b>2,051</b>	<b>(49)</b>
7	Administration	10	13	(3)
<b>2,008</b>	<b>TOTAL OUTTURN</b>	<b>2,012</b>	<b>2,064</b>	<b>(52)</b>

## Summary of Total Outturn

2016-17 Total Outturn £m	Resource Outturn £m	Capital Outturn £m	2017-18 Total Outturn £m	Budget £m	Variance £m
<b>Programme Resources</b>					
91	Finance and the Constitution	2	66	74	(8)
13,353	Health and Sport	433	13,525	13,559	(34)
3,146	Education and Skills	519	3,350	3,465	(115)
320	Economy, Jobs and Fair Work	52	386	414	(28)
2,405	Justice	15	2,478	2,477	1
10,959	Communities, Social Security & Equalities	158	10,983	11,020	(37)
203	Environment, Climate Change and Land Reform	169	332	357	(25)
264	Culture, Tourism and External Affairs	-	263	274	(11)
2,835	Rural Economy and Connectivity	650	2,780	2,854	(74)
113	Crown Office and Procurator Fiscal Service	4	113	113	-
<b>33,689</b>	<b>Total Programme Outturn</b>	<b>2,002</b>	<b>34,276</b>	<b>34,607</b>	<b>(331)</b>
181	Administration	10	185	193	(8)
<b>33,870</b>	<b>TOTAL OUTTURN</b>	<b>2,012</b>	<b>34,461</b>	<b>34,800</b>	<b>(339)</b>

## Financial performance and variance explanations

The Scottish Government has been aligned around the 5 Strategic Objectives that underpin the Purpose and describe a Scotland that is Wealthier and Fairer, Smarter, Healthier, Safer and Stronger and Greener. In order to monitor the progress in these key areas, the Scottish Government was set up in a portfolio structure. Performance by the chief operating decision maker is assessed by portfolio, not by strategic objectives. Major variances greater than £3m are explained in detail within the detailed portfolio outturn statements.

The detail of the total 2017-18 staff cost expenditure of £7,217m (2016-17: £7,068m) can be viewed within the Remuneration and Staff Report.

## Finance and the Constitution

## Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
	<b>Departmental Expenditure Limit (DEL)</b>						
18	Scottish Public Pensions Agency		18	-	18	18	-
69	Other Finance	1	47	1	46	52	(6)
<b>87</b>	<b>Total DEL</b>		<b>65</b>	<b>1</b>	<b>64</b>	<b>70</b>	<b>(6)</b>
<b>87</b>	<b>TOTAL RESOURCES</b>		<b>65</b>	<b>1</b>	<b>64</b>	<b>70</b>	<b>(6)</b>
4	Capital DEL - Additions		2	-	2	4	(2)
<b>4</b>	<b>TOTAL CAPITAL</b>		<b>2</b>	<b>-</b>	<b>2</b>	<b>4</b>	<b>(2)</b>
<b>91</b>	<b>TOTAL OUTTURN</b>		<b>67</b>	<b>1</b>	<b>66</b>	<b>74</b>	<b>(8)</b>

In addition to direct expenditure, the share of administration costs allocated to the Finance and the Constitution Portfolio is £5m (2016-17: £3m). This gives total net expenditure of £71m (2016-17: £94m).

**Explanation of Major Variances greater than £3m:**

Note 1 Savings against estimates for HMRC running costs associated with the Scottish income tax powers.

Remaining £2m consists of other minor variances across a number of programmes within the portfolio.

## Health and Sport

## Portfolio Outturn Statement for the Year Ended 31 March 2018

Restated 2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
12,483	Health and Sport	1	13,512	603	12,909	12,940	(31)
<b>12,483</b>	<b>Total DEL</b>		<b>13,512</b>	<b>603</b>	<b>12,909</b>	<b>12,940</b>	<b>(31)</b>
<b>Annually Managed Expenditure (AME)</b>							
360	Health		155	-	155	156	(1)
<b>360</b>	<b>Total AME</b>		<b>155</b>	<b>-</b>	<b>155</b>	<b>156</b>	<b>(1)</b>
<b>Other Expenditure (ODEL)</b>							
32	Health - Revenue-financed infrastructure	2	44	16	28	32	(4)
<b>32</b>	<b>Total ODEL</b>		<b>44</b>	<b>16</b>	<b>28</b>	<b>32</b>	<b>(4)</b>
<b>12,875</b>	<b>TOTAL RESOURCES</b>		<b>13,711</b>	<b>619</b>	<b>13,092</b>	<b>13,128</b>	<b>(36)</b>
433	Capital DEL - Additions	3	329	-	329	312	17
(32)	Capital DEL - Disposals/Repayments	3	(17)	-	(17)	-	(17)
77	Capital ODEL - Additions		121	-	121	119	2
<b>478</b>	<b>TOTAL CAPITAL</b>		<b>433</b>	<b>-</b>	<b>433</b>	<b>431</b>	<b>2</b>
<b>13,353</b>	<b>TOTAL OUTTURN</b>		<b>14,144</b>	<b>619</b>	<b>13,525</b>	<b>13,559</b>	<b>(34)</b>

In addition to direct expenditure, the share of administration costs allocated to the Health and Sport Portfolio is £nil (2016-17: £16m). This gives a total net expenditure of £13,525m (2016-17: £13,368m).

With effect from 2017-18, gross income and expenditure for the portfolio excludes income received from Integration Authorities on the basis that this presentation better reflects the funding relationship between Integration Authorities and NHS Boards. This adjustment has no impact on the portfolio's net outturn position. Income of £5,412m was received by Boards in 2017-18 (2016-17: £5,493m) for provision of healthcare services commissioned by Integration Authorities. NHS funding to Integration Authorities for 2017-18 totalled £5,486m (2016-17: £5,575m).

**Explanation of Major Variances greater than £3m:**

- Note 1 Minor variances across the portfolio, with expenditure on depreciation charges lower than anticipated (£17m) and agreed re-profiling of spend into the next financial year (£14m).
- Note 2 Higher than anticipated donated assets for NHS Boards.
- Note 3 Additional Health Boards capital expenditure supported by higher than anticipated capital income.

Remaining £1m consists of other minor variances across a number of programmes within the portfolio.

## Education and Skills

## Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
181	Learning		211	5	206	208	(2)
76	Children and Families	1	190	48	142	153	(11)
515	Higher Education Student Support	2	534	2	532	529	3
1,746	Scottish Funding Council (SFHEFC)	3	1,757	-	1,757	1,776	(19)
5	Advanced Learning and Science		5	-	5	5	-
226	Skills and Training	4	225	-	225	232	(7)
4	Central Government Grants to Local Authorities		125	-	125	125	-
<b>2,753</b>	<b>Total DEL</b>		<b>3,047</b>	<b>55</b>	<b>2,992</b>	<b>3,028</b>	<b>(36)</b>
<b>Annually Managed Expenditure (AME)</b>							
(87)	Higher Education Student Support	5	(109)	52	(161)	(107)	(54)
<b>(87)</b>	<b>Total AME</b>		<b>(109)</b>	<b>52</b>	<b>(161)</b>	<b>(107)</b>	<b>(54)</b>
<b>2,666</b>	<b>TOTAL RESOURCES</b>		<b>2,938</b>	<b>107</b>	<b>2,831</b>	<b>2,921</b>	<b>(90)</b>
2	Capital DEL - Additions	6	10	-	10	14	(4)
620	Capital AME - Additions	7	654	-	654	530	124
(142)	Capital AME - Disposals/Repayments	7	(145)	-	(145)	-	(145)
<b>480</b>	<b>TOTAL CAPITAL</b>		<b>519</b>	<b>-</b>	<b>519</b>	<b>544</b>	<b>(25)</b>
<b>3,146</b>	<b>TOTAL OUTTURN</b>		<b>3,457</b>	<b>107</b>	<b>3,350</b>	<b>3,465</b>	<b>(115)</b>

In addition to direct expenditure, the share of administration costs allocated to the Education and Skills Portfolio is £16m (2016-17: £15m). This gives a total net expenditure of £3,366m (2016-17: £3,161m).

**Explanation of Major Variances greater than £3m:**

Note 1	£6m variance as a result of Disclosure Scotland retaining the English & Welsh Basics disclosure check business beyond an expected completion date of September 2017, resulting in additional income. Further £3m in lower Early Learning And Childcare expansion and trials costs as the model continued to evolve during the course of the year. Other minor variances of £2m.
Note 2	Higher than anticipated uptake on demand-led student support budgets.
Note 3	Lower than anticipated Scottish Funding Council working capital requirement.
Note 4	£5m variance in respect of the Education Maintenance Allowance demand-led activity. Further minor variances in demand-led Employment and Training Support Initiatives programmes.
Note 5	Technical financial adjustment to the fair value of student loans as Retail Price Index increase over the course of the year were lower than expected.
Note 6	£2m of Disclosure Scotland value for money savings on their Transformation programme and other minor variances across the portfolio.
Note 7	Net Student Loan advances lower than expected (£509m vs £530m budget) as Student Loan cash repayments higher than forecast.

Remaining £2m consists of other minor variances across a number of programmes within the portfolio.

## Economy, Jobs and Fair Work

## Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
47	Parliamentary Business and Government Strategy	1	47	-	47	61	(14)
228	Enterprise and Energy	2	259	3	256	285	(29)
	- Accountant in Bankruptcy		13	12	1	1	-
17	Employability and Promoting Fair Work		35	-	35	36	(1)
2	European Social Fund 2014-20 Programmes		18	18	-	-	-
	European Regional Development Fund 2014-20						
	- Programmes		18	18	-	-	-
16	European Structural Funds - Closed Schemes	3	2	7	(5)	-	(5)
	2 ESF Programme Operation		-	-	-	-	-
<b>312</b>	<b>Total DEL</b>		<b>392</b>	<b>58</b>	<b>334</b>	<b>383</b>	<b>(49)</b>
<b>Annually Managed Expenditure (AME)</b>							
(9)	European Funds Programme Operation		-	-	-	-	-
(1)	Enterprise and Energy		-	-	-	-	-
<b>(10)</b>	<b>Total AME</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>302</b>	<b>TOTAL RESOURCES</b>		<b>392</b>	<b>58</b>	<b>334</b>	<b>383</b>	<b>(49)</b>
18	Capital DEL - Additions	4	52	-	52	31	21
<b>18</b>	<b>TOTAL CAPITAL</b>		<b>52</b>	<b>-</b>	<b>52</b>	<b>31</b>	<b>21</b>
<b>320</b>	<b>TOTAL OUTTURN</b>		<b>444</b>	<b>58</b>	<b>386</b>	<b>414</b>	<b>(28)</b>

In addition to direct expenditure, the share of administration costs allocated to the Economy, Jobs and Fair Work Portfolio is £9m (2016-17: £12m). This gives a total net expenditure of £395m (2016-17: £332m).

## Explanation of Major Variances greater than £3m:

Note 1	Variance due to agreed reprofiling of projects within Regional City Deals packages.
Note 2	£18 million due to lower than anticipated take-up of demand-led budgets including Local Energy Challenge Fund (LECF), Low Carbon Infrastructure Transition Programme (LCITP) and Community and Renewable Energy Scheme (CARES) and other demand-led current grant schemes. Further £11m as a result of lower than anticipated Scottish Enterprise working capital requirement mainly due to lower take-up of demand-led budgets in EIF Co-investment Fund.
Note 3	Grant recoveries in relation to ESF/ERDF 2007-13 Programmes.
Note 4	£19m of SG-administered loans to private companies funded from Financial Transactions. Remaining £2m in additional expenditure on Energy demand-led loan schemes, partially offset by lower than anticipated take-up of demand-led Renewable Energy Investment Fund (REIF) scheme.

Remaining £1m consists of other minor variances across a number of programmes within the portfolio.



## Justice

## Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
25	Community Justice Services	1	26	-	26	31	(5)
1	Judiciary		1	-	1	1	-
17	Criminal Injuries Compensation	2	14	-	14	18	(4)
146	Legal Aid		136	-	136	138	(2)
27	Police Central Government	3	53	2	51	62	(11)
4	Safer and Stronger Communities		12	7	5	5	-
372	Police and Fire Pensions	4	406	-	406	351	55
269	Scottish Prison Service	5	273	8	265	270	(5)
37	Miscellaneous	6	26	-	26	32	(6)
1,075	Scottish Police Authority		1,092	-	1,092	1,092	-
275	Scottish Fire and Rescue Service	7	284	-	284	288	(4)
88	Central Government Grants to Local Authorities		86	-	86	86	-
<b>2,336</b>	<b>Total DEL</b>		<b>2,409</b>	<b>17</b>	<b>2,392</b>	<b>2,374</b>	<b>18</b>
<b>Annually Managed Expenditure (AME)</b>							
(9)	Scottish Prison Service	8	(6)	-	(6)	1	(7)
<b>(9)</b>	<b>Total AME</b>		<b>(6)</b>	<b>-</b>	<b>(6)</b>	<b>1</b>	<b>(7)</b>
<b>Other Expenditure (ODEL)</b>							
71	Scottish Prison Service		72	-	72	73	(1)
5	Scottish Police Authority Loan Charges		5	-	5	5	-
<b>76</b>	<b>Total ODEL</b>		<b>77</b>	<b>-</b>	<b>77</b>	<b>78</b>	<b>(1)</b>
<b>2,403</b>	<b>TOTAL RESOURCES</b>		<b>2,480</b>	<b>17</b>	<b>2,463</b>	<b>2,453</b>	<b>10</b>
2	Capital DEL - Additions	9	15	-	15	24	(9)
<b>2</b>	<b>TOTAL CAPITAL</b>		<b>15</b>	<b>-</b>	<b>15</b>	<b>24</b>	<b>(9)</b>
<b>2,405</b>	<b>TOTAL OUTTURN</b>		<b>2,495</b>	<b>17</b>	<b>2,478</b>	<b>2,477</b>	<b>1</b>

In addition to direct expenditure, the share of administration costs allocated to the Justice Portfolio is £8m (2016-17: £8m). This gives total net expenditure of £2,486m (2016-17: £2,413m).

## Explanation of Major Variances greater than £3m:

Note 1	Demand-led electronic monitoring and Intensive Support Packages expenditure lower than anticipated.
Note 2	Fall in Scottish caseload reflecting reduction in levels of both crime and compensation awarded.
Note 3	Revised timing of transformation projects aligned to the Policing 2026 Strategy.
Note 4	Variance due to demand-led activity within Police and Fire Pensions linked to the level of retirees.
Note 5	Variance due to maintenance and repairs savings (£3m) and lower than anticipated level of staff-related provisions (£1m)
Note 6	Mainly due to revised timing of projects including £4m within Victim/Witness Support with further £1m as a result of lower than anticipated payments of compensation for miscarriage of justice.
Note 7	Lower than anticipated Scottish Fire and Rescue Service working capital requirement reflecting the ability to reclaim VAT earlier than expected.
Note 8	Variance due to the movement in the indices used to value specialised and non-specialised properties across Prison estate.
Note 9	£7m variance following the revised timing of UK Government-led projects within the Emergency Services Mobile Communications Programme along with other minor variances across the portfolio including the ability to reclaim VAT earlier than expected.

Remaining £3m consists of other minor variances across a number of programmes within the portfolio.

**Communities, Social Security and Equalities**  
Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
7,349	Local Government	1	7,452	-	7,452	7,414	38
4	Planning		8	2	6	6	-
22	Third Sector		21	-	21	23	(2)
1	Local Governance and Elections		1	-	1	1	-
24	Equalities		25	-	25	24	1
456	Housing	2	495	15	480	462	18
1	Social Security	3	12	-	12	16	(4)
47	Social Justice and Regeneration	4	57	-	57	62	(5)
105	Central Government Grants to Local Authorities		106	-	106	106	-
<b>8,009</b>	<b>Total DEL</b>		<b>8,177</b>	<b>17</b>	<b>8,160</b>	<b>8,114</b>	<b>46</b>
<b>Annually Managed Expenditure (AME)</b>							
2,768	Non-Domestic Rates		2,666	-	2,666	2,666	-
6	Housing		(1)	-	(1)	-	(1)
<b>2,774</b>	<b>Total AME</b>		<b>2,665</b>	<b>-</b>	<b>2,665</b>	<b>2,666</b>	<b>(1)</b>
<b>10,783</b>	<b>TOTAL RESOURCES</b>		<b>10,842</b>	<b>17</b>	<b>10,825</b>	<b>10,780</b>	<b>45</b>
219	Capital DEL - Additions	5	210	-	210	240	(30)
(43)	Capital DEL - Disposals/Repayments	5	(52)	-	(52)	-	(52)
<b>176</b>	<b>TOTAL CAPITAL</b>		<b>158</b>	<b>-</b>	<b>158</b>	<b>240</b>	<b>(82)</b>
<b>10,959</b>	<b>TOTAL OUTTURN</b>		<b>11,000</b>	<b>17</b>	<b>10,983</b>	<b>11,020</b>	<b>(37)</b>

In addition to direct expenditure, the share of administration costs allocated to the Communities, Social Security and Equalities Portfolio is £28m (2016-17: £26m). This gives a total net expenditure of £11,011m (2016-17: £10,985m).

**Explanation of Major Variances greater than £3m:**

Note 1	£35m of additional funding to local authorities announced during the 2018-19 Budget Bill process. £2m of additional expenditure on Customer First programme and other minor variances of £1m.
Note 2	£18m of additional housing receipts classified as capital (see also Note 5).
Note 3	Rephasing of Social Security Scotland set-up costs.
Note 4	Variance in relation to the Empowering Communities Fund due to delayed start of the Aspiring Communities Fund (ESF Tackling Poverty Strategic Intervention). This is a new fund for 2018, which attracts EU funding. Applications for funding are assessed against relevant EU/ESF criteria which added to the approval processing time, leading to recipients not being offered grants until late in the year.
Note 5	Variance primarily due to the demand-led nature of the housing related loan schemes. The key area that this relates to is the Infrastructure Loan Fund which was introduced in 2016-17. The scheme is dependent upon eligible sites becoming available. The underspend of £37m was partially redirected to the LAR Housing Trust who agreed to accelerate spend (£13m), and to the Open Market Shared Equity scheme covering the higher than anticipated demand (£3m). Other schemes where demand was lower than anticipated include Home Energy Efficiency Programmes Scotland (HEEPS) of £21m, Mid Market Rent of £10m and Help to Buy of £7m. Further underspends of £5m across a range of schemes within Housing and Social Justice & Regeneration. Additional £18m as a result of the reclassification of housing receipts (see also Note 2).

Remaining £2m consists of other minor variances across a number of programmes within the portfolio.

**Environment, Climate Change and Land Reform**  
Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	Programme	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
62	Research, Analysis and Other Services		61	-	61	63	(2)
53	Marine		62	8	54	55	(1)
127	Environmental Services	1	129	-	129	146	(17)
15	Climate Change & Land Managers Renewables Fund	2	16	-	16	20	(4)
(95)	Scottish Water		3	101	(98)	(96)	(2)
<b>162</b>	<b>Total DEL</b>		<b>271</b>	<b>109</b>	<b>162</b>	<b>188</b>	<b>(26)</b>
<b>Annually Managed Expenditure (AME)</b>							
-	Marine		1	-	1	1	-
-	<b>Total AME</b>		<b>1</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>
<b>162</b>	<b>TOTAL RESOURCES</b>		<b>272</b>	<b>109</b>	<b>163</b>	<b>189</b>	<b>(26)</b>
39	Capital DEL - Voted Loans		167	-	167	167	-
2	Capital DEL - Additions		2	-	2	1	1
<b>41</b>	<b>TOTAL CAPITAL</b>		<b>169</b>	<b>-</b>	<b>169</b>	<b>168</b>	<b>1</b>
<b>203</b>	<b>TOTAL OUTTURN</b>		<b>441</b>	<b>109</b>	<b>332</b>	<b>357</b>	<b>(25)</b>

In addition to direct expenditure, the share of administration costs allocated to the Environment, Climate Change and Land Reform Portfolio is £6m (2016-17: £5m). This gives a total net expenditure of £338m (2016-17: £208m).

**Explanation of Major Variances greater than £3m:**

- Note 1      £6m as a result of lower than anticipated Zero Waste funding requirements for circular economy investment fund and waste implementation fund.  
£3m following lower than anticipated uptake on demand-led Land Reform schemes with further £3m following the extension of timescale to complete the Isle of Ulva acquisition to 2018-19.  
£3m of Scottish National Heritage Peatland Restoration project expenditure deferred due to severe winter weather.  
Additional £2m made up of miscellaneous minor underspends across a range of programmes.
- Note 2      £2m variance as a result of lower than anticipated uptake on demand-led Land Managers Renewables Fund due to a reduction in UK Government subsidies.  
Additional £2m following lower than anticipated level of claims from Local Authorities for Private Water schemes and other minor variances.

