



The Scottish Government Consolidated Accounts for the year ended 31 March 2008

**Laid before the Scottish Parliament
By the Scottish Ministers
September 2008**

SG/2008/163

THE SCOTTISH GOVERNMENT

CONSOLIDATED ACCOUNTS

For the year ended 31 March 2008

On 3 September 2007, the Scottish Executive was rebranded as the Scottish Government. Therefore, the term Scottish Government is used throughout the accounts when relating to activities undertaken by the organisation previously known as the Scottish Executive. For activities specifically relating to the period prior to the rebranding, the term Scottish Executive has been used.

These accounts reflect the consolidated assets and liabilities and the results of all the entities within the Scottish Government consolidation accounting boundary as defined in the Government Financial Reporting Manual (FReM). The Scottish Government consolidation accounting boundary consists of:

Core Portfolios:

- Office of the First Minister
- Finance and Sustainable Growth
- Health and Wellbeing
- Education and Lifelong Learning
- Justice
- Rural Affairs and the Environment

Executive Agencies:

Office of the First Minister

- Historic Scotland (www.historic-scotland.gov.uk)

Finance and Sustainable Growth

- Scottish Public Pensions Agency (www.sppa.gov.uk)
- Scottish Building Standards Agency (www.sbsa.gov.uk)
- Transport Scotland (www.transportscotland.gov.uk)

Health and Wellbeing

- Mental Health Tribunal (www.mhtscot.org)
- Communities Scotland (www.communitiesscotland.gov.uk)

Education and Lifelong Learning

- Her Majesty's Inspectorate of Education (www.hmie.gov.uk)
- Social Work Inspection Agency (www.swia.gov.uk)
- Student Awards Agency for Scotland (www.student-support-saas.gov.uk)

Justice

- Scottish Prison Service (www.sps.gov.uk)
- Scottish Court Service (www.scotcourts.gov.uk)
- Accountant in Bankruptcy (www.aib.gov.uk)

Rural Affairs and the Environment

- Scottish Agricultural Science Agency (www.sasa.gov.uk)
- Scottish Fisheries Protection Agency (www.sfpa.gov.uk)
- Fisheries Research Services (www.marlab.ac.uk)

Other Consolidated Bodies:

- The NHS Bodies in Scotland responsible for the planning, promotion, commissioning and delivery of healthcare.
- The Crown Office and Procurator Fiscal Service (www.copfs.gov.uk)

These accounts have been authorised for issue by the Auditor General for Scotland on 25 September 2008.

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THE SCOTTISH GOVERNMENT ANNUAL REPORT

For the year ended 31 March 2008

INTRODUCTION/BACKGROUND

Basis of Accounts

1. These accounts have been prepared in accordance with the accounts direction issued by the Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000. The accounts direction is reproduced at page 104 to these accounts.

Scottish Government Consolidation Accounting Boundary

2. These accounts reflect the consolidated assets and liabilities and the results of all entities within the Scottish Government consolidation accounting boundary as defined in the Government Financial Reporting Manual (FReM). This consists of the six 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 bodies within the boundary are as follows:

Core Portfolios:

- Office of the First Minister
- Finance and Sustainable Growth
- Health and Wellbeing
- Education and Lifelong Learning
- Justice
- Rural Affairs and the Environment

Executive Agencies:

Office of the First Minister

- Historic Scotland (www.historic-scotland.gov.uk)

Finance and Sustainable Growth

- Scottish Public Pensions Agency (www.sppa.gov.uk)
- Scottish Building Standards Agency (www.sbsa.gov.uk)
- Transport Scotland (www.transportscotland.gov.uk)

Health and Wellbeing

- Mental Health Tribunal (www.mhtscot.org)
- Communities Scotland (www.communitiesscotland.gov.uk)

Education and Lifelong Learning

- Her Majesty's Inspectorate of Education (www.hmie.gov.uk)
- Social Work Inspection Agency (www.swia.gov.uk)
- Student Awards Agency for Scotland (www.student-support-saas.gov.uk)

Justice

- Scottish Prison Service (www.sps.gov.uk)
- Scottish Court Service (www.scotcourts.gov.uk)
- Accountant in Bankruptcy (www.aib.gov.uk)

Rural Affairs and the Environment

- Scottish Agricultural Science Agency (www.sasa.gov.uk)
- Scottish Fisheries Protection Agency (www.sfpa.gov.uk)
- Fisheries Research Services (www.marlab.ac.uk)

Other Consolidated Bodies:

- The NHS Bodies in Scotland responsible for the planning, promotion, commissioning and delivery of healthcare.
- The Crown Office and Procurator Fiscal Service (www.copfs.gov.uk)

3. Within the accounts the Core Portfolios are referred to as 'Core', while the other consolidated bodies, including the Executive Agencies, Crown Office and Procurator Fiscal Service and the Health Bodies, are referred to as 'Other'.