Remaining £4m consists of other minor variances across a number of programmes within the portfolio.

**Culture, Tourism and External Affairs**  
*Portfolio Outturn Statement for the Year Ended 31 March 2018*

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
	12 External Affairs		15	-	15	16	(1)
	207 Culture, Tourism and Major Events	1	211	-	211	221	(10)
	41 Historic Environment Scotland		37	-	37	37	-
	<b>260 Total DEL</b>		<b>263</b>	<b>-</b>	<b>263</b>	<b>274</b>	<b>(11)</b>
	<b>260 TOTAL RESOURCES</b>		<b>263</b>	<b>-</b>	<b>263</b>	<b>274</b>	<b>(11)</b>
	4 Capital DEL - Additions		-	-	-	-	-
	<b>4 TOTAL CAPITAL</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>264 TOTAL OUTTURN</b>		<b>263</b>	<b>-</b>	<b>263</b>	<b>274</b>	<b>(11)</b>

In addition to direct expenditure, the share of administration costs allocated to the Culture, Tourism and External Affairs Portfolio is £4m (2016-17: £5m). This gives a total net expenditure of £267m (2016-17: £269m).

**Explanation of Major Variances greater than £3m:**

Note 1      £5m variance following the agreed reprofiling of 2018 European Championships expenditure into 2018-19. Further £5m due to the lack of Financial Transactions expenditure requirement in 2017-18.

Remaining £1m consists of other minor variances across a number of programmes within the portfolio.

**Rural Economy and Connectivity**  
Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
160	EU Support and Related Services	1	647	527	120	148	(28)
4	Fisheries	2	20	17	3	6	(3)
32	Rural Services	3	38	-	38	34	4
62	Highlands and Islands Enterprise		70	-	70	70	-
738	Rail Services	4	762	-	762	748	14
250	Concessionary Fares and Bus Services		254	1	253	255	(2)
105	Other Transport Policy, Projects and Agency Administration	5	180	-	180	170	10
284	Motorways and Trunk Roads	6	285	3	282	295	(13)
185	Ferry Services	7	187	5	182	175	7
38	Air Services	8	44	1	43	40	3
82	Digital Connectivity	9	69	5	64	126	(62)
22	Central Government Grants to Local Authorities		27	-	27	27	-
<b>1,962</b>	<b>Total DEL</b>		<b>2,583</b>	<b>559</b>	<b>2,024</b>	<b>2,094</b>	<b>(70)</b>
<b>Annually Managed Expenditure (AME)</b>							
6	EU Support and Related Services	10	(4)	-	(4)	4	(8)
-	Provision for Road Improvement	11	-	-	-	20	(20)
<b>6</b>	<b>Total AME</b>		<b>(4)</b>	<b>-</b>	<b>(4)</b>	<b>24</b>	<b>(28)</b>
<b>Other Expenditure</b>							
-	Animal License Fees		-	-	-	-	-
73	Motorways and Trunk Roads PPP/PFI	12	110	-	110	131	(21)
<b>73</b>	<b>Total Other Expenditure</b>		<b>110</b>	<b>-</b>	<b>110</b>	<b>131</b>	<b>(21)</b>
<b>2,041</b>	<b>TOTAL RESOURCES</b>		<b>2,689</b>	<b>559</b>	<b>2,130</b>	<b>2,249</b>	<b>(119)</b>
880	Capital DEL - Additions	13	885	-	885	600	285
(245)	Capital DEL - Disposals/Repayments	13	(236)	-	(236)	-	(236)
2	Capital AME - Additions	14	(4)	-	(4)	-	(4)
157	Capital ODEL - Additions		5	-	5	5	-
<b>794</b>	<b>TOTAL CAPITAL</b>		<b>650</b>	<b>-</b>	<b>650</b>	<b>605</b>	<b>45</b>
<b>2,835</b>	<b>TOTAL OUTTURN</b>		<b>3,339</b>	<b>559</b>	<b>2,780</b>	<b>2,854</b>	<b>(74)</b>

In addition to direct expenditure, the share of administration costs allocated to the Rural Economy and Connectivity Portfolio is £2m (2016-17: £18m). This gives a total net expenditure of £2,782m (2016-17: £2,853m).

**Explanation of Major Variances greater than £3m:**

Note 1	£24m variance due to a change in the Less Favoured Area Support Scheme co-financing rate with a higher EU rate and a lower National rate of spend. Further variances of £2m in lower than anticipated CAP Futures IT impairments and £2m made up of miscellaneous minor underspends across a range of programmes.
Note 2	£2m in lower than anticipated Harbour Grant payments, alongside higher than expected EU income received.
Note 3	£4m variance relating to legal cases.
Note 4	Advanced revenue support for Abellio of £10m with further £4m increase in subsidy as a result of inflation.
Note 5	£14m of additional funding for Strathclyde Partnership for Transport for Glasgow subway modernisation, partially offset by miscellaneous savings across various projects.
Note 6	£23m variance as a result of lower than anticipated roads' depreciation partially offset by £10m of additional severe weather payments to Local Authorities.
Note 7	£6m of additional contribution to Calmac Pension Scheme compared to that previously agreed in respect of an increase in the valuation of the deficit to be addressed and £1m of additional expenditure on Ferry Services contracts.
Note 8	Variance reflects £2m of additional capital grant to support in-year asset maintenance pressures within Highlands and Islands Airports and £1m of additional resource costs arising from winter de-icer requirements and the Air Discount Scheme.
Note 9	£60m as a result of reprofiling of R100 superfast broadband programme procurement, which will now fall into future years. The remaining £2m is made up of miscellaneous minor underspends.
Note 10	Lower than anticipated Agriculture and Rural Economy provisions and asset impairments, including the release of exchange rate loss provision.
Note 11	Lower than anticipated Transport Scotland provisions and asset impairments.
Note 12	Variance of £28m following the deferral of unitary charges on Aberdeen Western Peripheral Route partially offset by £2m in additional VAT and £5m in shadow toll payments on M6 (M74) Design, Build, Finance, and Operate scheme.
Note 13	Net variance of £49m, comprising: £133m of increased funding support for CAP Basic Payment Scheme farmers' loans due to be repaid in 2018-19, partially offset by £6m underspend as a result of programme reprofiling for CAP Compliance IT project. £80m variance in Transport Scotland made up of expenditure reprofiling of £11m on Forth Replacement Crossing, £11m on Haudagain Junction, £11m on Aberdeen Western Peripheral Route/Balmedie-Tipperty, £6m on A9 dualling, £3m on A96 dualling, £4m on Dalry Bypass and £8m on other road schemes; £23m of capital expenditure reclassification and £52m underspend on scheme development partially offset by additional expenditure to secure vessels on Northern Isles routes and additional loan support for vessel construction of £49m. £2m loan provided to Peterhead Port Authority to support the upgrade of Peterhead Harbour.
Note 14	Release of prior year capital provisions no longer required.

Remaining £2m consists of other minor variances across a number of programmes within the portfolio.

**The Crown Office and Procurator Fiscal Service**  
*Portfolio Outturn Statement for the Year Ended 31 March 2018*

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
<b>Staff Costs</b>							
71	The Crown Office and Procurator Fiscal Service		74	-	74	73	1
1	Other		-	-	-	-	-
<b>Administration Expenditure</b>							
9	Accommodation		9	-	9	9	-
1	Travel/Transport		1	-	1	1	-
15	Legal		13	-	13	13	-
5	Supplies and Services		4	-	4	4	-
5	Capital Charges		4	-	4	4	-
2	Other Office Costs		3	-	3	4	(1)
<b>109</b>	<b>Total DEL</b>		<b>108</b>	<b>-</b>	<b>108</b>	<b>108</b>	<b>-</b>
<b>Annually Managed Expenditure (AME)</b>							
-	Impairment		1	-	1	1	-
-	<b>Total AME</b>		<b>1</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>
<b>109</b>	<b>TOTAL RESOURCES</b>		<b>109</b>	<b>-</b>	<b>109</b>	<b>109</b>	<b>-</b>
4	Capital DEL - Additions		4	-	4	4	-
<b>4</b>	<b>TOTAL CAPITAL</b>		<b>4</b>	<b>-</b>	<b>4</b>	<b>4</b>	<b>-</b>
<b>113</b>	<b>TOTAL OUTTURN</b>		<b>113</b>	<b>-</b>	<b>113</b>	<b>113</b>	<b>-</b>

**Explanation of Major Variances greater than £3m:**

There are a number of minor variances across a range of programmes within COPFS.

## Administration

## Portfolio Outturn Statement for the Year Ended 31 March 2018

2016-17 Outturn £m	PROGRAMME	Variance Note	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
<b>Departmental Expenditure Limit (DEL)</b>							
<b>Staff Costs</b>							
141	Directly Employed Staff		138	-	138	139	(1)
7	Seconded Staff Costs		6	-	6	7	(1)
1	Other Staff Costs		1	-	1	1	-
(4)	VAT		-	-	-	-	-
<b>Administration Expenditure</b>							
14	Accommodation		11	-	11	11	-
2	Travel		3	-	3	2	1
-	Transport		1	-	1	1	-
1	Legal		-	-	-	1	(1)
2	Supplies and Services		1	-	1	2	(1)
2	Training		2	-	2	2	-
1	Audit Fee		1	-	1	1	-
13	Capital Charges & Impairments		13	-	13	15	(2)
13	Other Office		15	-	15	15	-
<b>Administration Income</b>							
(1)	Accommodation Charges		-	1	(1)	(1)	-
(8)	Staff Secondments and Other Staff Income		-	7	(7)	(8)	1
(6)	Fees and Charges		-	4	(4)	(5)	1
(2)	Miscellaneous Income		-	4	(4)	(3)	(1)
<b>176</b>	<b>Total DEL</b>		<b>192</b>	<b>16</b>	<b>176</b>	<b>180</b>	<b>(4)</b>
<b>Annually Managed Expenditure (AME)</b>							
(2)	Provisions and Impairments		(1)	-	(1)	-	(1)
<b>(2)</b>	<b>Total AME</b>		<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<b>174</b>	<b>TOTAL RESOURCES</b>		<b>191</b>	<b>16</b>	<b>175</b>	<b>180</b>	<b>(5)</b>
7	Capital DEL - Additions	1	10	-	10	13	(3)
<b>7</b>	<b>TOTAL CAPITAL</b>		<b>10</b>	<b>-</b>	<b>10</b>	<b>13</b>	<b>(3)</b>
<b>181</b>	<b>TOTAL OUTTURN</b>		<b>201</b>	<b>16</b>	<b>185</b>	<b>193</b>	<b>(8)</b>

The administration costs that can be directly allocated to portfolios amount to £76m (2016-17: £108m).

#### Explanation of Major Variances greater than £3m:

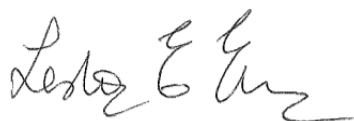
Note 1 Variance due to the re-prioritisation of IT projects and unavoidable delays in timescales for a building project.

Remaining £5m consists of other minor variances across a number of programmes within the portfolio.

**Consolidated Statement of Financial Position***As at 31 March 2018*

2016-17 £m		Note	2017-18 £m
	<b>Non-Current Assets</b>		
28,562	Property, Plant and Equipment	5a	29,380
159	Intangible Assets	6	174
	Other Financial Assets Including Investments Due In More Than One		
7,668	Year	9a	8,496
48	Trade Receivables and Other Assets Due in More Than One Year	11	104
<b>36,437</b>	<b>Total Non-Current Assets</b>		<b>38,154</b>
	<b>Current Assets</b>		
106	Inventories	8	106
1,229	Receivables and Other Current Assets	11	1,333
625	Cash and Cash Equivalents	2	585
	Other Financial Assets Including Investments Due Within One Year		
433	Assets Classified as Held for Sale	9a	595
25		7	17
<b>2,418</b>	<b>Total Current Assets</b>		<b>2,636</b>
<b>38,855</b>	<b>Total Assets</b>		<b>40,790</b>
	<b>Current Liabilities</b>		
(3,117)	Payables and Other Current Liabilities	12	(3,352)
(32)	Other Financial Liabilities Due Within One Year	12	(35)
(244)	Provisions for Liabilities and Charges Due Within One Year	13a	(179)
<b>(3,393)</b>	<b>Total Current Liabilities</b>		<b>(3,566)</b>
<b>35,462</b>	<b>Total Assets less Current Liabilities</b>		<b>37,224</b>
	<b>Non-Current Liabilities</b>		
(2,946)	Payables and Other Liabilities	12	(3,166)
(641)	Other Financial Liabilities Due in More Than One Year	12	(607)
(704)	Provisions for Liabilities and Charges Due in More Than One Year	13a	(845)
<b>(4,291)</b>	<b>Total Non-Current Liabilities</b>		<b>(4,618)</b>
<b>31,171</b>	<b>Assets less Liabilities</b>		<b>32,606</b>
	<b>Taxpayers' Equity</b>		
21,064	General Fund	SoCTE	22,612
10,107	Revaluation Reserve	SoCTE	9,994
<b>31,171</b>	<b>Total Taxpayers' Equity</b>		<b>32,606</b>

The notes on pages 68 to 121 form part of these accounts



**Principal Accountable Officer**  
24 September 2018



**Consolidated Statements of Comprehensive Net Expenditure  
and Changes in Taxpayers' Equity**  
*For the year ended 31 March 2018*

	Note	General Fund £m	Revaluation Reserve £m	Total £m
<b>Balance at 1 April 2017</b>		<b>21,064</b>	<b>10,107</b>	<b>31,171</b>
Net operating cost for the year		<b>(32,449)</b>	-	(32,449)
Net gain/(loss) on revaluation/indexation of property, plant and equipment		-	399	399
<b>Total Comprehensive Net Expenditure</b>		<b>(32,449)</b>	<b>399</b>	<b>(32,050)</b>
<b>Non Cash Charges</b>				
Non cash charges - auditor's remuneration		2	-	2
Non cash charges - NHS adjustment		16	-	16
Non cash charges - Roads adjustment		(8)	-	(8)
<b>Total Non Cash Charges</b>		<b>10</b>	-	<b>10</b>
<b>Other Reserve Movements</b>				
Transfers between reserves		512	(512)	-
Net movement on investment funds		4	-	4
<b>Total Other Reserve Movements/Adjustments</b>		<b>516</b>	<b>(512)</b>	<b>4</b>
<b>Funding</b>				
Parliamentary Funding		33,968	-	33,968
Less funding to pensions schemes		(406)	-	(406)
Less funding to National Records of Scotland, Office of Scottish Charity Regulator, Scottish Courts and Tribunals Service, Revenue Scotland, Scottish Fiscal Commission and Scottish Housing Regulator		(132)	-	(132)
<b>Net parliamentary funding drawn down</b>		<b>33,430</b>	-	<b>33,430</b>
Movement of balance with the SCF		41	-	41
<b>Net Funding Position</b>		<b>33,471</b>	-	<b>33,471</b>
Net increase/(decrease) in year		1,548	(113)	1,435
<b>Balance at 31 March 2018</b>		<b>22,612</b>	<b>9,994</b>	<b>32,606</b>

**Explanation of Reserves:**

**General Fund** – The General Fund represents the total assets less liabilities of the Scottish Government, to the extent that they are not represented by the revaluation reserve and financing items.

**Revaluation Reserve** – The Revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

**Consolidated Statements of Comprehensive Net Expenditure  
and Changes in Taxpayers' Equity**  
*For the year ended 31 March 2017*

	Note	General Fund £m	Revaluation Reserve £m	Total £m
<b>Balance as at 1 April 2016</b>		<b>20,623</b>	<b>9,558</b>	<b>30,181</b>
Net operating cost for the year		(31,862)	-	<b>(31,862)</b>
Net gain/(loss) on revaluation/indexation of property, plant and equipment		-	771	<b>771</b>
<b>Total Comprehensive Expenditure</b>		<b>(31,862)</b>	<b>771</b>	<b>(31,091)</b>
<b>Non Cash Charges</b>				
Non cash charges - auditor's remuneration	3a	2	-	2
Non cash charges - NHS adjustment		(10)	-	(10)
<b>Total Non Cash Charges</b>		<b>(8)</b>	<b>-</b>	<b>(8)</b>
<b>Other Reserve Movements</b>				
Transfer of fixed assets (to)/from other bodies		(3)	5	2
Transfers between reserves		222	(222)	-
Non-current asset adjustments		5	(5)	-
Roads historic value adjustment		(125)	-	(125)
Prior Year Adjustments		9	-	9
Net movement on investment funds		2	-	2
<b>Total Other Reserve Movements/Adjustments</b>		<b>110</b>	<b>(222)</b>	<b>(112)</b>
<b>Funding</b>				
Parliamentary Funding		33,189	-	33,189
Less funding to pensions schemes		(347)	-	(347)
Less funding to NRS, OSCR, Scottish Courts and Tribunals Service, Revenue Scotland and Scottish Housing Regulator		(140)	-	(140)
<b>Net parliamentary funding drawn down</b>		<b>32,702</b>	<b>-</b>	<b>32,702</b>
Movement of balance with the SCF		(489)	-	(489)
Movement in working capital		(12)	-	(12)
<b>Net Funding Position</b>	22	<b>32,201</b>	<b>-</b>	<b>32,201</b>
Net increase/(decrease) in year		441	549	990
<b>Balance at 31 March 2017</b>		<b>21,064</b>	<b>10,107</b>	<b>31,171</b>

**Explanation of Reserves:**

**General Fund** – The General Fund represents the total assets less liabilities of the Scottish Government, to the extent that they are not represented by the revaluation reserve and financing items.

**Revaluation Reserve** – The Revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

**Consolidated Statement of Cash Flows**  
For the year ended 31 March 2018

2016-17 £m	Note	2017-18 £m
(30,636) Net cash outflow from operating activities	(A)	(31,814)
(1,785) Net cash outflow from investment activities	(B)	(1,830)
(29) Payments to the SCF	(D)	150
32,941 Cash flows from financing activities	(C)	33,454
<b>491 Increase/(Decrease) in cash in the period</b>		<b>(40)</b>
<b>(A) Reconciliation of operating costs to operating cash flows</b>		
(31,862) Net operating cost	SoCTE	(32,449)
30 Income not applied	4a	7
557 Adjust for non-cash transactions	3a	590
158 Add back: interest payable for financing	4d	187
(4) (Increase)/decrease in inventories	3d	-
(108) (Increase)/decrease in receivables and other current assets	3d	(408)
168 Increase/(decrease) in trade and other payables	3d	268
511 Increase/(decrease) in provisions	3d	98
(86) Interest receivable	4c	(107)
<b>(30,636) Net cash outflow from operating activities</b>		<b>(31,814)</b>
<b>(B) Analysis of cash flows from investment activities</b>		
(955) Purchase of property, plant and equipment		(804)
(46) Purchase of intangible assets		(54)
47 Proceeds of disposal of property, plant and equipment		12
1 Proceeds of disposal of assets held for sale		8
(1,587) Advances of Investments	3d, 9a	(1,547)
725 Repayments of Investments	3d, 9a	524
30 NLF Loans	9a	31
<b>(1,785) Net cash outflow from investment activities</b>		<b>(1,830)</b>
<b>(C) Analysis of cash flows from financing activities</b>		
32,702 From Scottish Consolidated Fund	SoCTE	33,430
(12) Funding of NHS working capital	SoCTE	-
(24) Loan transactions with the National Loans Fund	9a	(30)
352 Capital elements of payments in respect of finance leases and NPD/PPP/PFI contracts included in SoFP		136
81 Interest received		107
Interest element of finance leases and NPD/PPP/PFI contracts included in SoFP		(185)
(2) Interest paid		(4)
<b>32,941 Cash flows from financing activities</b>		<b>33,454</b>
<b>(491) Decrease/(Increase) in cash and cash equivalents</b>	2	<b>40</b>
<b>32,450 Net cash and cash equivalents requirement</b>		<b>33,494</b>

(D) Payments to the Scottish Consolidated Fund (SCF) represent the income not applied, £7m (Note 4b) less the decrease in balances receivable from the SCF of £157m (Note 11).

## NOTES TO THE ACCOUNTS

*For the Year Ended 31 March 2018*

### 1. *Statement of Accounting Policies*

In accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 these financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

The accounts are prepared using accounting policies, and, where necessary, estimation techniques, which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles set out in International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors. Changes in accounting policies which do not give rise to a prior year adjustment are reported in the relevant note.

The particular accounting policies adopted by the portfolios of the Scottish Government are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 *Accounting Convention and basis of consolidation*

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment (PPE), intangible assets, and, where material, financial asset investments and inventories to fair value as determined by reference to their current costs.

These accounts reflect the consolidated assets and liabilities and the results for the year of all the entities within the Scottish Government accounting consolidation boundary. The structure of the Scottish Government and further information about the entities within the consolidation boundary is provided within the introduction of the Performance Report of these accounts.

The Executive Agencies detailed within the Performance Report mentioned above are reported within the Outturn Statements of their sponsoring portfolio.

#### 1.2 *Property, Plant and Equipment (PPE)*

##### *Recognition*

All PPE assets will be accounted for as non-current assets unless they are deemed to be held-for-sale (see note 1.3 below), and will be accounted for under IAS16 Property, Plant and Equipment.

Scottish Ministers hold the legal title or effective control over all land and buildings shown in the accounts.

Assets classified as under construction are recognised in the statement of financial position to the extent that money has been paid or a liability has been incurred.

## Capitalisation

The minimum levels for capitalisation of a property, plant or equipment asset are land and buildings £10,000 and equipment and vehicles £5,000. Information and Communications Technology (ICT) systems are capitalised where the pooled value exceeds £1,000. Substantial improvements to leasehold properties are also capitalised. Furniture, fixtures and fittings are treated as current expenditure and are not capitalised. Any assets valued below these thresholds will be treated as expenditure in the year of purchase.

## Valuation

Land and buildings have been stated at open market value for existing use or, under IAS 16 as adapted for the public sector, depreciated replacement cost for specialised buildings under a rolling 5-year programme of professional valuations and appropriate indices in intervening years. Other plant and equipment assets, other than vessels and aircraft are reported at depreciated historic cost.

Losses in value reflected in valuations are accounted for in accordance with IAS 36, Impairment of Assets as adapted by the FReM which states that impairment losses that arise from a clear consumption of economic benefit should be taken to the outturn statement. The balance on any revaluation reserve (up to the level of impairment) to which the impairment would have been charged under IAS 36 should be transferred to the general fund.

The road network is valued at depreciated replacement cost as it is deemed to be specialist in nature. The road pavement element is valued using agreed rates determined to identify the gross replacement cost of applicable types of road on the basis of new construction on a greenfield site. These rates are re-valued annually using indices to reflect current prices and are also updated when new construction costs become available as comparators to the costs previously identified for specific road types.

Structures are valued using agreed rates determined to identify the replacement cost of applicable types of structure on the basis of new construction on a greenfield site where these are available, but special structures, which tend to be one off by their nature, are valued using specific costs that are updated to current prices. Communications are valued using agreed rates determined to identify the replacement cost of applicable types of communication.

The indexation factors applied are:

- Road Pavement and Structures      Baxter Index, published quarterly by the Department of Business, Innovation and Skills
- Communications      Traffic Scotland provide new gross and calculated depreciated values each year
- Land      Land indices produced by the Valuation Office Agency (VOA)

Upwards movements in value are taken to the revaluation reserve. Downward movements in value are set off against any credit balance held in the revaluation reserve until the credit is exhausted and thereafter charged to the relevant portfolio outturn statement.

The trunking or detrunking of roads from or to local authorities is treated as a transfer from or to other government departments. Roads and structures detrunked are effectively dealt

with as disposals in accounting terms at nil consideration. Any associated profit or loss is processed through the general fund.

### *Subsequent Cost*

Subsequent costs are only included in the asset's carrying amount or, where appropriate, recognised as a separate asset, when it is probable that future economic benefits associated with the item will flow to the Scottish Government and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the outturn statement during the financial period in which they are incurred.

### *1.3 Assets Held for Sale*

A property is derecognised and held for sale under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when all of the following requirements are met:

- It is available for immediate sale in its present condition
- A plan is in place, supported by management, and steps have been taken to actively market the asset and conclude a sale at a reasonable price in relation to its current fair value
- A sale is expected to be completed within 12 months.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortisation.

### *1.4 Donated Assets and European Union Grants*

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, and SIC10 Government Assistance apply as interpreted by the FReM. Donated assets and grants received from the European Union for capital assets are capitalised at their valuation on receipt and this value is credited as income to the outturn statement. Subsequent revaluations are accounted for in the revaluation reserve, and impairments may be charged to the outturn statement.

### *1.5 Intangible Assets*

In accordance with the FReM, Intangible assets are accounted for in line with the requirements of IAS 38 Intangible Assets, and SIC 32 Intangible Assets- Web Site Costs, and are valued at amortised cost based as a proxy for fair value. Revaluations are carried out according to IAS 38 for assets over a valuation threshold.

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and recognition criteria of IAS 38 Intangible Assets for assets that do not generate income. IAS 38 defines future economic benefit as, 'revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.'

Intangible assets other than assets under development are amortised on a straight line basis over their estimated useful lives. Impairment reviews are carried out if there are any indicators that impairment should be considered.

Intangible assets under development are not amortised.

### 1.6 Depreciation and Amortisation

Land is considered to have an indefinite life and is not depreciated.

Assets under construction are not depreciated.

For all other property, plant and equipment and intangible assets, depreciation or amortisation is charged at rates calculated to write off their valuation by equal instalments over their estimated useful lives which are normally in the following ranges:

- Dwellings and other buildings 5 to 50 years (as per valuation)
- Vehicles 3 to 10 years
- Vessels 10 to 25 years
- Aircraft 5 to 20 years
- Equipment 3 to 15 years
- ICT systems 3 to 10 years
- Internally developed software 3 to 5 years
- Leasehold improvements Over the shorter of asset life and lease term

### 1.7 Financial Instruments

The Scottish Government measures and presents financial instruments in accordance with IAS 32 and 39, IFRS 7, and IFRS 13 as interpreted by the FReM. IFRS 7 requires the classification of financial instruments into separate categories for which the accounting treatment is different. The Scottish Government has classified its financial instruments as follows:

#### *Financial Assets:*

- Cash and cash equivalents, trade receivables, short term loans, accrued income relating to EU funding, amounts receivable and shares and will be reported in the 'Loans and Receivables' category. This will also include investment funds managed by third parties which will be reported separately.
- Shared equity loans advanced to private individuals will be reported in the 'At fair value through profit & loss' category.

#### *Financial Liabilities:*

- Borrowings, trade payables, accruals, payables, bank overdrafts and financial guarantee contracts are classified as 'Other Liabilities'.

Financial instruments are initially measured at fair value with the exception of 'Shares held in and loans advanced to public sector bodies' which are held at historic cost, in the absence of an active market. The fair value of financial assets and liabilities is determined as follows:

- The fair value of cash and cash equivalents and current non-interest bearing monetary financial assets and financial liabilities approximate their carrying value, and
- The fair value of other non-current monetary financial assets and financial liabilities is based on market prices where a market exists, use of appropriate indices or has been determined by discounting expected cash flows by the current interest rate for financial assets and liabilities with similar risk profiles.

Financial instruments subsequent measurement depends on their classification:

- Fair value through the profit and loss is held at fair value with any changes going through the outturn statement.
- Loans and receivables and other liabilities are held at amortised cost and not revalued unless included in a fair value hedge accounting relationship. Any impairment losses go through the outturn statement.
- Shares which are held in public sector bodies do not have a quoted market price in an active market, and the fair value cannot be reliably measured and reported at historic cost less impairment with any impairment losses going through the outturn statement.

### *Financial assets*

Financial assets include shares in nationalised industries and limited companies, loans issued to public bodies not consolidated in departmental accounts; loans made under the terms of the student loans scheme, loans to private companies, repayment and deferred loans relating to housing associations and investment funds. Such investments are generally reported as non-current assets. If an investment is held on a short-term basis, or a loan is due to be repaid within one year, it will be treated as a current asset.

### *Student Loans*

Student loans are classified as 'Loans and Receivables', and are initially valued at fair value. They are subsequently recorded in the accounts at amortised cost.

As there is currently no active market for student loans, the Scottish Government values the loans by using a valuation technique. This technique involves the gross value of the loans being reduced by an amount based on:

- Interest subsidy: This is the difference between the interest paid by students (lower of RPI and Bank of England Base Rate + 1% point) and the cost of capital on loans at the rate provided by HM Treasury. The interest subsidy is estimated to meet the cost of the interest over the life of the loan and is offset by the annual interest capitalised.
- Write off impairment: This is estimated to meet the future cost of loans that are not likely to be recovered mainly due to the death of the student, their income not reaching the income threshold, or not being able to trace the student. Each year, the future cost of bad debt is estimated based on a percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student Loan Company.

The estimates underpinning these adjustments are based on a model which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour and estimate the likely repayments of student loans. Given the long



term nature of both adjustments, the time value of money is significant, and they are discounted using the current HM Treasury discount rate.

There are significant uncertainties in assessing the actual likely costs and the impairment will be affected by the assumptions used. These are formally reviewed by the Scottish Government each year and the amounts impaired reflect the Scottish Government's current best estimate.

Further details of the movements in the loan valuation can be found in note 9, while disclosures relating to risk, required by IFRS 7, can be found in note 10.

### *Embedded Derivatives*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

### *Financial Guarantee Contracts*

Financial guarantee contract liabilities are measured initially at their fair value and subsequently at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

### *Financial Transactions*

Financial Transactions are a capital funding source from HM Treasury which can only be used to fund loans and equity investments that cross the public/private sector boundary. These have to be repaid to HM Treasury in the future through adjustments to baseline funding. A repayment profile has been agreed with HM Treasury which aligns receipts by the Scottish Government with repayment to HM Treasury. This is reviewed annually.

## *1.8 Inventories*

Items that cannot or will not be used are written down to their net realisable value. Taking into account the high turnover of NHS stocks, the use of average purchase price is deemed to represent the lower of cost and net realisable value. Work in progress is valued at the cost of the direct materials plus the conversion costs incurred to bring the goods up to their present degree of completion.

## *1.9 Non-Profit Distributing (NPD)/ Public Private Partnerships (PPP)/ Private Finance Initiatives (PFI)*

NPD/PPP/PFI transactions are accounted for in accordance with IFRIC 12, Service Concession Arrangements which sets out how NPD/PPP/PFI transactions are to be accounted for in the private sector. The Scottish Government currently uses the Non-Profit Distributing model in structuring its service concession arrangements. Previous administrations used the Public Private Partnership and Private Finance Initiative models. As payments made and assets held relating to these models will continue to be recorded in these accounts over the foreseeable future, the accounts refer to the three different service concession models in relevant disclosure.

Assets that are assessed to be on statement of financial position will be measured as follows:

- Where the contract is separable between the service element, the interest charge and the infrastructure asset, the asset will be measured as under IAS 17, Leases, with the service element and the interest charge recognised as incurred over the term of the concession arrangement; and
- Where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques including obtaining information from the operator or using the fair value approach.

The grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and service elements, which are expensed annually through the relevant portfolio outturn statement.

Assets should subsequently be measured consistently with other assets in their class using IAS 16, Property, Plant and Equipment, adopting an appropriate asset revaluation approach. Liabilities will be measured using the appropriate discount rate, taking account of the reduction arising from capital payments included in the unitary payment stream.

Any revenue received by the grantor is recognised in line with IAS 18, Revenue.

#### *1.10 Revenue*

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met.

Operating income is income that relates directly to the operating activities of the Scottish Government. It includes fees and charges for services provided, on a full cost basis, to external customers, public repayment work and income from investments. It includes both income applied with limit as outlined by the Scottish Budget documents and income not applied. For income categorised as being applied with limit, any excess income over that approved is surrendered to the Scottish Consolidated Fund. Operating income is stated net of VAT.

Income is analysed in Note 4 between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit (income applied), and that operating income which is not (income not applied).

#### *1.11 Administration and Programme Expenditure*

The Summary Outturn Statement is analysed between administration and programme expenditure:

- Administration expenditure reflects the costs of running the Core Portfolios as defined under the administration cost control regime, together with associated operating income. This does not include the costs of running other bodies within the departmental boundary: such costs are included within the appropriate category of programme expenditure in the relevant Portfolio Outturn Statements.
- Programme expenditure reflects non-administration costs, including payments of grants and other disbursements, including the administration costs of those bodies within the departmental boundary. Programme expenditure also takes account of

income applied. A note to the accounts provides an analysis of total programme income between income applied and income not applied (Note 4).

### 1.12 Grants

Grants payable or paid are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs. Where necessary obligations in respect of grant schemes are recognised as liabilities.

In accordance with the Scottish Public Finance Manual, procedures are in place to ensure compliance with any conditions or provisions attached to any grant payments.

### 1.13 European Union Funds

Funds received from the European Union (EU), are treated as income and shown in the relevant Portfolio Outturn Statement. Expenditure in respect of grants or subsidy claims is recorded in the period that the underlying event or activity giving entitlement to the grant or subsidy claim occurs. Any related payable or receivable balances are reflected in the Statement of Financial Position.

### 1.14 Foreign Exchange

Under the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates and SIC 7 Introduction of the Euro, transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the outturn statement.

### 1.15 Leases

As directed by the FReM, IAS 17 Leases and SIC15 Operating Leases apply. Where substantially all the risks and rewards of ownership of a leased property are borne by the entity, it is recorded as a non-current asset and a corresponding payable recorded in respect of the debt due to the lessor, with the interest element of the finance lease payment charged to the outturn statement. Leases other than finance leases are treated as operating leases, and rentals payable in respect of operating leases will be charged to the outturn statement on a straight line basis over the term of the lease.

### 1.16 Pensions

#### *The Scottish Government as an employer*

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded. Portfolios, agencies and other bodies covered by the PCSPS recognise the expected cost of providing pensions for their employees on a systematic and rational basis over the period during which they benefit from their services by payment to the PCSPS of amounts calculated on an accruing basis (relevant disclosures are reported in the Remuneration and Staff Report). Liability for the payment of future benefits is a charge to the PCSPS. Separate scheme statements for the PCSPS as a whole are published.

### *The Scottish Government as a scheme administrator*

Expenditure reported within Portfolio Outturn Statements includes grant in aid to bodies sponsored by the Scottish Government, which covers pension related expenditure in respect of pension schemes operated by the sponsored body for their eligible employees. The arrangements for these pension schemes are reported and explained in the annual accounts of the relevant bodies.

### *NHS Bodies*

The NHS Bodies in Scotland participate in the National Health Service Superannuation Scheme for Scotland which is a notional defined benefit scheme where contributions are credited to the Exchequer and the balance in the account is deemed to be invested in a portfolio of Government securities. The pension cost is assessed every five years by the Government Actuary; details of the most recent actuarial valuation can be found in the separate statement of the Scottish Public Pensions Agency (SPPA).

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill health. The full amount of the liability for the additional costs is charged to the outturn statement at the time the Board commits itself to the retirement, regardless of the method of payment.

#### *1.17 Provisions*

IAS 37 Provisions, Contingent Liabilities and Contingent Assets applies in full, and in these accounts provisions are made for legal or constructive obligations which are of uncertain timing or amount at the statement of financial position date on the basis of the best estimate of the expenditure required to settle the obligation. Where material, they have been discounted using the appropriate discount rate as prescribed by HM Treasury.

### *Student Loans*

The provision is established to reflect the debt sale subsidy.

### *Early Departure Costs*

The Scottish Government is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retired early, prior to 2011. The Scottish Government provides in full for this cost when the early retirement programme has been announced and is binding.

### *CNORIS*

CNORIS is a risk transfer and financing scheme for NHS Scotland, which was first established in 1999. Its primary objective is to provide cost-effective risk pooling and claims management arrangements for Scotland's NHS Health Boards and Special Health Boards.

A full accounting review was undertaken during 2014/15. The purpose of the review was to ensure that both NHS Boards and the Scottish Government apply the most appropriate accounting treatment.

The outcome of the review is that, as a result of participation in the CNORIS scheme, NHS Boards are now required to create a separate related, but distinct, provision recognising their respective shares of the total CNORIS national scheme liability. This is in addition to the recognition by NHS Boards of a provision for individual claims against their Board along with

an associated debtor. The recognition of the separate provision is a technical accounting adjustment to more appropriately reflect the underlying substance of Boards' liabilities.

On consolidation into the Scottish Government accounts, the Scottish Government's CNORIS provision represents the national scheme liability and the Boards' accounting for individual claims is removed.

## *NHS*

In terms of accounting for the CNORIS scheme, NHS bodies provide for all claims notified to the NHS Central Legal Office (CLO) according to the value of the claim and the probability of settlement. Claims assessed as 'Category 3' are deemed most likely and provided for in full, those in 'Category 2' as 50% of the claim and those in 'Category 1' as nil. In conjunction with the CLO, Boards may take a different view on the appropriate level of provision for 'Category 2' claims, and may apply a different percentage in calculating the associated provision. The balance of the value of claims not provided for is disclosed as a contingent liability. This procedure is intended to estimate the amount considered to be the liability in respect of any claims outstanding.

### *1.18 Contingent Liabilities*

Contingent liabilities include those required to be disclosed under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and other liabilities arising from indemnities and guarantees (which are not financial guarantee contracts) included for parliamentary reporting and accountability. Portfolios must seek the prior approval of Parliament, via the Finance Committee, before entering into any specific guarantee, indemnity or letter or statement of comfort unless it arises in the normal course of business or the sum of the risk is £1m or less.

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

Most of the activities of the Scottish Government are outside the scope of VAT, and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### *1.20 Segmental Reporting*

IFRS 8 Segmental Reporting requires operating segments to be identified on the basis of internal reports about components of the Scottish Government and its consolidated bodies that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and assess their performance. The Scottish Government reports segmental information within its outturn statements which are prepared on the basis of Ministerial portfolios.

### *1.21 Trade Receivables*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an estimate of likely impairment. Impairment of trade receivables is made where there is objective evidence that the Scottish Government will not be able to collect all amounts due according to the original terms of the receivables.

### 1.22 *Cash and Cash Equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. Balances are analysed between those held with the Government Banking Service and balances held in commercial banks.

### 1.23 *Trade Payables*

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 1.24 *Short Term Employee Benefits*

A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not taken.

### 1.25 *New Accounting Standards*

A number of new accounting standards have been issued or amendments made to existing standards, but do not come in to force until future accounting periods and therefore are not yet applied. All new standards issued and amendments made to existing standards are reviewed by Financial Reporting and Advisory Board (FRAB) for subsequent inclusion in the FReM in force for the year in which the changes become applicable. The standards that are considered relevant to Scottish Government and the anticipated impact on the consolidated accounts are as follows:

#### *IFRS 9 – Financial Instruments*

This standard was issued in November 2014, and is effective from accounting periods starting after 1 January 2018. The adoption of this standard could change the classification and measurement of financial assets. The impact is not yet determined.

#### *IFRS 16 – Leases*

This standard will come into effect for accounting periods beginning after 1 January 2019, when the distinction between finance and operating leases is removed and all leases become “on balance sheet”. FRAB will consider if this standard is to be adapted or applied in full although it is anticipated that the principles of the standard will be applied.

## 2. Cash and Cash Equivalents

	2017-18 £m	2016-17 £m
Government Banking Service	551	555
Commercial banks and cash in hand	34	70
<b>At 31 March</b>	<b>585</b>	<b>625</b>
At 1 April	625	134
Net change in cash and cash equivalent balances	(40)	491
<b>At 31 March</b>	<b>585</b>	<b>625</b>

	2017-18 Net £m	2016-17 Net £m
The balance at 31 March comprises		
	Note	
Cash due to be paid to the Scottish Consolidated Fund	12	585
Consolidated Fund extra receipts received and due to be paid to SCF	12	-
<b>At 31 March</b>		<b>585</b>

## 3. Note to the Cash Flow Statement

### 3a. Adjustment to Operating Activities for Non-cash Transactions

	2017-18 Net £m	2016-17 Net £m
Depreciation	438	463
Impairment/Write-backs	48	57
<b>Total Capital Charges</b>	<b>486</b>	<b>520</b>
Loss/(Profit) on disposal of property, plant and equipment	(8)	(27)
Change arising on revaluation of assets held for sale	-	1
Capitalised Interest - financial assets	(53)	(45)
Investment fair value adjustment	69	131
Income from donated asset additions	(15)	(12)
Auditors Fees	2	2
Unrealised exchange rate (gain)/loss	2	-
NHS Lothian - transfer of assets	1	-
Other non-cash items	(3)	-
Release of finance lease liability	-	(1)
NHS Highland - movement in year in LG pension costs	16	(7)
NHS Forth Valley - family health services	-	(5)
NHS Boards consolidation adjustments	93	-
<b>Total</b>	<b>590</b>	<b>557</b>

### 3b. Analysis of Capital Charges by Portfolio

Portfolio	Depreciation £m	Impairment/ Write Backs £m	2017-18 Total £m	2016-17 Total £m
Finance and the Constitution	1	2	3	4
Health and Sport	300	51	351	369
Education and Skills	1	-	1	1
Economy, Jobs and Fair Work	2	-	2	1
Justice	36	(6)	30	27
Communities, Social Security and Equalities	-	-	-	-
Environment, Climate Change and Land Reform	6	-	6	5
Culture, Tourism and External Affairs	-	-	-	-
Rural Economy and Connectivity	75	-	75	96
Crown Office and Procurator Fiscal Service	4	2	6	5
<b>Total Programme</b>	<b>425</b>	<b>49</b>	<b>474</b>	<b>508</b>
Administration	13	(1)	12	12
<b>Total Capital Charges</b>	<b>438</b>	<b>48</b>	<b>486</b>	<b>520</b>

### 3c. Audit Fee

The consolidated audit fee for 2017-18 is £5m (Core Portfolios £1m). Part of the audit fee, including that of the Core Portfolios, is a notional charge, as noted above. Other entities within the consolidation boundary pay fees. The consolidated audit fee for 2016-17 was £6m (Core Portfolios £1m). There were no additional charges in relation to non audit work undertaken by Audit Scotland.