4. The Scottish Government is also the sole shareholder of Caledonian Maritime Assets Ltd, David MacBrayne Ltd and Highland and Islands Airports Limited; a shareholder in Partnerships UK 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 from the Scottish Government website at <http://www.scotland.gov.uk/Topics/Government/public-bodies>.

5. The Crown Office and Procurator Fiscal Service, the Executive Agencies and the individual Health Bodies also produce and publish their own annual accounts. These accounts can be accessed via the Scottish Government website at www.scotland.gov.uk. Useful information on the Core Portfolios is also provided in a separate balance sheet (see page 48) and accompanying notes (see pages 53 to 103).

Comparison of Budget to Outturn

6. These accounts seek to report actual outturn compared to the budget authorised by the Scottish Parliament. The annual budget authorised by the Scottish Parliament, however, is the budget for the wider Scottish Administration. It therefore includes the funding of activities which are not within the Scottish Government, and not, therefore, dealt with in these accounts. There are also some differences between the budgeting rules and the accounting requirements that have to be accommodated in any comparison. These accounts therefore seek to compare the actual outturn to the budget stated on the same basis, with a reconciliation and explanation of the budget reflected in the accounts with that shown in the annual budget documents provided in Note 25.

Brief History

7. The Scottish Government is the devolved administration in Scotland. The Scottish Government was established at devolution in 1999. From 1 July 1999, the Scottish Government and Scottish Parliament assumed legislative responsibility for a wide range of devolved matters, including agriculture, economic development, education, environment, fisheries, food standards, forestry, health, housing, local government, planning, social work, most aspects of transport, and tourism. Matters such as the constitution, defence, foreign policy, national taxation and social security are reserved to the UK Parliament.

Principal Activities and Key Aims

8. The principal activities and key aims of the Scottish Government are set out below by Cabinet Secretary portfolio. The aims and objectives of all operating Portfolios are provided in the Statement of Resources by Objectives at pages 51 and 52 of these accounts.

MINISTERS AND SENIOR OFFICERS

9. Elections to the Scottish Parliament were held on 3 May 2007, and as a result of these elections, a new administration was elected to lead Scotland from 16 May 2007. Therefore, information for both administrations serving during the financial year has been provided below.

10. The responsibilities of the First Minister and his Cabinet Team during the period 16 May 2007 to 31 March 2008 were:

First Minister

Head of the devolved Scottish Government: responsible for development, presentation and implementation of Scottish Government policy, constitutional affairs, culture and the arts, Gaelic, Historic Scotland, the National Archives of Scotland and for promoting and representing Scotland.

Deputy First Minister and Cabinet Secretary for Health and Wellbeing

Responsible for NHS, health service reform, allied healthcare services, acute and primary services, performance, quality and improvement framework, health promotion, sport, public health, health improvement, pharmaceutical services, food safety and dentistry, community care, older people, mental health, learning disability, substance misuse, social inclusion, equalities, anti-poverty measures, housing and regeneration.

Cabinet Secretary for Finance and Sustainable Growth

Responsible for the economy, the Scottish Budget, public service reform, de-regulation, local government, public service delivery, cities and community planning, General Register Office, Registers of Scotland, e-government, procurement, budgetary monitoring, business and industry including Scottish Enterprise, Highlands and Islands Enterprise, trade and inward investment, corporate social responsibility, voluntary sector and the social economy, community business and corporate development, European Structural Funds, energy, tourism, land use planning system, climate change, building standards, transport policy and delivery, public transport, road, rail services, air and ferry services, Scottish Water and the Scottish Public Pensions Agency.

Cabinet Secretary for Education and Lifelong Learning

Responsible for further and higher education, science and lifelong learning, school education, training and skills, HM Inspectorate of Education and the Scottish Qualifications Authority, nurseries and childcare, children's services, children's hearings, social work and the Social Work Inspection Agency.

Cabinet Secretary for Justice

Responsible for criminal law and procedure, youth justice, criminal justice social work, police, prisons and sentencing policy, legal aid, legal profession, courts and law reform, anti-social behaviour, sectarianism, human rights, fire and rescue services, community safety, civil contingencies, drugs policy and related matters, liquor licensing, vulnerable witnesses, victim support and civil law, charity law, religious and faith organisations.

Cabinet Secretary for Rural Affairs and the Environment

Responsible for Common Agricultural Policy support, rural development, agricultural and biological science, natural heritage, fisheries, environmental protection and Greener Scotland.

11. The First Minister and Cabinet Secretaries were supported, during the period 16 May 2007 to 31 March 2008, by a number of Ministers covering a range of Scottish Government business:

- Minister for Europe, External Affairs and Culture
- Minister for Parliamentary Business
- Minister for Public Health
- Minister for Communities and Sport
- Minister for Enterprise, Energy and Tourism
- Minister for Transport, Infrastructure and Climate Change
- Minister for Children and Early Years
- Minister for Schools and Skills
- Minister for Community Safety
- Minister for Environment

12. The responsibilities of Scottish Ministers in place prior to the election during the period 1 April 2007 to 16 May 2007 were:

First Minister

Head of the Scottish Executive, responsible for the development, implementation and presentation of Scottish Executive policies. Also responsible for the strategic relationship with the UK government, the European Union and other external relations.