## 3d. Movement in Working Capital

	Note	Opening Balances £m	Closing Balances £m	2017-18 Net Movement £m	2016-17 Net Movement £m
<b>Inventories</b>	8	106	106		
<b>Net Decrease/(Increase)</b>				-	(4)
<b>Receivables and other assets</b>					
Due within one year	11	1,229	1,333	(104)	103
Due after more than one year	11	48	104	(56)	(1)
Less: Capital included in PPE		(23)	(36)	13	13
Less: Capital included in investment		(10)	-	(10)	10
Less: Receivable from SCF	11	(298)	(141)	(157)	9
Less: General Fund receivable included above	11	(10)	(1)	(9)	10
NHS boards prior year adjustments		-	-	-	1
NHS Greater Glasgow and Clyde adjustment		(1)	(1)	-	(1)
NHS boards consolidation adjustment		662	747	(85)	(252)
<b>Total</b>		<b>1,597</b>	<b>2,005</b>		
<b>Net Decrease/(Increase)</b>				<b>(408)</b>	<b>(108)</b>
<b>Payables and other liabilities</b>					
Due within one year	12	3,149	3,387	238	714
Due after more than one year	12	3,587	3,773	186	461
Less: Capital included in PPE		(93)	(131)	(38)	(32)
Less: Capital included in intangibles		(4)	(1)	3	-
Less: Capital included in Investment		(2)	(5)	(3)	10
Less: SCF corporate payable included in above	12	(625)	(585)	40	(493)
Less: Payable to SCF	12	-	-	-	2
Less: NLF payable included in above	12	(652)	(622)	30	24
Less: PFI imputed leases	12	(2,783)	(2,988)	(205)	(457)
Less: Financial Guarantees included in above	12	(21)	(18)	3	(21)
NHS boards consolidation adjustment		78	92	14	(40)
<b>Total</b>		<b>2,634</b>	<b>2,902</b>		
<b>Net (Decrease)/Increase</b>				<b>268</b>	<b>168</b>
<b>Provisions (Current and non-current)</b>	13a	948	1,024	76	231
Less: Capital provisions		-	5	5	-
NHS boards consolidation adjustment		532	549	17	280
<b>Total</b>		<b>1,480</b>	<b>1,578</b>		
<b>Net (Decrease)/Increase</b>				<b>98</b>	<b>511</b>
<b>Total Net Movement</b>				<b>(42)</b>	<b>567</b>



## 4. Income

4a. Operating income, analysed by classification and activity, is as follows:

	Total Income £m	Income Not Applied £m	2017-18 Income Applied £m	2016-17 Income Applied £m
<b>Administration Income:</b>				
Allowable within admin cost limit	12	-	12	11
<b>Other:</b>				
Fees and charges (1)	4	-	4	6
<b>Total Administration Income</b>	<b>16</b>	<b>-</b>	<b>16</b>	<b>17</b>
<b>Programme Income:</b>				
Finance and the Constitution	1	-	1	1
Health and Sport	619	-	619	6,336
Education and Skills	107	-	107	96
Economy, Jobs and Fair Work	58	-	58	35
Justice	20	3	17	16
Communities, Social Security & Equalities	17	-	17	8
Environment, Climate Change and Land Reform	109	-	109	105
Culture, Tourism and External Affairs	-	-	-	-
Rural Economy and Connectivity	559	-	559	550
Crown Office and Procurator Fiscal Service	4	4	-	1
<b>Total Programme Income</b>	<b>1,494</b>	<b>7</b>	<b>1,487</b>	<b>7,148</b>
<b>Total</b>	<b>1,510</b>	<b>7</b>	<b>1,503</b>	<b>7,165</b>

(1) The SG complies with HM Treasury and Office of Public Sector cost allocation and charging requirements.

### 4b. Income Not Applied

Income not applied are amounts for surrender to the Scottish Consolidated Fund in accordance with the Scotland Act 1998 (Designation of Receipts) Order 2009.

The major items of income not applied are:	Cash Received £m	Accrued £m	2017-18 £m	2016-17 £m
Repayment of interest	-	-	-	-
Designated receipts - Fines, forfeitures and fixed penalties (1)	-	-	-	23
Non-designated receipts - Proceeds of Crime and other	7	-	7	7
<b>Total Income Not Applied</b>	<b>7</b>	<b>-</b>	<b>7</b>	<b>30</b>

(1) In accordance with Scotland Act 2016, from 1 April 2017 fines, forfeitures and fixed penalties previously surrendered to the Scottish Consolidated Fund as income not applied have been retained as a source of funding for Scottish Administration.

### 4c. Interest Receivable

All interest receivable is external to the consolidated portfolio accounting boundary. It is included within the Operating Outturn Statement as income applied, unless it is required to be surrendered to the Scottish Consolidated Fund.

	Total Income £m	Income Not Applied £m	2017-18 Income Applied £m	2016-17 Total Income £m
<b>Programme Income:</b>				
Environment, Climate Change and Land Reform	101	-	101	80
Communities, Social Security and Equalities	-	-	-	1
Rural Economy and Connectivity	6	-	6	5
<b>Total</b>	<b>107</b>	<b>-</b>	<b>107</b>	<b>86</b>

### 4d. Interest Payable

	2017-18 Total £m	2016-17 Total £m
Finance lease charges allocated in the year including on balance sheet PFI/PPP contracts	183	156
Other interest	4	2
<b>Total</b>	<b>187</b>	<b>158</b>

## 5a. Property, Plant and Equipment

Cost or valuation	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Road Network <sup>3</sup> £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
<b>At 1 April 2017</b>	<b>481</b>	<b>6,629</b>	<b>637</b>	<b>21,542</b>	<b>207</b>	<b>1,192</b>	<b>414</b>	<b>89</b>	<b>2,870</b>	<b>34,061</b>
Additions	7	31	1	7	2	55	21	1	758	883
Adjustments	-	(5)	-	(9)	-	-	-	-	-	(14)
Transfers	4	371	(1)	1,696	18	31	10	6	(2,139)	(4)
Transfers (to) assets classified held for sale	(1)	-	-	-	-	-	-	-	-	(1)
Disposals	(7)	(2)	-	(1)	(20)	(81)	(35)	(8)	-	(154)
Revaluations to Revaluation Reserve	8	80	56	250	1	-	-	-	-	395
Revaluations to Outturn Statement	(1)	25	(1)	-	-	-	-	-	(13)	10
<b>At 31 March 2018</b>	<b>491</b>	<b>7,129</b>	<b>692</b>	<b>23,485</b>	<b>208</b>	<b>1,197</b>	<b>410</b>	<b>88</b>	<b>1,476</b>	<b>35,176</b>
<b>Depreciation</b>										
<b>At 1 April 2017</b>	-	<b>279</b>	<b>1</b>	<b>3,880</b>	<b>127</b>	<b>825</b>	<b>323</b>	<b>64</b>	-	<b>5,499</b>
Charged in year	-	194	19	52	16	81	31	6	-	399
Adjustments	-	(5)	-	(2)	-	-	-	-	-	(7)
Transfers	-	(2)	-	-	-	-	-	1	-	(1)
Disposal	-	(2)	-	-	(20)	(80)	(35)	(8)	-	(145)
Revaluations to Revaluation Reserve	-	(61)	1	160	1	-	-	-	-	101
Revaluations to Outturn Statement	-	(52)	(1)	-	1	1	1	-	-	(50)
<b>At 31 March 2018</b>	-	<b>351</b>	<b>20</b>	<b>4,090</b>	<b>125</b>	<b>827</b>	<b>320</b>	<b>63</b>	-	<b>5,796</b>
<b>Net book value at 31 March 2018</b>	<b>491</b>	<b>6,778</b>	<b>672</b>	<b>19,395</b>	<b>83</b>	<b>370</b>	<b>90</b>	<b>25</b>	<b>1,476</b>	<b>29,380</b>
Net book value at 31 March 2017	481	6,350	636	17,662	80	367	91	25	2,870	28,562
<b>Analysis of asset financing:</b>										
	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Road Network <sup>3</sup> £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
Owned	484	4,699	583	16,798	77	354	88	21	515	23,619
Finance Leased	-	38	-	-	2	1	-	-	-	41
PFI included in Statement of Financial Position	7	1,980	88	2,597	-	1	1	3	953	5,630
Donated Asset	-	61	1	-	4	14	1	1	8	90
<b>Net book value at 31 March 2018</b>	<b>491</b>	<b>6,778</b>	<b>672</b>	<b>19,395</b>	<b>83</b>	<b>370</b>	<b>90</b>	<b>25</b>	<b>1,476</b>	<b>29,380</b>
<b>Donated Asset Movement</b>										
	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Road Network <sup>3</sup> £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
Additions	-	8	-	-	-	2	-	-	5	15
Disposals	-	-	-	-	-	(4)	-	-	-	(4)

<sup>1</sup> - (land holdings and land underlying buildings); <sup>2</sup> - (excluding dwellings); <sup>3</sup> - (including land)

## 5a. Property, Plant and Equipment (Cont.)

## Prior Year

	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Road Network <sup>3</sup> £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
<b>Cost or valuation</b>										
<b>At 1 April 2016</b>	<b>508</b>	<b>6,666</b>	<b>671</b>	<b>20,778</b>	<b>200</b>	<b>1,179</b>	<b>405</b>	<b>89</b>	<b>2,138</b>	<b>32,634</b>
Additions	1	45	1	12	10	51	20	1	967	1,108
Adjustments	(2)	-	-	(133)	-	(1)	1	-	-	(135)
Transfers	6	169	-	4	3	20	11	-	(224)	(11)
Transfers (to) assets classified held for sale	(13)	-	-	-	-	-	-	-	-	(13)
Disposals	(12)	(90)	(4)	-	(7)	(57)	(23)	(1)	(10)	(204)
Revaluations to Revaluation Reserve	1	(102)	(27)	881	1	-	-	-	-	754
Revaluations to Outturn Statement	(8)	(59)	(4)	-	-	-	-	-	(1)	(72)
<b>At 31 March 2017</b>	<b>481</b>	<b>6,629</b>	<b>637</b>	<b>21,542</b>	<b>207</b>	<b>1,192</b>	<b>414</b>	<b>89</b>	<b>2,870</b>	<b>34,061</b>
<b>Depreciation</b>										
<b>At 1 April 2016</b>	-	<b>356</b>	<b>19</b>	<b>3,654</b>	<b>116</b>	<b>796</b>	<b>315</b>	<b>61</b>	-	<b>5,317</b>
Charged in year	-	192	20	79	16	84	32	7	-	430
Adjustments	-	2	(2)	(8)	-	-	(1)	(3)	-	(12)
Transfers (to) assets classified held for sale	-	(1)	-	-	-	-	-	-	-	(1)
Disposal	-	(100)	(3)	-	(7)	(55)	(23)	(1)	-	(189)
Revaluations to Revaluation Reserve	-	(175)	(29)	155	1	-	-	-	-	(48)
Revaluations to Outturn Statement	-	5	(4)	-	1	-	-	-	-	2
<b>At 31 March 2017</b>	-	<b>279</b>	<b>1</b>	<b>3,880</b>	<b>127</b>	<b>825</b>	<b>323</b>	<b>64</b>	-	<b>5,499</b>
<b>Net book value 31 March 2017</b>	<b>481</b>	<b>6,350</b>	<b>636</b>	<b>17,662</b>	<b>80</b>	<b>367</b>	<b>91</b>	<b>25</b>	<b>2,870</b>	<b>28,562</b>
Net book value 31 March 2016	508	6,310	652	17,124	84	383	90	28	2,138	27,317
<b>Analysis of asset financing:</b>										
Owned	474	4,587	554	15,276	73	350	88	23	1,947	23,372
Finance Leased	-	38	-	-	3	1	-	-	-	42
PFI included in Statement of Financial Position	7	1,675	82	2,386	-	1	1	1	916	5,069
Donated Assets	-	50	-	-	4	15	2	1	7	79
<b>Net book value at 31 March 2016</b>	<b>481</b>	<b>6,350</b>	<b>636</b>	<b>17,662</b>	<b>80</b>	<b>367</b>	<b>91</b>	<b>25</b>	<b>2,870</b>	<b>28,562</b>
<b>Donated Asset Movement</b>										
Additions	-	3	-	-	-	3	-	-	6	12
Disposals	-	(1)	-	-	-	(3)	-	-	-	(4)

<sup>1</sup> - (land holdings and land underlying buildings); <sup>2</sup> - (excluding dwellings); <sup>3</sup> - (including land)

## 5b. Property, Plant and Equipment - NHS non-current assets included within note 5a

Cost or valuation	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
<b>At 1 April 2017</b>	<b>362</b>	<b>5,986</b>	<b>29</b>	<b>100</b>	<b>1,145</b>	<b>338</b>	<b>85</b>	<b>613</b>	<b>8,658</b>
Additions	1	26	-	1	53	14	1	346	442
Transfers	4	371	(1)	18	31	10	6	(441)	(2)
Transfers (to) assets classified held for sale	(1)	-	-	-	-	-	-	-	(1)
Disposals	(7)	(2)	-	(20)	(79)	(33)	(7)	-	(148)
Revaluations to Revaluation Reserve	6	36	(2)	-	-	-	-	-	40
Revaluations to Outturn Statement	(1)	24	(1)	-	-	-	-	(13)	9
<b>At 31 March 2018</b>	<b>364</b>	<b>6,441</b>	<b>25</b>	<b>99</b>	<b>1,150</b>	<b>329</b>	<b>85</b>	<b>505</b>	<b>8,998</b>
<b>Depreciation</b>									
<b>At 1 April 2017</b>	-	<b>215</b>	<b>1</b>	<b>64</b>	<b>787</b>	<b>271</b>	<b>61</b>	-	<b>1,399</b>
Charged in year	-	172	1	10	78	23	6	-	290
Transfers	-	(2)	-	-	-	-	1	-	(1)
Disposal	-	(2)	-	(20)	(79)	(32)	(7)	-	(140)
Revaluations to Revaluation Reserve	-	(62)	-	-	-	-	-	-	(62)
Revaluations to Outturn Statement	-	(52)	(1)	1	1	-	-	-	(51)
<b>At 31 March 2018</b>	-	<b>269</b>	<b>1</b>	<b>55</b>	<b>787</b>	<b>262</b>	<b>61</b>	-	<b>1,435</b>
<b>Net book value at 31 March 2018</b>	<b>364</b>	<b>6,172</b>	<b>24</b>	<b>44</b>	<b>363</b>	<b>67</b>	<b>24</b>	<b>505</b>	<b>7,563</b>
Net book value at 31 March 2017	362	5,771	28	36	358	67	24	613	7,259
<b>Analysis of asset financing:</b>									
	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
Owned	357	4,151	24	44	346	65	20	390	5,397
Finance Leased	-	27	-	-	1	-	-	-	28
PFI included in Statement of Financial Position	7	1,934	-	-	1	1	3	107	2,053
Donated Asset	-	60	-	-	15	1	1	8	85
<b>Net book value at 31 March 2018</b>	<b>364</b>	<b>6,172</b>	<b>24</b>	<b>44</b>	<b>363</b>	<b>67</b>	<b>24</b>	<b>505</b>	<b>7,563</b>
<b>Donated Asset Movement</b>									
	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
Additions	-	8	-	-	2	-	-	5	15
Disposals	-	-	-	-	(4)	-	-	-	(4)

<sup>1</sup> - (land holdings and land underlying buildings); <sup>2</sup> - (excluding dwellings);

## 5b. Property, Plant and Equipment - NHS non-current assets included within note 5a (Cont.)

## Prior Year

	Land <sup>1</sup> £m	Buildings <sup>2</sup> £m	Dwellings £m	Transport £m	Equipment £m	ICT Systems £m	Fixtures and fittings £m	Assets under Construction £m	Total £m
<b>Cost or valuation</b>									
<b>At 1 April 2016</b>	<b>389</b>	<b>6,011</b>	<b>37</b>	<b>94</b>	<b>1,130</b>	<b>339</b>	<b>85</b>	<b>444</b>	<b>8,529</b>
Additions	1	43	-	10	50	12	1	387	504
Transfers	6	169	-	3	20	9	-	(207)	-
Transfers (to) assets classified held for sale	(15)	-	-	-	-	-	-	-	(15)
Disposals	(12)	(87)	(4)	(7)	(55)	(21)	(1)	(10)	(197)
Revaluations to Revaluation Reserve	2	(88)	(1)	-	-	-	-	-	(87)
Revaluations to Outturn Statement	(9)	(62)	(3)	-	-	(1)	-	(1)	(76)
<b>At 31 March 2017</b>	<b>362</b>	<b>5,986</b>	<b>29</b>	<b>100</b>	<b>1,145</b>	<b>338</b>	<b>85</b>	<b>613</b>	<b>8,658</b>
<b>Depreciation</b>									
<b>At 1 April 2016</b>	-	<b>288</b>	<b>4</b>	<b>59</b>	<b>761</b>	<b>268</b>	<b>56</b>	-	<b>1,436</b>
Charged in year	-	169	1	11	80	24	6	-	291
Transfers (to) assets classified held for sale	-	(1)	-	-	-	-	-	-	(1)
Disposal	-	(96)	(3)	(7)	(54)	(21)	(1)	-	(182)
Revaluations to Revaluation Reserve	-	(155)	(1)	-	-	-	-	-	(156)
Revaluation to Outturn Statement	-	10	-	1	-	-	-	-	11
<b>At 31 March 2017</b>	-	<b>215</b>	<b>1</b>	<b>64</b>	<b>787</b>	<b>271</b>	<b>61</b>	-	<b>1,399</b>
<b>Net book value 31 March 2017</b>	<b>362</b>	<b>5,771</b>	<b>28</b>	<b>36</b>	<b>358</b>	<b>67</b>	<b>24</b>	<b>613</b>	<b>7,259</b>
Net book value 31 March 2016	389	5,723	33	35	369	71	29	444	7,093
<b>Analysis of asset financing:</b>									
Owned	354	4,062	28	36	340	65	23	387	5,295
Finance Leased	-	27	-	-	1	-	-	-	28
PFI included in Statement of Financial Position	7	1,632	-	-	1	1	-	219	1,860
Donated Asset	1	50	-	-	16	1	1	7	76
<b>Net book value at 31 March 2017</b>	<b>362</b>	<b>5,771</b>	<b>28</b>	<b>36</b>	<b>358</b>	<b>67</b>	<b>24</b>	<b>613</b>	<b>7,259</b>
<b>Donated Asset Movement</b>									
Additions	-	3	-	-	3	-	-	6	12
Disposals	-	(1)	-	-	(3)	-	-	-	(4)

<sup>1</sup> - (land holdings and land underlying buildings); <sup>2</sup> - (excluding dwellings);

*5c. Non Current Asset Disclosures*

	2017-18 £m	2016-17 £m
<b>Net book value of Property, Plant and Equipment</b>	<b>29,380</b>	<b>28,562</b>
<b>Total value of assets held under:</b>		
Finance Leases	41	42
PFI and PPP Contracts	5,630	5,069
<b>Total</b>	<b>5,671</b>	<b>5,111</b>
<b>Total depreciation charged in respect of assets held under:</b>		
Finance leases	5	5
PFI and PPP contracts	44	-
<b>Total</b>	<b>49</b>	<b>5</b>

As part of the 5-year rolling programme, 7 properties - Saughton House, Longman House, Strathbeg House, Tankerness Lane, Thainstone Court, Balrobert Farm and Knocknagael Farm, underwent a formal inspection and revaluation as at 31 March 2018. These valuations were on the basis of Existing Use Value, with the exception of specialist buildings at Knocknagael Farm which were valued on the basis of Depreciated Replacement Cost. Valuations were carried out by the VOA. These valuations were carried out in accordance with the Valuation Professional Standards 2014 (the Red Book) published by the Royal Institution of Chartered Surveyors.

In addition to the land and buildings recorded in the core portfolios' accounts, the consolidated accounts reflect some land and buildings which are specialised operational properties and have been valued at their depreciated replacement cost. As noted in the relevant underlying agency accounts, the open market value of these properties would be significantly lower.

The national NHS estate revaluation scheme came to an end at 31 March 2005. Individual boards have instituted their own schemes, details of which are available in the various NHS Board accounts. These schemes operate in accordance with Scottish Government policy on revaluation as set out in Note 1.2 to these accounts.

## 6. Intangible Assets

	EC Emission Rights £m	Software Licenses £m	Information Technology Software £m	Websites that Deliver a Service £m	Assets Under Development £m	Total £m
<b>Cost or Valuation</b>						
<b>Balance at 1 April 2017</b>	-	164	303	1	12	480
Additions	-	4	8	-	41	53
Disposals	-	(6)	(8)	-	-	(14)
Transfers	-	-	25	-	(22)	3
Revaluations	-	(1)	(2)	-	(1)	(4)
<b>At 31 March 2018</b>	-	161	326	1	30	518
<b>Amortisation</b>						
<b>Balance at 1 April 2017</b>	-	141	179	1	-	321
Charged in year	-	8	29	-	-	37
Disposals	-	(6)	(8)	-	-	(14)
<b>At 31 March 2018</b>	-	143	200	1	-	344
<b>Net book value at 31 March 2018</b>	-	18	126	-	30	174
Net book value at 31 March 2017	-	23	124	-	12	159
<b>Prior Year</b>						
	EC Emission Rights £m	Software Licenses £m	Information Technology Software £m	Websites that Deliver a Service £m	Assets Under Development £m	Total £m
<b>Cost or Valuation</b>						
<b>Balance at 1 April 2016</b>	-	162	277	1	15	455
Additions	-	5	6	-	35	46
Disposals	-	(3)	(17)	-	-	(20)
Adjustments	-	(1)	-	-	-	(1)
Transfers	-	1	37	-	(38)	-
<b>At 31 March 2017</b>	-	164	303	1	12	480
<b>Amortisation</b>						
<b>Balance at 1 April 2016</b>	-	136	170	1	-	307
Charged in year	-	8	25	-	-	33
Disposals	-	(3)	(16)	-	-	(19)
<b>At 31 March 2017</b>	-	141	179	1	-	321
<b>Net book value at 31 March 2017</b>	-	23	124	-	12	159
Net book value at 31 March 2016	-	26	107	-	15	148

## 7. Assets Classified as Held for Sale

The following assets have been presented for sale by the Scottish Government. The completion date for sale is expected to be within 12 months. Assets classified as held for sale are measured at the lower of their carrying amount immediately prior to their classification as held for sale and their fair value less costs to sell.

Assets classified as held for sale are not subject to depreciation or amortisation.

	Property, Plant and Equipment £m	Intangible Assets £m	Investment Assets £m	Total £m
At 1 April 2017	25	-	-	25
Transfers from Non-Current Assets	1	-	-	1
Disposals	(9)	-	-	(9)
<b>At 31 March 2018</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>17</b>
<b>Prior year</b>				
At 1 April 2016	29	-	-	29
Transfers from Non-Current Assets	13	-	-	13
Change arising on revaluation	(1)	-	-	(1)
Disposals	(16)	-	-	(16)
<b>At 31 March 2017</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>25</b>

## 8. Inventories

	2017-18 £m	2016-17 £m
NHS inventories	103	103
Other inventories	3	3
<b>Total</b>	<b>106</b>	<b>106</b>



## 9. Financial Assets

### 9a. Non-Current Financial Assets

To improve transparency the categories of financial assets have been changed this year to ensure further disclosure of Other Funds. This revised split, including new categories of Energy Related Loans and the EU CAP Loans, have been applied retrospectively, with the prior year table having also been restated.

	Interests in Nationalised Industries and Limited Companies £m	Voted Loans £m	NLF Loans £m	Student Loans £m	Housing Loans £m	Energy Related Loans £m	EU CAP Loans £m	Other Funds £m	Total £m
<b>Balance at 1 April 2017</b>	<b>25</b>	<b>2,766</b>	<b>622</b>	<b>3,122</b>	<b>904</b>	<b>92</b>	<b>-</b>	<b>137</b>	<b>7,668</b>
Add element reported within current assets	-	81	30	135	1	-	185	1	433
Advances and acquisitions:	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Cash advances	-	303	-	602	183	32	369	61	1,550
Fair value adjustment	-	-	-	(181)	1	-	-	-	(180)
Capitalised interest	-	-	-	53	-	-	-	-	53
Adjustment	-	-	-	-	-	4	-	-	4
Repayments and disposals	-	(81)	(30)	(147)	(38)	-	(231)	(17)	(544)
Unwinding of discounted cash flow	-	-	-	107	-	-	-	-	107
<b>Balance at 31 March 2018</b>	<b>25</b>	<b>3,069</b>	<b>622</b>	<b>3,691</b>	<b>1,051</b>	<b>128</b>	<b>323</b>	<b>182</b>	<b>9,091</b>
Loans repayable within 12 months transferred to current assets	-	(84)	(31)	(145)	(9)	(1)	(322)	(3)	(595)
<b>Balance at 31 March 2018</b>	<b>25</b>	<b>2,985</b>	<b>591</b>	<b>3,546</b>	<b>1,042</b>	<b>127</b>	<b>1</b>	<b>179</b>	<b>8,496</b>

Investments have been measured and presented in accordance with IAS 32, IAS 39, IFRS 13 and IFRS 7 as modified by the Government Financial Reporting Manual (FRM). See also note 1.7

Scottish Water National Loans Fund repayments of £30m have not been included in the Environment, Climate Change and Land Reform portfolio capital outturn.

Prior Year	Interests in	Voted	NLF	Student	Housing	Energy	EU CAP	Other	Total
	Nationalised Industries and Limited Companies £m								
<b>Balance at 1 April 2016</b>	<b>25</b>	<b>2,476</b>	<b>652</b>	<b>2,778</b>	<b>751</b>	<b>66</b>	<b>-</b>	<b>86</b>	<b>6,834</b>
Add element reported within current assets	-	308	24	130	-	-	54	-	516
Advances and acquisitions:									
Acquisitions	-	-	-	-	-	-	-	21	21
Cash advances	1	372	-	577	190	25	370	42	1,577
Fair value adjustment	-	-	-	(171)	(7)	-	-	-	(178)
Capitalised interest	-	-	-	43	-	2	-	-	45
Repayments and disposals	(1)	(309)	(24)	(143)	(31)	(1)	(239)	(11)	(759)
Unwinding of discounted cash flow	-	-	-	43	2	-	-	-	45
<b>Balance at 31 March 2017</b>	<b>25</b>	<b>2,847</b>	<b>652</b>	<b>3,257</b>	<b>905</b>	<b>92</b>	<b>185</b>	<b>138</b>	<b>8,101</b>
Loans repayable within 12 months transferred to current assets	-	(81)	(30)	(135)	(1)	-	(185)	(1)	(433)
<b>Balance at 31 March 2017</b>	<b>25</b>	<b>2,766</b>	<b>622</b>	<b>3,122</b>	<b>904</b>	<b>92</b>	<b>-</b>	<b>137</b>	<b>7,668</b>

Investments have been measured and presented in accordance with IAS 32, IAS 39, IFRS 13 and IFRS 7 as modified by the Government Financial Reporting Manual (FRM). See also note 1.7

Scottish Water National Loans Fund repayments of £24m have not been included in the Environment, Climate Change and Land Reform portfolio capital outturn.

### 9b. Nationalised Industries

As at 31 March 2018, the Scottish Ministers are the sole shareholder in Caledonian Maritime Assets Limited, David MacBrayne Limited, Highlands and Islands Airports Limited and TS Prestwick Holdco Limited. The Scottish Ministers hold the following investments:

Caledonian Maritime Assets Limited	1,500,000 ordinary shares of £10 each
David MacBrayne Limited	5,500,002 ordinary shares of £1 each
Highlands and Islands Airport Limited	50,000 ordinary shares of £1 each
TS Prestwick Holdco Limited	1 ordinary share of £1

These organisations are operated and managed independently of the Scottish Government, and, therefore, do not fall within the consolidated portfolio accounting boundary. The companies each publish an individual annual report and accounts. The net assets and results of the aforementioned companies are summarised in the table below.

	<b>Caledonian Maritime Assets Ltd £m</b>	<b>David MacBrayne Ltd £m</b>	<b>Highlands and Islands Airports Ltd £m</b>	<b>TS Prestwick Holdco Ltd £m</b>
Net Assets/(Liabilities) as at 31 March 2018	90	26	(25)	(34)
Turnover	43	209	25	18
Profit/(Loss) for the financial year	9	4	(2)	(8)

These results are in draft as their accounts are yet to be published.

#### **Caledonian Maritime Assets Ltd**

Following a restructure of the Caledonian MacBrayne group in 2006, Caledonian MacBrayne Limited became known as Caledonian Maritime Assets Limited (CMAL) and CalMac Ferries Limited (CFL) was incorporated. CFL took over operation of the Clyde & Hebrides Ferry Services as successor to Caledonian MacBrayne Limited. CMAL retained ownership of all vessels and ports, which it leases to the operator of the Clyde & Hebrides Ferry services (currently CFL). CMAL remains wholly owned by Scottish Ministers.

#### **David MacBrayne Ltd**

Scottish Ministers previously owned 2 shares of £1 in a dormant company, David MacBrayne Limited. In the course of the restructuring of the Caledonian MacBrayne group in 2006, Scottish Ministers' shareholding in David MacBrayne Limited was increased by 5,500,000 shares to 5,500,002 ordinary shares of £1. David MacBrayne Limited is now the holding company for the ferry operating companies CalMac Ferries Limited and Argyll Ferries Limited.

#### **Highlands and Islands Airports Ltd (HIAL)**

The Scottish Ministers are the sole shareholders in HIAL. The company's purpose is to maintain the safe operation of its airports to support economic and social development in the Highland and Islands. HIAL currently operates 11 airports; 10 in the Highlands and Islands and also Dundee, which it assumed responsibility for in December 2007 and now operates via a wholly owned subsidiary company, Dundee Airport Limited.

#### **TS Prestwick Holdco Limited**

In 2013 Transport Scotland purchased the entire share capital of Prestwick Aviation Holdings Limited, the holding company of subsidiaries who own and operate Glasgow Prestwick Airport, through a company set up for this specific purpose – TS Prestwick Holdco Limited. Subsequently Transport Scotland advanced loan funding to the group to cover the cash deficit arising from its operating deficit and capital expenditure.

### *9c. Other Interests*

The loans issued and reported as Financial Assets within these accounts have been valued reflecting current market expectations regarding discounted future cash flows. Under IFRS 13, these valuations have been classed as level 3 unobservable inputs, as there is no active market for the investments.

#### **Student Loan Company (SLC)**

The Student Loan Company is a non-departmental public body which administers the payment and collection of loans to UK students. When it was set up in 1990, it was wholly owned by the Secretary of State for Education and Skills (now the Department for Education) and the Secretary of State for Scotland. From 1 July 1999, the student support function was transferred to the Scottish Ministers with respect to students ordinarily resident in Scotland. Following a restructuring the Scottish Ministers hold 1 share with a nominal value of £0.50 (5% of the equity) in the SLC.

#### **Scottish Futures Trust Ltd (SFT)**

The Scottish Futures Trust was set up in September 2008 to work collaboratively across the public sector to secure improved value for money in infrastructure procurement, and is working jointly with local authorities, NHS Boards and other public bodies to deliver benefits in cost effective asset procurement and management. The SFT is a limited company owned by the Scottish Ministers with share capital of £100, £2 of which has been issued and is held by the Scottish Ministers.

#### **Scottish Health Innovations Ltd**

Scottish Health Innovations Ltd is a company that works in partnership with NHS Scotland to protect and develop healthcare innovations. The company is limited by guarantee with three members, the Scottish Ministers, the National Waiting Times Centre, and NHS Tayside.

#### **Voted Loans**

The Scottish Ministers have provided loans from voted provision to Caledonian Maritime Assets Limited of £188m to be used for the construction of new shipping; £5m to crofters for building purposes; and £2,875m to Scottish Water for their capital investment programmes.

#### **National Loans Fund**

Prior to 1 July 1999, the Secretary of State lent money to Scottish Enterprise, Scottish Homes and the three Water Authorities (now Scottish Water), out of the National Loans Fund. At 1 July 1999, the right to the sums outstanding was transferred to the Scottish Ministers who must pay the repayments and interest to the Secretary of State for Scotland via the Scottish Consolidated Fund. The loans to Scottish Enterprise and Scottish Homes have since been repaid. The NLF loans remaining are with Scottish Water.

Scottish Water's 2017-18 annual report and accounts can be found at <http://www.scottishwater.co.uk/about-us/publications/annual-reports/annual-report-1718>

#### **Student Loans**

Loans made under the terms of the student loans scheme are administered by the Student Loans Company Limited, a company owned jointly by the Scottish Ministers and the Department for Education. These loans are accounted for on the basis of the loan balances of students domiciled in Scotland and adjusted for fair value and impairment.

**9c. Other Interests (Cont.)****Housing Loans**

Housing Association loans are made up of repayment loans and deferred loans. The repayment loans are secured loans to registered Housing Associations and are repayable on an annuity basis, the deferred loans relate to the transfer of housing stock.

Other Housing Loans include the Shared Equity Housing and Deferred Financial Commitment Loans. The fair value estimation technique for the loans relates to the underlying property valuations using the Nationwide Pricing Index method.

The Scottish Government has invested £24.7m in Charitable Bonds to be repaid in 2026-27. £18.6m was advanced to housing associations for the development of new affordable homes. The remaining £6.1m will be donated to one or more charitable Housing Associations by the bond issuer for the provision of new social housing.

**Energy Funds**

The Scottish Government provides funding to Salix Finance Limited and the Energy Saving Trust (EST) to deliver programmes relating to energy efficiency which include the issue of loans. Salix provides loans to the public sector to improve their energy efficiency and reduce their carbon emissions. In 2017-18 £4.7m (2016-17: £8m, including £4m accounted for as an adjustment in 2017-18) of advances were made. EST administer and manage funds on behalf of the Scottish Government which provide loans to save energy and reduce carbon dioxide emissions. In 2017-18 £8.9m (2016-17 £5.3m) of advances were made.

Through the Home Energy Efficiency Programme (HEEPs) loans are available to help homeowners make energy and money saving improvements to their homes. In 2017-18, advances of £7.7m (2016-17 £10.6m) were made.

The Renewable Energy Investment Fund (REIF) is delivered through Scottish Enterprise and Highlands and Islands Enterprise. REIF provides funding to commercial and community renewable energy projects across Scotland. In 2017-18 £3.8m (2016-17 £5.2m) of advances were made.

**EU CAP Loans**

From 2015-16, a Scottish Government national loans scheme was put in place to provide support to the farming economy. In 2017-18, advances of £371m (2016-17: £370m) were made with repayments of £231m (2016-17: £239m); £5m of loans advanced prior to 2017-18 are outstanding and are expected to be fully recovered in 2018-19.

**Other Funds**

The Scottish Government, and the European Regional Development Funds, have established the Scottish Partnership for Regeneration in Urban Centres (SPRUCE) Fund. This fund is a JESSICA (Joint Venture Support for Sustainable Investment in City Areas) Urban Development Fund (£43m; 2016-17: £41m) that helps fund regeneration and energy efficient projects within targeted areas of Scotland.

Over the past 4 years, the Scottish Government has provided £9.6m to the Scottish Futures Trust for use in their oversight of the Non Profit Distributing (NPD) programme. SFT's pipeline of NPD projects is delivered through two channels – very large projects such as major roads or large hospitals, procured directly by the public sector organisations through the NPD programme, with smaller Design, Build, Finance and Maintain (DBFM) projects delivered via the Scotland-wide hub initiative in partnership with local authorities, health boards and other public bodies. The funds are used to support subordinated debt investment in individual hub DBFM projects at a commercial rate of return. Interest on this investment contributes to the funding of on-going SFT activity.

In 2016-17, the Scottish Government entered into a guarantee contract in respect of a power purchase agreement between the hydro plant and aluminium smelter at Lochaber (owned by SIMEC and Liberty House respectively). The total discounted value of premiums due to the Scottish Government in respect of this guarantee is £18.7m (2016-17 discounted value: £21.4m), and is included within the Other Funds balance.

The Scottish Government has provided financial transactions totalling £10m (£6m provided in 2015-16 and £4m provided in 2016-17), over a 20 to 25 year period, to three of the National Performing Companies (Scottish Ballet, Scottish Opera and the National Theatre of Scotland). These related to capital projects and business support, including the new Rockvilla creation centre and an extension to the Theatre Royal, both in Glasgow.

In 2017-18, the Scottish Government provided commercial loans of £34m to private companies.

## 10. Financial Instruments

The Scottish Government measures and presents financial instruments in accordance with International Accounting Standard (IAS) 32, IAS 39 and International Financial Reporting Standard (IFRS) 7 as interpreted by the Financial Reporting Manual. International Financial Reporting Standard (IFRS) 7, Financial Instruments: Disclosures, requires disclosure of the role that financial instruments have played during the period in creating or changing the risks that an entity faces in its activities. The Scottish Government is not exposed to the degree of financial risk faced by business entities because of the largely non-trading nature of its activities and the way that government is financed. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the organisation in undertaking its activities.

### Liquidity Risk

The Scottish Parliament makes provision for the use of resources by the Scottish Government, for revenue and capital purposes, in a Budget Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget Act. The Act also specifies an overall cash authorisation to operate for the financial year. The Scottish Government is not, therefore, exposed to significant liquidity risks.

A maturity profile of the carrying amount of financial liabilities is presented below. This analysis satisfies the disclosure requirements of International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7). The maturity profile for NLF loans is matched by the corresponding profile for the related fixed asset investments. The amounts disclosed are undiscounted cash flows as per IFRS 7.

### Maturity Profile

Financial Liabilities	<1yr £m	1 - 2 yrs £m	2 - 5 yrs £m	>5yrs £m	2017-18	2016-17
					Total £m	Total £m
Trade payables	449	-	-	-	449	444
Accruals	1,599	23	-	-	1,622	1,414
Other payables	182	229	-	-	411	375
NLF loans	31	27	115	449	622	652
Accrued Interest due on NLF Loans	9	-	-	-	9	9
Corporate balance with SCF	585	-	-	-	585	625
PFI Imputed finance leases	64	69	226	2,629	2,988	2,784
Lease payables	1	2	5	17	25	27
Bank overdraft	2	-	-	-	2	-
Financial guarantees	2	2	6	8	18	21
<b>Total</b>	<b>2,924</b>	<b>352</b>	<b>352</b>	<b>3,103</b>	<b>6,731</b>	<b>6,351</b>

## 10. Financial Instruments (Cont.)

### Credit risk

Credit risk is the risk that a third party will default on its obligations. The maximum exposure to credit risk at the Statement of Financial Position date in relation to each class of financial asset is the carrying amount of those assets net of any impairment. No collateral is held as security.

Cash at bank is held with major UK banks. The credit risk associated with cash at bank is considered to be low.

The only area where the Scottish Government has significant concentrations of credit risk is on student loans. The Scottish Government has a statutory obligation to issue student loans and seek repayments in line with legislation. The Scottish Government is not permitted to withhold loans on the basis of poor credit rating nor is it able to seek collateral. The Scottish Government is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by Her Majesty's Revenue and Customs as part of the tax collection process. In addition this risk is mitigated through the valuation of student loans at fair value (= amortised cost).

### Market risk

There are a number of areas where the Scottish Government is exposed to potential market risk. These relate to interest rates, foreign currency risk and housing market risks.

### Interest Rate Risk

66% (2016-17: 64%) of the Scottish Government's financial assets and 100% (2016-17: 100%) of its financial liabilities carry nil or fixed rates of interest and they are not therefore exposed to significant interest rate risk. The portion of the Scottish Government's financial assets that carry a floating rate of interest relates in the main to student loans.

### Foreign Currency Risk

Within payables, the Scottish Government has a balance that is subject to exchange rate fluctuations. This relates to advances received by the Economy, Jobs and Fair Work portfolio from the European Commission (EC) for the 2007-13 European Structural Funds (ESF) programme. The year end balance of £36.803m is the sterling equivalent of €42.066m translated at the accounting date (at the official EU exchange rate at 31 March 2018).

The Scottish Government has instituted funding advances for certain EU CAP payments. Euro denominations are sold once EU funding is received. As at 31 March the year end balance of £95.488m is the sterling equivalent of €106.888m.

Where there are other transactions denominated in Euros the exchange rate is managed within the programmes.

The Scottish Government has no other significant exposure to foreign currency risk.

### Housing Market Risk

The Scottish Government engages in a number of shared equity housing schemes, and is exposed to the risk of potential falls in the value of the housing market. The current investment in such schemes is £861m (2016-17: £749m).

**10. Financial Instruments (Cont.)****Categories of financial assets and financial liabilities**

The Scottish Government has the following categories of financial assets and financial liabilities:

<b>Financial Assets</b>		<b>Fair Value</b>	<b>Loans and</b>	<b>Shares Held in or Loans</b>	
<b>Current Year</b>	<b>Note</b>	<b>Through</b>	<b>Receivables</b>	<b>Advanced to Public</b>	<b>2017-18</b>
<b>Description</b>		<b>Profit and</b>	<b>Note b</b>	<b>Sector</b>	<b>Total</b>
		<b>Loss</b>	<b>Note a</b>	<b>Note c</b>	<b>Total</b>
		<b>Note a</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
		<b>£m</b>			<b>£m</b>
Voted loans	9a	-	5	3,064	<b>3,069</b>
NLF loans	9a	-	-	622	<b>622</b>
Housing loans	9a	861	190	-	<b>1,051</b>
Energy related loans	9a	-	128	-	<b>128</b>
EU CAP funds	9a	-	323	-	<b>323</b>
Other Funds	9a	-	182	-	<b>182</b>
Student loans	9a	-	3,691	-	<b>3,691</b>
Interests in nationalised industries	9a	-	-	25	<b>25</b>
Trade receivables	11	-	66	-	<b>66</b>
Accrued income	11	-	703	-	<b>703</b>
Interest receivable	11	-	33	-	<b>33</b>
Amounts receivable from the SCF	11	-	141	-	<b>141</b>
Other receivables	11	-	91	-	<b>91</b>
Corporate balance with the SCF	11	-	1	-	<b>1</b>
Cash and cash equivalents	2	-	585	-	<b>585</b>
<b>Total</b>		<b>861</b>	<b>6,139</b>	<b>3,711</b>	<b>10,711</b>

Note: As not all assets are financial instruments, the above table excludes VAT £60m and prepayments £342m included in the associated asset note (Note 11).



**10. Financial Instruments (Cont.)**

<b>Financial Assets</b>		<b>Fair Value</b>	<b>Restated</b>	<b>Shares Held in or Loans</b>	
<b>Prior Year</b>		<b>Through</b>	<b>Loans and</b>	<b>Advanced to Public</b>	<b>2016-17</b>
<b>Description</b>	<b>Note</b>	<b>Profit and</b>	<b>Receivables</b>	<b>Sector</b>	<b>Total</b>
		<b>Loss</b>	<b>Note b</b>	<b>Note c</b>	<b>Total</b>
		<b>Note a</b>	<b>Note b</b>	<b>Note c</b>	<b>Total</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Voted loans	9a	-	6	2,841	<b>2,847</b>
NLF loans	9a	-	-	652	<b>652</b>
Housing association loans	9a	-	61	-	<b>61</b>
Shared Equity Housing	9a	749	-	-	<b>749</b>
Other Housing Loans	9a	-	44	-	<b>44</b>
Other Funds	9a	-	466	-	<b>466</b>
Student loans	9a	-	3,257	-	<b>3,257</b>
Interests in nationalised industries	9a	-	-	25	<b>25</b>
Trade receivables	11	-	54	-	<b>54</b>
Accrued income	11	-	497	-	<b>497</b>
Interest receivable	11	-	30	-	<b>30</b>
Amounts receivable from the SCF	11	-	298	-	<b>298</b>
Other receivables	11	-	88	-	<b>88</b>
Cash and cash equivalents	2	-	625	-	<b>625</b>
<b>Total</b>		<b>749</b>	<b>5,426</b>	<b>3,518</b>	<b>9,693</b>

Note: As not all assets are financial instruments, the above table excludes VAT £58m and prepayments £252m included in the associated asset note (Note 11).

**10. Financial Instruments (Cont.)**

<b>Financial Liabilities</b>		<b>Fair Value Through Profit and Loss</b>	<b>All Other Financial Liabilities</b>	<b>Shares Held in or Loans Advanced to the Public Sector</b>	<b>2017-18 Total</b>
<b>Current Year</b>	Note	Note a £m	Note d £m	Note c £m	Total £m
<b>Description</b>					
Trade payables	12	-	449	-	<b>449</b>
Accruals	12	-	1,622	-	<b>1,622</b>
Other payables	12	-	411	-	<b>411</b>
NLF loans	12	-	-	622	<b>622</b>
Accrued Interest due on NLF Loans	12	-	-	9	<b>9</b>
Corporate balance with SCF	12	-	585	-	<b>585</b>
PFI Imputed finance leases	12	-	2,988	-	<b>2,988</b>
Lease payables	12	-	25	-	<b>25</b>
Bank overdraft	12	-	2	-	<b>2</b>
Financial guarantees	12	-	18	-	<b>18</b>
<b>Total</b>		<b>-</b>	<b>6,100</b>	<b>631</b>	<b>6,731</b>

Note: As not all liabilities are financial instruments, the above table excludes deferred income £130m, other tax and social security £139m, superannuation payable £99m and employee benefit accrual £61m included in the associated liability note (note 12). The finance leases are disclosed at the discounted cash flow value.

**10. Financial Instruments (Cont.)**

<b>Financial Liabilities</b>		<b>Fair Value Through Profit and Loss</b>	<b>All Other Financial Liabilities</b>	<b>Shares Held in or Loans Advanced to the Public Sector</b>	<b>2016-17 Total</b>
<b>Prior year</b>	<b>Note</b>	<b>Note a £m</b>	<b>Note d £m</b>	<b>Note c £m</b>	<b>£m</b>
<b>Description</b>					
Trade payables	12	-	444	-	444
Accruals	12	-	1,414	-	1,414
Other payables	12	-	375	-	375
NLF loans	12	-	-	652	652
Accrued Interest due on NLF Loans	12	-	-	9	9
Corporate balance with SCF	12	-	625	-	625
PFI Imputed finance leases	12	-	2,784	-	2,784
Lease payables	12	-	27	-	27
Financial guarantees	12	-	21	-	21
<b>Total</b>		<b>-</b>	<b>5,690</b>	<b>661</b>	<b>6,351</b>

Note: As not all liabilities are financial instruments, the above table excludes deferred income £98m, other tax and social security £131m, superannuation payable £97m and employee benefit accrual £58m included in the associated liability note (note 12). The finance leases are disclosed at the discounted cash flow value.

**Note a:** Assets and liabilities held at fair value through the profit and loss are measured at fair value with gains or losses being accounted for through the outturn statement.

**Note b:** Loans and receivables are measured at amortised cost using the effective interest methods, and any impairment losses go through the outturn statement. Disposal may give rise to a gain or loss, which is recognised through the outturn statement.

**Note c:** Shares held in or loans advanced to public sector or due to the NLF are held at historic cost less impairment, and any impairment losses go to the outturn statement.

**Note d:** All other financial liabilities will be measured at fair value initially and subsequently at amortised cost.

The fair value of financial instruments is equivalent to the carrying value disclosed in the financial statements. No financial assets or financial liabilities have been offset and presented net in these accounts.

## 11. Receivables and Other Assets

	2017-18 £m	2016-17 £m
<b>Amounts falling due within one year</b>		
Trade receivables	66	54
VAT	60	58
Other receivables	79	71
Prepayments and accrued income	370	325
Accrued income relating to EU funding	583	393
Interest receivable	33	30
Balances receivable from SCF	141	298
Corporate balance with the SCF	1	-
<b>Balance as at 31 March</b>	<b>1,333</b>	<b>1,229</b>
	2017-18 £m	2016-17 £m
<b>Amounts falling due in more than one year</b>		
Other receivables	12	17
Prepayments and accrued income	92	31
<b>Balance as at 31 March</b>	<b>104</b>	<b>48</b>
<b>Total balance as at 31 March</b>	<b>1,437</b>	<b>1,277</b>

Included within the total is interest receivable on NLF loans of £8m (2016-17: £9m) that will be paid to the Scottish Consolidated Fund as income not applied once the debt has been settled.

	2017-18 £m	2016-17 £m
<b>Trade Receivables are shown net of impairments as follows:</b>		
At 1 April	11	11
Charge for the year	11	5
Unused amount released	(1)	-
Utilised during the year	(3)	(5)
<b>At 31 March</b>	<b>18</b>	<b>11</b>

**12. Payables and Other Liabilities**

	2017-18	2016-17
	£m	£m
<b>Amounts falling due within one year</b>		
Trade payables	449	444
Other taxation and social security	139	131
Superannuation payable	99	97
Other payables	225	212
Deferred income and accruals	1,777	1,545
Accrued interest due on NLF loans	9	9
Finance leases	1	2
PFI imputed finance leases	68	51
PFI deferred residual interest	-	1
Corporate balance with the SCF	585	625
Balances payable to the SCF	-	-
	<b>3,352</b>	<b>3,117</b>
<b>Other financial liabilities:</b>		
Current instalments on NLF loans	31	30
Bank overdraft	2	-
Financial guarantees	2	2
	<b>35</b>	<b>32</b>
<b>Total current liabilities</b>	<b>3,387</b>	<b>3,149</b>
	2017-18	2016-17
	£m	£m
<b>Amounts falling due in more than one year</b>		
Other payables	186	163
Deferred income and accruals	36	25
Finance leases	24	25
PFI imputed finance leases	2,920	2,732
Lease adjustment for rent free period	-	1
	<b>3,166</b>	<b>2,946</b>
<b>Other financial liabilities</b>		
Instalments on NLF loans	591	622
Financial guarantees	16	19
	<b>607</b>	<b>641</b>
<b>Total non-current liabilities</b>	<b>3,773</b>	<b>3,587</b>

## 13a. Provisions for Liabilities and Charges

	Student Loans Sale Subsidy £m	Early Departure Costs £m	NHS Clinical and Medical Negligence £m	SPS Prisoner Compensation £m	Other Provisions £m	Total 2017-18 £m
<b>Balance as at 1 April 2017</b>	<b>40</b>	<b>149</b>	<b>438</b>	<b>-</b>	<b>77</b>	<b>704</b>
Add: element reported as due within one year	2	13	174	3	52	244
<b>Balance as at 1 April 2017</b>	<b>42</b>	<b>162</b>	<b>612</b>	<b>3</b>	<b>129</b>	<b>948</b>
Provided for in year	-	8	211	1	10	230
Provisions not required written back	(2)	(3)	(73)	(2)	(10)	(90)
Provisions utilised in year	(2)	(13)	(33)	-	(17)	(65)
Discount amortised	2	2	(2)	-	(1)	1
<b>Balance as at 31 March 2018</b>	<b>40</b>	<b>156</b>	<b>715</b>	<b>2</b>	<b>111</b>	<b>1,024</b>
Payable within one year	(2)	(12)	(118)	(2)	(45)	(179)
<b>Balance as at 31 March 2018</b>	<b>38</b>	<b>144</b>	<b>597</b>	<b>-</b>	<b>66</b>	<b>845</b>

Analysis of expected timing of any resulting outflows of economic benefits:

Payable in 1 year	2	12	118	2	45	179
Payable between 2 - 5 yrs	14	42	440	-	53	549
Payable between 6 - 10 yrs	24	37	29	-	11	101
Thereafter	-	65	128	-	2	195
<b>Balance as at 31 March 2018</b>	<b>40</b>	<b>156</b>	<b>715</b>	<b>2</b>	<b>111</b>	<b>1,024</b>

Prior Year	Student Loans Sale Subsidy £m	Early Departure Costs £m	NHS Clinical and Medical Negligence £m	SPS Prisoner Compensation £m	Other Provisions £m	Total 2016-17 £m
<b>Balance as at 1 April 2016</b>	<b>42</b>	<b>141</b>	<b>256</b>	<b>-</b>	<b>93</b>	<b>532</b>
Add: element reported as due within one year	-	13	107	3	62	185
<b>Balance as at 1 April 2016</b>	<b>42</b>	<b>154</b>	<b>363</b>	<b>3</b>	<b>155</b>	<b>717</b>
Provided for in year	-	18	330	1	24	373
Provisions not required written back	-	(4)	(56)	-	(4)	(64)
Provisions utilised in year	(2)	(19)	(25)	(1)	(48)	(95)
Discount amortised	2	13	-	-	2	17
<b>Balance as at 31 March 2017</b>	<b>42</b>	<b>162</b>	<b>612</b>	<b>3</b>	<b>129</b>	<b>948</b>
Payable within one year	(2)	(13)	(174)	(3)	(52)	(244)
<b>Balance as at 31 March 2017</b>	<b>40</b>	<b>149</b>	<b>438</b>	<b>-</b>	<b>77</b>	<b>704</b>

Analysis of expected timing of any resulting outflows of economic benefits:

Payable in 1 year	2	13	174	3	52	244
Payable between 2 - 5 yrs	12	66	338	-	56	472
Payable between 6 - 10 yrs	28	39	15	-	21	103
Thereafter	-	44	85	-	-	129
<b>Balance as at 31 March 2017</b>	<b>42</b>	<b>162</b>	<b>612</b>	<b>3</b>	<b>129</b>	<b>948</b>

### 13b. Provisions for Liabilities and Charges

#### Student Loans

The debt sale subsidy is the additional cost to the Scottish Government of government subsidies contractually due to the purchaser of the debts, beyond the costs that the government would have incurred had the debts remained in the public sector. The debt sale subsidy provision is estimated to meet the cost of this subsidy over the expected life of loans sold. The utilisation of this provision is dependent on the timing of the repayment of the loans which is uncertain.

#### NHS Clinical and Medical Negligence

Included within provisions is an amount of £715m (2016-17: £612m) which relates to clinical and medical negligence costs.

Following the accounting review undertaken in 2014-15, on consolidation, the Scottish Government's CNORIS provision represents the national liability and the Boards' accounting for individual claims is removed.

In 2017-18 £211m (2016-17: £330m) of estimated settlement value of medical and clinical negligence claims were added to the provision.

In 2017-18 £33m (2016-17: £25m) in claims were settled and £73m (2016-17: £56m) was written back as no longer required.

#### Early Departure Costs

This provision is based on an estimate of exposure to potential payments in respect of employees leaving service prior to reaching normal retirement age.

#### Prisoner Compensation

This provision is based on an estimate of exposure to potential prisoner compensation claims; further information can be found within the Scottish Prison Service annual accounts at [www.sps.gov.uk](http://www.sps.gov.uk).

#### Other Provisions - NHS Balances

Other provisions include NHS balances of £11m (2016-17: £19m). The NHS balances relate to various Health Boards and Bodies and include: provision for non-medical legal liabilities, employer and third party costs, provision for future development costs, dilapidations, and a variety of other smaller provisions.

#### Other Provisions - Transport Scotland Balances

Also included within other provisions are Transport Scotland balances of £77.6m (2016-17: £84.0m) including £68.7m relating to land & property acquisition (2016-17: £73.5m), £3.4m relating to major projects (16-17: £5.0m), and £5.5m relating to other retirement benefit costs (2016-17: £5.5m).

The land & property acquisition provisions relate primarily to estimates made of the likely compensation payable in respect of planning blight, discretionary and compulsory acquisition of property from owners arising from physical construction of a road or rail scheme. When land is acquired by CPO it is not known when compensation settlements will be made. A provision for the estimated total cost of land acquired is created when it is expected that a general vesting declaration will be published in the near future. It may take several years from the announcement of a scheme to completion and final settlement of all liabilities. The estimates provided by the Valuation Office Agency are reviewed bi-annually.

Major projects provisions relate to compensation claims made in respect of work done under on projects that have not yet fully settled.

Transport Scotland agreed to meet the additional cost of benefits payable to specific employees who retired early until they reach the age of 60 at which point the liability is assumed by the PCSPS. The cost of these benefits is provided in full when the employee retires.

#### Other Provisions - European funded schemes

European Structural Funds Programmes - In 2016-17 a provision of £1m was made in recognition of the anticipated cost of self corrections relating to closed schemes (2007-13). This provision has been reviewed and remains at £1m in anticipation of exchange rate fluctuations between the euro and sterling.

CAP schemes - provisions have been made in anticipation of exchange rate fluctuations between sterling and the euro (£nil; 2016-17: £3.5m) and to recognise the estimated costs of adjustments to EU-related income and expenditure that may arise in future years (£0.8m; 2016-17: £2.5m).

**14. Capital Commitments**

	2017-18 £m	2016-17 £m
<b>Property, Plant and Equipment</b>		
Contracted capital commitments for which no provision has been made	3,408	2,326
<b>Total</b>	<b>3,408</b>	<b>2,326</b>
<b>Intangible Assets</b>		
Contracted capital commitments for which no provision has been made	35	21
<b>Total</b>	<b>35</b>	<b>21</b>
<b>Total Commitments</b>	<b>3,443</b>	<b>2,347</b>

2017-18 property, plant and equipment commitments include future payments of £3,301m (2016-17: £2,133m) in respect of major road schemes currently under construction, and a number of capital projects being undertaken by NHS Boards of £107m (2016-17: £193m)

2017-18 intangible assets commitments include the development of a replacement IT system for Marine Scotland's vessels of £3.7m (2016-17: £1.6m) (90% reimbursement expected from the European Union), a £0.5m Digital Planning commitment (2016-17: £nil), the development of a new pensions administration system of £nil (2016-17: £1.6m), Disclosure Scotland Transformation Programme of £6.3m (2016-17: £4.5m) and £24.6m (2016-17: £13m) to complete the CAP Futures project.



## 15. Commitments Under Leases

### 15a. Operating Leases

Total future minimum lease payments under operating leases are given in the tables below for each of the following periods:

#### Obligations under operating leases comprise:

	2017-18 £m	2016-17 £m
<b>Land</b>		
Within one year	8	1
Between two and five years (inclusive)	27	3
After five years	27	6
<b>Total</b>	<b>62</b>	<b>10</b>
<b>Buildings</b>		
Within one year	35	37
Between two and five years (inclusive)	110	116
After five years	148	148
<b>Total</b>	<b>293</b>	<b>301</b>
<b>Other Commitments</b>		
Within one year	21	20
Between two and five years (inclusive)	24	30
After five years	-	-
<b>Total</b>	<b>45</b>	<b>50</b>

### 15b. Finance Leases

Total future minimum lease payments under finance leases are given in the tables below for each of the following periods:

#### Obligations under finance leases comprise:

	2017-18 £m	2016-17 £m
<b>Buildings</b>		
Within one year	5	6
Between two and five years (inclusive)	19	19
After five years	60	65
<b>Total</b>	<b>84</b>	<b>90</b>
Less the interest element	(60)	(65)
<b>Total</b>	<b>24</b>	<b>25</b>
<b>Other Commitments</b>		
Within one year	-	-
Between two and five years (inclusive)	1	1
After five years	-	-
<b>Total</b>	<b>1</b>	<b>1</b>
Less the interest element	-	-
<b>Total</b>	<b>1</b>	<b>1</b>

This total net obligation under finance leases is analysed in Note 12.

### 15c. Commitments Under Leases

Within the Scottish Government core estate, the main leasing arrangements are entered into on the basis of Market Rent, often incorporating a rent-free period. Subsequent rent reviews are calculated on the basis of (i) the market rental value or (ii) the passing rental if the Market Rent is less than the passing rental at the time of the rent review (i.e. upwards only). The Scottish Government have some properties where the rent at review is calculated by reference to the Retail Prices Index or other index (often also upwards only).

The ground leases covering the land at Saughton House and the Logie Weir Fish Counter are the only properties which have terms of renewal. All other leases have no terms of renewal or purchase options.

## 16. Other Financial Commitments

### 16a. Other Commitments

The payments to which the Scottish Government is committed analysed by the period during which the commitment expires are as follows:

	2017-18 £m	2016-17 £m
Payable in 1 year	780	741
Payable between 2 - 5 years	4,366	3,994
Payable in more than 5 years	-	-
<b>Total</b>	<b>5,146</b>	<b>4,735</b>

Other financial commitments payable within one year include £336m (2016-17: £425m) as a committed income stream to Network Rail in accordance with the Deed of Grant; £381m (2016-17: £291m) to Abellio ScotRail and £27m (2016-17: £23m) to Serco Caledonian Sleeper under the Franchise Agreements; and £8m (2016-17: £7m) for vehicles within Scottish Ambulance Services. There is also £32m (2016-17: £nil) to fund Scotland's successful bid to co-host the 2018 European Championships and host the Short Course Swimming and European Athletics Indoor Championships in 2019; £1m (2016-17: £nil) to host Euro 2020, and £2m (2016-17: £nil) to host the Solheim Cup in 2019.

Commitments payable within 2 to 5 years include £2,680m (2016-17: £2,062m) to Network Rail, £1,594m (2016-17: £1,751m) to Abellio; and £79m (2016-17: £106m) to Serco. There is also £0.3m (2016-17: £57m) to fund Scotland's successful bid to co-host the 2018 European Championships and host the Short Course Swimming and European Athletics Indoor Championships in 2019; £0.5m (2016-17: £2m) to host Euro 2020; and £12m (2016-17: £16m) to host the Solheim Cup in 2019.

### 16b. Guarantees, Indemnities and Letters of Comfort

The Scottish Government entered into the following guarantees, indemnities or provided letters of comfort. None of these is a contingent liability within the meaning of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*. They are included for parliamentary reporting and accountability purposes. A number of these arrangements cannot reliably be quantified; where values can be determined these have been provided.

#### Guarantees

##### Health and Sport

Guarantee to underwrite a figure equivalent to 50% of previous year's donation from The Robertson Trust to the Scottish Charity Air Ambulance of £0.1m (2016-17: £0.1m).

##### Economy, Jobs and Fair Work

In 2016-17, the Scottish Government entered into a guarantee contract in respect of a power purchase agreement between the hydro plant and aluminium smelter at Lochaber (owned by SIMEC and Liberty House respectively). The total discounted value of premiums due to the Scottish Government in respect of this guarantee is £18.7m (2016-17 discounted value: £21.4m), and is included in the Statement of Financial Position and in Note 9 (Financial Instruments) within the Other Funds balance.

##### Communities, Social Security and Equalities

Guarantee of a £0.15m (2016-17: £0.15m) loan between Social Investment Scotland and Glencraft (Aberdeen) Ltd following the restructuring of the business, and guarantees to the Lothian Pension Fund in relation to the admission of the Scottish Homes Pension Fund and Scottish Futures Trust.

##### Rural Economy and Connectivity

The Scottish Government has underwritten the Abellio ScotRail and Serco Caledonian Sleeper pension funds, in line with guarantees provided to other train operators by the Department for Transport.

Guarantee to Lothian Pension Fund in relation to the admission of The Scottish Agricultural College.

Guarantee to Fife Council in relation to the admission of The Scottish Agricultural College to the Local Government Pension Fund.

Guarantee to Dumfries and Galloway Council in relation to the admission of The Scottish Agricultural College to the Local Government Pension Fund.

Section 54 guarantees issued as part of the rail rolling stock procurement process.

Guarantee to Highlands and Islands Enterprise in relation to their pension scheme.

##### Justice

Guarantee to Lothian Pension Fund in relation to the admission of The Scottish Legal Complaints Commission.

*16b. Guarantees, Indemnities and Letters of Comfort (Cont.)*

**Indemnities**

**Culture, Tourism and External Affairs**

At the beginning of the year there was an existing indemnity relating to objects lent under the National Heritage Act 1980 and the National Heritage (Scotland) Act 1985. The year-end balance depends on new acquisitions and the number of exhibitions that these pieces are included in during the financial year, and at 31 March this was £1,257m (2016-17: £1,165m).

Existing indemnity for local museums and galleries dependent on the number of new acquisitions and number of exhibitions that these pieces were included in during the financial year, valued at £21.8m (2016-17: £22.2m) at 31 March.

**Communities, Social Security and Equalities**

Mortgage lenders held indemnities by Scottish Homes for £0.503m (2016-17: £0.516m) at 31 March.

**Rural Economy and Connectivity**

Existing indemnity related to operating agreements in respect of the ScotRail and Caledonian Sleeper Franchise Agreements.

Indemnity clause in roads contracts to compensate Network Rail for any damage or loss of access.

Liability agreement for any issues caused by the Glasgow Airport Rail Link ground investigation work for the next 4 years.

**Economy, Jobs and Fair Work**

Indemnity cover of up to a total of £0.4m (2016-17: £0.4m) to cover legal costs incurred by the Carbon Trust or Salix in the novation of loans to another party.

**Letters of Comfort**

None

## 17. Commitments under Service Concession Arrangements

Non-Profit Distributing (NPD), Public Private Partnerships (PPP) and Private Finance Initiative (PFI) transactions are accounted for in accordance with IFRIC 12, *Service Concession Arrangements* which sets out how NPD/PPP/PFI transactions are to be accounted for in the private sector.

A transaction is deemed to be 'on balance sheet' (i.e. included in Statement of Financial Position) when:

- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and
- the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the agreement.

Where the transaction is deemed to be 'on balance sheet', the substance of that contract is that the Scottish Government has a finance lease, with the asset being recognised as a fixed asset in the Scottish Government's Statement of Financial Position.

*17a. Commitments Under Service Concession Arrangements - Included in Statement of Financial Position***Description of Schemes****Health Bodies:**

**Ayrshire and Arran Woodland View (formerly North Ayrshire Community Hospital)** - sharing a site in Irvine with the Ayrshire Central Hospital. The building is a NPD model and reached practical completion and handover on the 1st April 2016. The building provides a Mental Health and Frail Elderly inpatient facility for Ayrshire. The 25 year contract period commenced on the 1st April 2016 and will be completed on the 31st March 2041. At the end of the contract period the building will revert to NHS ownership.

**Ayrshire and Arran East Ayrshire Community Hospital** - situated in Cumnock, the facility provides Inpatient beds, Elderly Mental Ill, and GP Acute; there are day facilities for Frail Elderly and Elderly Mental Ill and Outpatient Clinics (including Allied Health Professions). 4 years prior to the end of the 25 year contract period, negotiations will have been undertaken to determine future options available for the site.

**Ayrshire and Arran Ayrshire Maternity Unit** - adjoined to University Crosshouse Hospital in Kilmarnock, the facility provides Area Midwifery services for in-patients, day patients, and out-patients. The 30 year contract commenced in July 2006 and will be completed in July 2036. At the end of this period, the building is available for transfer to the NHS at no additional cost.

**Dumfries and Galloway Maternity and Day Surgery Unit** - situated in Dumfries, is included in the statement of financial position at a valuation of £7m as at 31 March 2018 (at 31 March 2017: £10.6m). The premises opened in January 2002 and the contract ends in January 2032, however following the successful migration of these services to the new Dumfries and Galloway Royal Infirmary, the future planning arrangements for this building are now underway. This building is now referred to as Mountainhall.

**Dumfries and Galloway District General Hospital** – The Board opened the doors to its new District General Hospital in December 2017 following the successful completion of the project funded under NPD. The land and buildings are included in the statement of financial position at a valuation of £204.7m as at 31 March 2018 and the contract ends in September 2042. The NPD funding model was developed and introduced as an alternative to, and has since superseded, the traditional PFI model in Scotland.

**Fife St Andrews Community Hospital and Health Centre** - Contract started 31st July 2009. Contract ends 30th July 2039. In accordance with HM Treasury application of IFRIC 12 principles, the property is a non-current asset of NHS Fife Board and the liability to pay for the property is, in substance, a finance lease obligation.

**Fife Victoria Hospital** - Contract started 28th October 2011. Contract ends 27th October 2041. In accordance with HM Treasury application of IFRIC 12 principles, the property is a non-current asset of NHS Fife Board and the liability to pay for the property is, in substance, a finance lease obligation.

**Forth Valley Clackmannanshire Community Healthcare Centre (CCHC)** – CCHC is a service concession for the development and right of use of Community Health Facilities (incorporating a Health Centre Building including accommodation for 3 GP practices, Associated Clinical Services and accommodation for local Health and Social Work Teams, a Mental Health Resource Centre, a Day Therapy Unit and 45 Inpatient Beds) and provision of services, including maintenance of the facility, under a Project Agreement. Certain facilities management services such as cleaning will be provided by the Board. Services Commencement date was 18th May 2009 and the contract term ends in July 2037. The payment mechanism is incorporated in the Project Agreement and subject to annual adjustment for inflation in line with the Retail Price Index (RPI) and risk sharing arrangements around usage and price of utilities (gas, electricity and fuel oil). At the end of the agreement the asset will revert to the ownership of the Board. There were no significant changes to the contract in the year.

*17a. Commitments Under Service Concession Arrangements - Included in Statement of Financial Position (Cont.)*

**Forth Valley Royal Hospital (FVRH)** - Forth Valley Royal Hospital (FVRH) is a service concession for the NHS Forth Valley development and right of use of a new Acute Hospital for Forth Valley (FVRH) and associated provision of services including facilities management services such as patient catering, portering, cleaning and maintenance. Services Commencement (handover of the facility to the Board) was in three phases May 2010, August 2010 and April 2011. The duration of the agreement is for 30 years from practical completion to the end of the financial year in which the 30th anniversary occurs. The payment mechanism is incorporated in the Project Agreement and subject to annual adjustment for inflation in line with the Retail Price Index (RPI) and risk sharing arrangements around volumes of patient catering supplied and usage and price of utilities (gas, electricity and fuel oil). At the end of the agreement the asset will revert to the ownership of the Board. There were no significant changes to the contract in the year.

**Grampian Aberdeen Health and Community Care Village** - Service Concession agreement with HUB North of Scotland Ltd for occupancy of the Aberdeen Health and Community Care Village effective 14th November 2013. Under the terms of the agreement NHS Grampian have a legal commitment to occupy the buildings for a period of 25 years and will incur annual charges for occupancy, maintenance and running costs.

**Grampian Woodside Health Centre** - Service Concession agreement with HUB North of Scotland Ltd for occupancy of Woodside Health Centre effective 28 June 2014. Under the terms of the agreement NHS Grampian have a legal commitment to occupy the buildings for a period of 25 years and will incur annual charges for occupancy, maintenance and running costs.

**Grampian Forres Health Centre** - Service Concession agreement with HUB North of Scotland Ltd for occupancy of Forres Health Centre effective 9 August 2014. Under the terms of the agreement NHS Grampian have a legal commitment to occupy the buildings for a period of 25 years and will incur annual charges for occupancy, maintenance and running costs.

**Grampian Inverurie Hospital Energy Centre** - Service Concession agreement with HUB North of Scotland Ltd for occupancy of the Energy Centre at Inverurie Hospital effective January 2018. This is phase 1 of a three-phase project with Foresterhill Health Centre (Phase 2) and Inverurie Health and Community Care Hub (Phase 3) to be completed during 2018/19. Under the terms of the agreement NHS Grampian have a legal commitment to occupy the buildings for a period of 25 years and will incur annual charges for occupancy, maintenance and running costs.

**Greater Glasgow and Clyde Larkfield Unit** – The Day Hospital Elderly Care Facility contract commenced with Quayle Munro Ltd on 1 November 2000 for a period of 25 years. The estimated capital value at commencement of the contract was £9.1m.

**Greater Glasgow and Clyde Southern General Hospital** – The Elderly Bed Facility (210 beds) contract commenced with Carillion Private Finance on 1 April 2001 for a period of 28 years. The estimated capital value at commencement of the contract was £11.1m.

**Greater Glasgow and Clyde Gartnavel Royal Hospital** – The Mental Health Facility (117 beds) contract commenced with Robertson Capital Projects Ltd on 1 October 2007 for a period of 30 years. The estimated capital value at commencement of the contract was £17.7m.

**Greater Glasgow and Clyde Stobhill Rowanbank Clinic** – The Mental Health Secure Care Centre (74 beds) contract commenced with Quayle Munro Ltd on 1 May 2007 for a period of 35 years. The estimated capital value at commencement of the contract was £19m.

**Greater Glasgow and Clyde Stobhill Hospital** – The Ambulatory Care and Diagnostic Treatment Centre contract commenced with Glasgow Healthcare Facilities Ltd on 1 April 2009 for a period of 30 years. The estimated capital value at commencement of the contract was £78.7m.

**Greater Glasgow and Clyde Stobhill Hospital** – The Ambulatory Care and Diagnostic Treatment Centre 60 bed extension. PFI contract commenced with Glasgow Healthcare Facilities Ltd on 25 February 2011 for a period of 30 years. Estimated capital value at commencement was £15.8m.

**Greater Glasgow and Clyde Victoria Hospital** – The Ambulatory Care and Diagnostic Treatment Centre contract commenced with Glasgow Healthcare Facilities Ltd on 1 April 2009 for a period of 30 years. The estimated capital value at commencement of the contract was £99.3m.

*17a. Commitments Under Service Concession Arrangements - Included in Statement of Financial Position (Cont.)*

**Greater Glasgow and Clyde Eastwood Health and Care Centre** - HUB contract commenced with HUB West Scotland Project Co. on 3 June 2016 for a period of 25 years. Estimated capital value at commencement was £9.1m.

**Greater Glasgow and Clyde Maryhill Health and Care Centre** - HUB contract commenced with HUB West Scotland Project Co. on 15 July 2016 for a period of 25 years. Estimated capital value at commencement was £12.4m.

**Greater Glasgow and Clyde Inverclyde Orchardview** - HUB contract commenced with HUB West Scotland Project Co. on 17 July 2017 for a period of 25 years. Estimated capital value at commencement was £8.4m.

**Highland New Craigs** - The scheme is a replacement for the Craig Dunain Hospital, Inverness and provides inpatient facilities for adults with mental health needs or learning disabilities. The contract commenced July 2000 for a period of 25 years. The estimated capital value at commencement of the contract was £14.4m.

**Highland Easter Ross** - This scheme is a redevelopment of County Hospital, Invergordon into a Primary Care Centre and combines a community hospital and a health centre, integrating primary and community care into one community health resource. The contract commenced February 2005 for a period of 25 years. The estimated capital value at the commencement of the contract was £8.8m and the PFI property will revert to the board at the end of the contract.

**Highland Mid Argyll Community Hospital and Integrated Care Centre Lochgilphead** - NHS Highland financed the development of the Mid Argyll Community Hospital and Integrated Care Centre in Lochgilphead. The contract commenced June 2006 and will be completed May 2036 at which point the ownership of the asset will transfer to the board. The estimated capital value at the commencement of the contract was £19.2m.

**Highland Tain Health Centre** - Service Concession agreement with HUB North of Scotland Ltd for occupancy of the Tain Health Centre effective 24th May 2014. Under the terms of the agreement NHS Highland have a legal commitment to occupy the buildings for a period of 25 years and will incur annual charges for occupancy, maintenance and running costs.

**Lanarkshire Hairmyres Hospital** - The provision of a large general hospital. The period of contract is 26 March 2001 to 30 June 2031. The estimated capital value is £73.8m. The hospital services are provided under a contract between Lanarkshire Health Board and Prospect Healthcare (Hairmyres) Limited, with hard and soft facilities management services being supplied under a subcontract to ISS Mediclean Limited. The hospital building is provided by way of a capital rental which is non indexed linked and is profiled for the duration of the contract. Major maintenance, risk overhead and margin are set within the contracts financial framework but these increase on an annual basis in line with the retail price index. Hard facilities management services include the provision of estates services, information technology, window cleaning, pest control and energy services. These services are subject to increase in line with the retail price index. Soft facilities management services includes full provision of catering services for patients and staff, housekeeping / ward hostess, linen, portering, transport security, switchboard and waste management. These services are subject to increase in line with the retail price index. The services provided are subject to a performance regime where reductions in the payments are recovered in line with the performance measurement regime. The services provided are subject to "market testing" every seven years.

**Lanarkshire Wishaw Hospital** - The provision of a large general hospital. The period of contract is 28 May 2001 to 30 November 2028. The estimated capital value is £151.9m. The hospital and services are provided under a contract between Lanarkshire Health Board and Summit Healthcare (Wishaw) Limited, with hard and soft facilities management services being supplied under a subcontract to SERCO health Limited. A managed radiology service is provided by Siemens Ltd. and under this service all major radiology diagnostic equipment is provided, maintained and replaced in line with an investment programme. This sum is fixed within the contract and increased in line with the retail price index. The hospital building is provided by way of an Availability payment which is largely non indexed linked and is profiled for the duration of the contract. Life cycle maintenance costs and insurance are set within the contracts financial framework but these increase on an annual basis in line with the retail price index. Hard facilities management services include the provision of estates and energy services. These services are subject to increase in line with the retail price index. Soft facilities management services include full provision of catering services for patients and staff, cleaning/domestics, linen, portering, security, switchboard and waste management. The services are set to increase in line with the retail price index. The services provided are subject to a performance regime where reductions in the payments charged are recovered in line with the performance measurement regime. The services provided are subject to "market testing" every seven years.

*17a. Commitments Under Service Concession Arrangements - Included in Statement of Financial Position (Cont.)*

**Lanarkshire Stonehouse Hospital** - The provision of a small community hospital. The period of contract is 1 May 2004 to 30 April 2034. The estimated capital value is £4.3m. The hospital is provided under a contract between Lanarkshire Health Board and Stonehouse Hospitals Limited, with the service arrangements provided internally by Lanarkshire Health Board.

**Lanarkshire Hub Projects** - The provision of three community Health Centres in East Kilbride, Kilsyth and Wishaw under the Scottish Future Trust Hubco leased model. These new facilities opened in 2015-16 and are provided by HUB South West Scotland under a 25 year contract. The Hubco provides the centres and is responsible for lifecycle and hard facilities management services which are delivered under a subcontract with Graham Facilities Management Ltd. The contract is managed under a performance regime with deduction applied to the payment for performance failures. The current estimated capital value of these facilities is £44.6m.

**Lothian Royal Infirmary of Edinburgh** - An Acute Teaching hospital. The contract started 1 November 2001 and will end 30 June 2053. The estimated capital value is £177.8m.

**Lothian Ferryfield House** - The provision of a 30 bedded facility for frail elderly and dementia patients which replaced the 100 year old Northern General Hospital. The contract started 1 October 1996 and will end 1 October 2021. The estimated capital value is £3.1m.

**Lothian Ellens Glen** - Service provides a 60 bedded facility for frail elderly and dementia patients. The contract started 1 November 1999 and will end 1 November 2029. The estimated capital value is £3.8m.

**Lothian Findlay House** - Service provides a 60 bedded facility for frail elderly and dementia patients in the grounds of the Eastern General Hospital. The contract started 13 June 2003 and will end 12 June 2033. The estimated capital value is £3.9m.

**Lothian Tippethill** - Service provides a 60 bedded facility for frail elderly and dementia patients at Whitburn. The contract started 6 September 2000 and will end 5 September 2025. The estimated capital value is £2.6m.

**Lothian Bathgate Primary Care Centre** - Service provides a Primary Care Centre which accommodates 3 GP Practices and the CHP's community activities in the locality. The contract started 1 October 2001 and will end 30 September 2026. The estimated capital value is £2.2m.

**Lothian Midlothian Community Hospital** - This hospital provides 88 beds for frail elderly and dementia patients, outpatient clinics and a number of CHP led community activities. The contract started 1 September 2010 and will end 31 August 2040. The estimated capital value is £14.7m.

**Lothian Royal Edinburgh Hospital Phase 1** - Service provides 185 beds for both mental health services and a national acquired brain injury service. The contract started on 5 December 2016 and will end on 4 December 2041. The estimated capital value is £39.7m.

**Lothian Allermuir Health Centre** - An integrated primary care facility, combining General Practice and NHS community health services in the Firhill area of Edinburgh. The contract started on 25 September 2017 and will end on 24 September 2042. The estimated capital value is £6.2m.

**Lothian Blackburn Partnership Centre** - This facility includes health and social care services as well as community services for local residents. The contract started on 22 September 2017 and will end on 21 September 2042. The estimated capital value is £8.0m.

**Lothian Pennywell All Care Centre** - A joint development between NHS Lothian and the City of Edinburgh Council, providing health and social care services for the local community. The contract started on 23 October 2017 and will end on 22 October 2042. The estimated capital value is £11.1m.

**Lothian Royal East Lothian Community Hospital phases 1 and 2** - The project will bring together services from Roodlands and Herdmanflat onto the same site. Phase 1 and 2 of the project include reprovision of the outpatients department and car parking facilities. The contract started on 10 February 2017 (Phase 1) and 23 February 2018 (Phase 2) and will end on 30 August 2044. The estimated capital value is £5.6m.

**Tayside The Carseview Centre** - Located on the Ninewells Hospital site in Dundee the centre provides in-patient facilities for Adult Psychiatry and Learning Disability. The contract commenced 11 June 2001 and will be completed 11 June 2026, when NHS Tayside may negotiate a further contract or purchase the facility.

**Tayside The Susan Carnegie Clinic (Mental Health NPDO Phase 1)** - Located on the Stracathro Hospital site by Brechin, it provides in-patient facilities and a day hospital for Psychiatry of Old Age. The contract start date was 2 December 2011 and the end date will be 17 May 2042, when NHS Tayside will become owners of the facility.

**Tayside Whitehills Community Resource Centre** - Covers Forfar, Kirriemuir and the surrounding area in conjunction with Angus Council and Lippen Care. The contract commenced 21 March 2005 and will be completed 21 March 2030, when NHS Tayside will become owners of the facility.

**Tayside The Mental Health NPDO** - Phase 2 is located on the Murray Royal Hospital site in Perth and provides in-patient, day-patient and out-patient facilities for NHS Tayside's General Adult Psychiatry, Psychiatry of Old Age and Low Secure Forensic services, as well as a regional in-patient unit providing Medium Secure Forensic services for patients from the North of Scotland Health Boards. The contract start date was 1 June 2012 and the end date will be 17 May 2042, when NHS Tayside will become owners of the property.

**National Services Scotland Jack Copland Centre** - The National Centre for the processing and testing of blood, tissues and cells for patients in Scotland by the Scottish National Blood Transfusion Service (SNBTS).



*17a. Commitments Under Service Concession Arrangements - Included in Statement of Financial Position (Cont.)*

**Transport Scotland:**

**M6(74) DBFO** - The contract covers the design, construction, financing and operation of 28.3km of the new Scottish motorway as well as the operation and maintenance of 90km of new and existing Scottish motorway. Payments are made under a shadow toll regime. The toll period commenced in July 1997 and expires in July 2027.

**M77 Fenwick to Malletsheugh** - This is a joint PPP entered into by the Scottish Government, East Renfrewshire and South Lanarkshire Councils. The project covers the design, construction, financing and operation of 15km of the new Scottish motorway and a new 9km local link road between the new motorway and the A726 trunk road. Payments are made under a shadow toll regime. The toll period began in April 2005 and expires in April 2035.

**M80** - The contract covers the design, build and financing of approximately 18km of dual two/three lane motorway, together with, but not limited to, associated slip roads, side roads, junctions, structures, culverts and associated works. The contract also incorporates the operation and maintenance of the new motorways, associated structures, and related elements for a period of 30 years after completion of the new works. Unitary charge payments commenced in September 2011 and will cease in September 2041.

**M8, M73, M74 Improvements** - The project upgrades the A8 Baillieston to Newhouse, completing the M8 Glasgow to Edinburgh, and includes improvements to the M74 Raith Interchange and the widening of key sections of the M8, M73 & M74. NPD contract also incorporates management, operation and maintenance for 30 years. Unitary charge payments became committed as sections of the road became available in 2017 and will cease on 15 March 2047.

**Aberdeen Western Peripheral Road/Balmedie and Tipperty** - The project will construct a new dual carriageway to by-pass the City of Aberdeen and upgrade the road between Balmedie and Tipperty to dual carriageway. The NPD contract also incorporates the management, operation and maintenance of these roads for a period of 30 years. The unitary charge payments have been committed in phases from Autumn 2016 until construction completion in 2018 and will cease in 2048.

**Scottish Prison Service:**

**HMP Kilmarnock** - The contract covers the design, construction, financing and operation of a prison, HMP Kilmarnock. The contract commenced in March 1999 for a period of 25 years. The capital liability is now nil, however, payments for the service element continue to the end of the contract.

**HMP Addiewell** - The contract covers the design, construction, financing and operation of HMP Addiewell. The contract commenced in December 2008 for a period of 25 years.

**Court Custody and Prisoner Escort Service** - This service concession arrangement covers a service let for 7 years with an option to extend for a further 3 years. The contract commenced in January 2012.

Further details of the individual contracts can be found in the individual accounts of the NHS bodies in Scotland, Scottish Prison Service and Transport Scotland.

17b. Commitments Under Service Concession Arrangements - Included in Statement of Financial Position (Cont.)

Under IFRIC 12 the asset is treated as an asset of the Scottish Government and included in the Scottish Government's accounts as a non current asset. The liability to pay for the property is in substance a finance lease obligation. Contractual payments therefore comprise two elements: imputed finance lease charges and service charges. The imputed finance lease obligation is as follows:

Gross Minimum Lease Payments	NHS Bodies			2017-18 Total £m	2016-17 Total £m
	in Scotland £m	Scottish Prison Service £m	Transport Scotland £m		
Rentals due within 1 year	252	73	95	420	364
Due within 2 to 5 years	1,001	207	306	1,514	1,379
Due after 5 years	4,200	511	1,679	6,390	5,785
<b>Total</b>	<b>5,453</b>	<b>791</b>	<b>2,080</b>	<b>8,324</b>	<b>7,528</b>

Interest Element	NHS Bodies			2017-18 Total £m	2016-17 Total £m
	in Scotland £m	Scottish Prison Service £m	Transport Scotland £m		
Rentals due within 1 year	134	7	28	169	154
Due within 2 to 5 years	497	23	100	620	569
Due after 5 years	1,241	33	205	1,479	1,418
<b>Total</b>	<b>1,872</b>	<b>63</b>	<b>333</b>	<b>2,268</b>	<b>2,141</b>

Present Value of Minimum Lease Payments	NHS Bodies			2017-18 Total £m	2016-17 Total £m
	in Scotland £m	Scottish Prison Service £m	Transport Scotland £m		
Rentals due within 1 year	118	66	67	251	210
Due within 2 to 5 years	504	184	206	894	810
Due after 5 years	2,959	478	1,474	4,911	4,367
<b>Total</b>	<b>3,581</b>	<b>728</b>	<b>1,747</b>	<b>6,056</b>	<b>5,387</b>

Service elements due in future periods, included above	NHS Bodies			2017-18 Total £m	2016-17 Total £m
	in Scotland £m	Scottish Prison Service £m	Transport Scotland £m		
Rentals due within 1 year	68	61	54	183	158
Due within 2 to 5 years	289	171	145	605	556
Due after 5 years	1,580	408	293	2,281	1,889
<b>Total</b>	<b>1,937</b>	<b>640</b>	<b>492</b>	<b>3,069</b>	<b>2,603</b>

#### Contingent rents

IAS 17 *Leases* defines contingent rents as "that portion of lease payment that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, and future market rates of interest)".

Contingent rents recognised as an expense in the period were £23m (2016-17: £22m).

## 18. Contingent Assets/Liabilities disclosed under IAS 37

### 18a. Contingent Assets disclosed under IAS 37: Provisions, Contingent Liabilities and Contingent Assets

The definition of a Contingent Asset under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is a possible asset, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control. Contingent Assets often cannot be reliably quantified; where values can be determined these have been provided.

#### **Health and Sport**

NHS Employer's Liability estimated at £1.6m (2016-17: £1.4m).

#### **Rural Economy and Connectivity**

Transport Scotland successfully defended an allegation of Glasgow Airport Rail Link (GARL) copyright infringement, and a subsequent appeal which was dismissed in May 2012. The process of recovering the expenses awarded by the Court of Session is now in the hands of Accountant in Bankruptcy.

#### **Environment, Climate Change and Land Reform**

The Ellis Building, part of the Marine Scotland estate in Aberdeen is subject to a legal case where the main contractor and architect are being pursued for breach of contract. There will be a further procedural hearing in the Commercial Court scheduled in October 2018. Note: Remedial works are currently being undertaken to the building costing circa £6m and these should be completed by the end of 2018 at which point a recovery of costs will be sought.

#### **Communities, Social Security and Equalities**

Grants repayable as a result of sales of Housing Association Properties to tenants or as a result of conditions of grant being breached. Grants become repayable when conditions of grant cease to be met. It is not possible to predict the level of activity in future years.

Repayments of grant from the Open Market Shared Equity Scheme which allows people on low incomes to buy a share in a property, the balance being owned by a housing association and funded by grant from the Scottish Government. If the property is sold or an increased share is purchased by the owner, the grant becomes repayable. It is not possible to estimate the level of future receipts.

Grants repayable from Edinburgh Council Rent Guarantee - Project Resonance. Grant becomes repayable if either (a) projects do not proceed as planned, where it is repayable immediately, or, (b) projects are sold on privately up to 10 years from now. Timing uncertain as to when events giving rise to the contingent asset are likely to occur.

*18b. Contingent Liabilities Disclosed under IAS 37: Provisions, Contingent Liabilities and Contingent Assets*

The definition of a Contingent Liability under IAS 37: *Provisions, Contingent Liabilities and Contingent Assets* is as follows:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent Liabilities often cannot be reliably quantified; where values can be determined these have been provided.

**Health and Sport**

Clinical and Medical compensation payments of £367m (2016-17: £304.4m).

NHS Employer's Liability estimated at £3.3m (2016-17: £3.2m).

NHS Third Party Liability, non-clinical compensation and other contingent liabilities estimated at £0.9m (2016-17: £0.9m)

**Justice**

Claims against former independent Conveyancing and Executry Practitioners in Scotland. This is a contingent liability relating to an agreement to meet any valid claims arising from the acts or omissions of past independent conveyancing and executry practitioners, as defined by the Law Reform (Miscellaneous Provisions) Scotland Act 1990.

Claim alleging that a Tribunal member received less favourable treatment contrary to the Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000 because he did not receive a pension in relation to his part-time fee-paid appointment.

Potential prisoner compensation estimated at £0.6m (2016-17: £3.4m). (See also note 13).

Scottish Prison Service other costs estimated at £0.2m (2016-17: £2.9m).

**Rural Economy and Connectivity**

The Supreme Court found that an element of the Agricultural Holdings Act 2003 breached the European Convention of Human Rights - Art 1 P1. Remedial legislation was enacted to resolve this and a small group of tenant farmers have taken SG to Court of Session seeking compensation for breach of their rights arising from the Remedial legislation. The court has issued initial judgement but litigation is still live and more court activity is required to resolve.

Court case - Caledonian Bison Ltd were fully compensated for slaughter of their bison after bovine TB was confirmed. They claim a test used on the herd was unlawful and unreliable. As such there was no legal basis for the slaughter of the herd.

A fish farm in North Voe, Whalsay, Shetland (bay NE of Symbister harbour) was operating under a rolling Works License from Shetland Islands Council. It was inadvertently granted (permanent) planning permission in 2011 by Scottish Ministers (through an Order). If the new inter-island ferry terminal at North Voe goes ahead, the fish farm will have to move or reconfigure, requiring new planning permission, CAR licence and Marine Licence. The Scottish Government have admitted to being at fault and agreed to cover the operator's costs in obtaining these.

Following the 2015, 2016 and 2017 scheme years for CAP Pillar 1, both the level of late payment penalties from the EC to the UK member state and the split of penalties attributed to administrations are still to be formally concluded. EU CAP audits can result in future disallowances and a number of audits are in progress.

As part of Transport Scotland's normal course of business the Forestry Commission granted the right to use a forestry track as an emergency diversion route on the A83 Rest And Be Thankful on the understanding that Transport Scotland will have liability for any incidents that may occur whilst the track is being used for this purpose. The potential obligation is estimated at £5m (2016-17: £5m) but it is not considered likely that any liability will occur.

*18b. Contingent Liabilities Disclosed under IAS 37: Provisions, Contingent Liabilities and Contingent Assets (Cont.)*

**Communities, Social Security and Equalities**

A liability of up to £47.2m (2016-17: £73.7m) following the Glasgow Stock Transfer could arise if HMRC were to successfully challenge the terms of the original VAT agreement that was entered into in 2004 by Glasgow Housing Association and Glasgow City Council.

The Mortgage Indemnity New Home Scheme (MI New Home) allows credit-worthy borrowers, locked out of the market by high deposit requirements, access to 90% to 95% LTV mortgages. The scheme is supported by a SG guarantee which sits behind cash indemnities set aside by participating housebuilders (for each house sold under the scheme). The guarantee valued at £7.2m (2016-17: £7.2m) can only be called upon once the indemnities are exhausted and lasts for 7 years.

National Housing Trust guarantees of £3.5m (2016-17: £3.2m) which the Scottish Government are committed to but which are not activated until construction has been completed.

**Culture, Tourism and External Affairs**

If the 2019 Solheim Cup were to be cancelled a payment of £5.6m (2016-17: £5.6m) would be due to the European Ladies Tour.

A shortfall in anticipated receipts from the 2019 European Indoor Athletics Championship would trigger a liability of £0.7m (2016-17: £0.7m).

If the 2018 European Championships were to be cancelled or service agreements were breached, a liability capped at £18.3m (2016-17: £18.3m) could arise.

## 19. Related Party Transactions

The Scottish Government is the sole shareholder and sponsor of Caledonian Maritime Assets Ltd, David MacBrayne Ltd, Highland and Islands Airports Ltd, Scottish Futures Trust and Prestwick Airport Holdco Ltd; a shareholder in Scottish Health Innovations Ltd and the Student Loans Company; and sponsor of Scottish Water, a number of non-consolidated Health Bodies, and of a number of executive, advisory and tribunal Non Departmental Public Bodies. These bodies are regarded as related parties with which the Scottish Government has had various transactions during the year. Further details of Scottish Public Bodies are available from the Scottish Government website - [www.scotland.gov.uk/government/publicbodies](http://www.scotland.gov.uk/government/publicbodies).

The Scottish Government is also the sponsor of cross-border public authorities which are listed in The Scotland Act 1998 (Cross-Border Public Authorities) (Specification) Order 1999. These bodies are regarded as related parties with which the Scottish Government has had material transactions during the year.

In addition the Scottish Government has had a number of transactions with other government departments and other central government bodies, primarily the Scotland Office and the Office of the Advocate General, the Rural Payments Agency, the Home Office and the Department for Work and Pensions.

The Scottish Government has material transactions with local government bodies, Regional Transport Partnerships, Community Justice Authorities and Scottish Water.

None of the senior officers, key managerial staff or other related parties has undertaken any material transactions with the Scottish Government during the year.

All Scottish Ministers are required, as Members of the Scottish Parliament, to register information about certain financial interests. The types of financial interest that must be registered are those that might affect any actions, speeches or votes in the Parliament. This register is available for public inspection at the office of the Standards clerks with a further copy available at the main visitor information desk at the Scottish Parliament building.

Accounts of the individual Executive Agencies, the Crown Office and Procurator Fiscal Service and Health Bodies contain details of related party transactions specific to those entities.

## 20. Third Party Assets

Assets held at Statement of Financial Position date to which monetary value can be assigned:

	2016-17 £m	Gross Inflows £m	Gross Outflows £m	2017-18 £m
Monetary amounts such as bank balances and monies on deposit	39	27	(32)	34
Unclaimed dividends and unapplied balances	17	-	(2)	15
<b>Total Monetary Assets</b>	<b>56</b>	<b>27</b>	<b>(34)</b>	<b>49</b>

Accountant in Bankruptcy holds funds of £38m (2016-17: £45m) on behalf of third parties. This mainly comprises realised assets that are held whilst awaiting repayment to the public purse or distribution to creditors with a value of £24m (2016-17: £28m). The balance of £14m (2016-17: £17m) relates to money consigned in respect of unclaimed dividends and unapplied balances.

The NHS Bodies hold money on behalf of patients. This totalled £9m in 2017-18 (2016-17: £9m).

The Scottish Prison Service also holds £1m on behalf of prisoners (2016-17: £1m).

Other Assets held at the Statement of Financial Position date all relate to Accountant in Bankruptcy:

Description	2017-18	2016-17
	Number held	Number held
Residential property	1,057	1,211
Motor vehicles, boats and caravans	23	157
Life Policies	140	434
Shares and Investments	99	153
Miscellaneous	186	290

No third party assets have been included within the Statement of Financial Position.

## 21. Resource Budget

The resource budget detailed in the outturn statements is the consolidated budget for the Scottish Government. The following table provides a reconciliation of the budgets shown in the accounts with the total budget for Scotland approved by the Scottish Parliament.

	2017-18 £m	2016-17 £m
Budget (Scotland) Act 2017	39,300	36,949
Scotland's Autumn Budget Revision - Scottish Statutory Instrument 2017 No. 399	19	259
Scotland's Spring Budget Revision - Scottish Statutory Instrument 2018 No. 113	421	372
<b>Total approved spending</b>	<b>39,740</b>	<b>37,580</b>
Less activities not included in these accounts:		
Capital Borrowing	(24)	-
National Records of Scotland	(30)	(26)
Office of the Scottish Charity Regulator	(3)	(3)
Scottish Courts and Tribunals Service	(109)	(107)
Scottish Fiscal Commission	(2)	-
Revenue Scotland	(5)	(5)
Food Standards Scotland	(16)	(15)
Scottish Housing Regulator	(4)	(4)
NHS and Teachers' Pension Schemes	(4,568)	(3,300)
Forestry Commission (Scotland)	(68)	(57)
Scottish Parliament Corporate Body	(102)	(100)
Audit Scotland	(9)	(8)
<b>Consolidated Portfolios' approved estimates</b>	<b>34,800</b>	<b>33,955</b>

Portfolio analysis	Budget Act Approval £m	2017-18 Capital Budget £m	2017-18 Operating Budget £m
Finance and the Constitution	74	4	70
Health and Sport	13,559	431	13,128
Education and Skills	3,465	544	2,921
Economy, Jobs and Fair Work	414	31	383
Justice	2,477	24	2,453
Communities, Social Security & Equalities	11,020	240	10,780
Environment, Climate Change and Land Reform	357	168	189
Culture, Tourism and External Affairs	274	-	274
Rural Economy and Connectivity	2,854	605	2,249
Crown Office and Procurator Fiscal Service	113	4	109
Administration	193	13	180
	<b>34,800</b>	<b>2,064</b>	<b>32,736</b>



**21. Resource Budget (Cont.)**

Budgets approved by the Scottish Parliament are applied to the consolidated accounts as detailed above. The budgets advised to HM Treasury include items outwith the scope of the Scottish Parliament. A reconciliation between the 2017-18 budget approved by the Scottish Parliament and the amount drawn down from HM Treasury is provided below.

	<b>2017-18</b>
	<b>£m</b>
<b>Total spending approved by Scottish Parliament</b>	<b>39,740</b>
NDPB's non cash budgets	160
Judicial salaries	32
Repayment of NLF and other loans by Scottish Water	(47)
Forth Road Crossing technical adjustment	(10)
Sleeper contract technical adjustment	28
Provision of Scottish Funding Council grant-in-aid to support working capital requirements	(2)
IFRS - PPP/PFI adjustments	(29)
IFRS - revenue financed infrastructure projects (Transport Scotland)	(119)
Police loan charges	(5)
Fines, Forfeitures and Fixed Penalties/Crown Estate income	(36)
HM Treasury funding for DEL not included in Spring Budget Revision	326
HM Treasury funding for AME not included in Spring Budget Revision (inc. NDPBs)	165
<b>Total Managed Expenditure budget draw down from HM Treasury</b>	<b>40,203</b>
<b>Analysed by spending category:</b>	
Departmental Expenditure Limit (DEL)	19,226
Annually Managed Expenditure (AME)	20,977
	<b>40,203</b>

**22. Cash Authorisation**

	<b>2017-18</b>	<b>2016-17</b>
	<b>£m</b>	<b>£m</b>
<b>Cash authorisation for the Scottish Administration:</b>		
Budget (Scotland) Act 2017	34,491	33,187
<b>Amended by:</b>		
Scotland's Autumn Budget Revision - Scottish Statutory Instrument 2017 No. 399	18	310
Scotland's Spring Budget Revision - Scottish Statutory Instrument 2018 No. 113	199	294
<b>Total Approved Cash Authorisation for the Scottish Administration</b>	<b>34,708</b>	<b>33,791</b>
<b>Less non core activities not included in these accounts:</b>		
National Records of Scotland	(27)	(25)
NHS and Teachers' Pension Schemes	(419)	(384)
Office of the Scottish Charity Regulator	(3)	(3)
Scottish Housing Regulator	(4)	(3)
Scottish Courts and Tribunals Service	(91)	(93)
Revenue Scotland	(5)	(5)
Food Standards Scotland	(15)	(15)
Scottish Fiscal Commission	(2)	-
<b>Available Cash Authorisation for Consolidated Bodies</b>	<b>34,142</b>	<b>33,263</b>
<b>Funding Drawn down from the Scottish Consolidated Fund (SOCTE)</b>	<b>33,471</b>	<b>32,201</b>



## SCOTTISH MINISTERS

### DIRECTION BY THE SCOTTISH MINISTERS

in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000

1. The consolidated statement of accounts for the financial year ended 31 March 2014 and subsequent years shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
2. The accounts shall be prepared so as to give a true and fair view of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
3. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 17 January 2006 is hereby revoked.

A handwritten signature in black ink, appearing to read 'Alysia Stalford'.

Signed by the authority of the Scottish Ministers

Dated 4 August 2014

## Glossary

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<b>Departmental Expenditure Limit (DEL)</b>	Public Expenditure within departmental programmes which form departments' multi-year budget plan against which departments manage their spending. Departmental Expenditure Limits will identify separate elements for capital and current spending.
<b>Annually Managed Expenditure (AME)</b>	Public Expenditure within departmental programmes but outside the Departmental Expenditure Limit and managed annually because it cannot reasonably be subject to firm multi-year limits, or should be subject to special handling.
<b>Other Expenditure Outwith the Departmental Expenditure Limit (ODEL)</b>	Expenditure that is provided for in the budget but is not included in the total budget for Scotland for control purposes.
<b>Capital charges</b>	An annual charge reflecting the consumption of fixed assets (depreciation) and any impairment, to ensure that the full cost of departmental activities is measured.
<b>Resource accounting</b>	The application of accruals accounting for reporting the expenditure of central government and a framework for analysing expenditure by departmental objectives, relating these to outputs where possible.
<b>Resource budgeting</b>	Planning and controlling public expenditure on a resource accounting basis.



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