Deputy First Minister and Minister for Enterprise and Lifelong Learning

With the First Minister, responsible for the development, implementation and presentation of Scottish Executive policies. As Enterprise and Lifelong Learning Minister, responsible for the economy, business and industry including Scottish Enterprise, Highlands and Islands Enterprise, European Structural Funds, trade and inward investment, energy (including renewable energy), further and higher education, lifelong learning and training and science, and devolved interests in telecommunications and post offices.

Minister for Communities

Responsible for tackling poverty, housing and area regeneration, the land use planning system and building standards, equality issues, voluntary sector, religious and faith organisations and charity law.

Minister for Education and Young People

Responsible for school education, nurseries and childcare, Gaelic, children's services, social work, Her Majesty's Inspectorate of Education, Her Majesty's Social Work Inspectorate and the Scottish Qualifications Authority.

Minister for Environment and Rural Development

Responsible for environment and natural heritage, land reform, water, sustainable development, agriculture, fisheries and rural development including aquaculture and forestry.

Minister for Finance and Public Service Reform

Responsible for the Scottish Budget, public service delivery, modernising government including civil service reform, local government, cities and community planning, and external relations issues and Scotland's international image.

Minister for Health and Community Care

Responsible for NHS, community care, health service reform, health improvement, health promotion, public health, allied healthcare services, acute, primary and mental health services, addiction services, pharmaceutical services, performance, quality and improvement framework and food safety.

Minister for Justice

Responsible for tackling anti-social behaviour, criminal justice, youth justice, victims support, criminal justice social work, police, prisons and sentencing policy, courts, law reform including civil law and fire services.

Minister for Parliamentary Business

Responsible for Parliamentary affairs and the management of Scottish Executive business in the Parliament.

Minister for Transport

Responsible for transport policy and delivery, public transport, road, rail services, air and ferry services.

Minister for Tourism, Culture and Sport

Responsible for tourism, culture and the arts, sport, major events strategy, built heritage, architecture, Historic Scotland and lottery funding.

13. Further information on Ministerial responsibilities is available from the Scottish Parliament and Scottish Government websites:

www.scottish.parliament.uk/home.htm

www.scotland.gov.uk/Home

14. The Scottish Ministers and their Deputies during the period 16 May 2007 to 31 March 2008 were:

Rt Hon. Alex Salmond MSP
Nicola Sturgeon MSP

First Minister
Deputy First Minister

Nicola Sturgeon MSP
John Swinney MSP
Fiona Hyslop MSP
Kenny MacAskill MSP
Richard Lochhead MSP

Cabinet Secretary for
Health and Wellbeing
Finance and Sustainable Growth
Education and Lifelong Learning
Justice
Rural Affairs and the Environment

Linda Fabiani MSP
Bruce Crawford MSP
Shona Robison MSP
Stewart Maxwell MSP
Jim Mather MSP
Stewart Stevenson MSP
Adam Ingram MSP
Maureen Watt MSP
Fergus Ewing MSP

Minister for
External Affairs and Culture
Parliamentary Business
Public Health
Communities and Sport
Enterprise, Energy and Tourism
Transport, Infrastructure and Climate Change
Children and Early Years
Schools and Skills
Community Safety

15. The Scottish Ministers and their Deputies during the period 1 April 2007 to 16 May 2007 were:

Jack McConnell MSP	First Minister
Nicol Stephen MSP	Deputy First Minister
Nicol Stephen MSP	Minister for Enterprise and Lifelong Learning
Allan Wilson MSP	Deputy
Rhona Brankin MSP	Communities
Des McNulty MSP	Deputy
Hugh Henry MSP	Education and Young People
Robert Brown MSP	Deputy
Ross Finnie MSP	Environment and Rural Development
Sarah Boyack MSP	Deputy
Tom McCabe MSP	Finance and Public Service Reform
George Lyon MSP	Deputy
Andy Kerr MSP	Health and Community Care
Lewis Macdonald MSP	Deputy
Cathy Jamieson MSP	Justice
Johann Lamont MSP	Deputy
Margaret Curran MSP	Parliamentary Business
George Lyon MSP	Deputy
Tavish Scott MSP	Transport
Patricia Ferguson MSP	Tourism, Culture and Sport

16. The Law Officers serving during the year to 31 March 2008 were:

Rt Hon Elish Angiolini QC	Lord Advocate
John Beckett QC	Solicitor General (until 29 May 2007)
Frank Mulholland QC	Solicitor General (from 30 May 2007)

17. 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. During the year the management structure of the Scottish Government was revised to align management systems and structures more closely with the Government's objectives and the Scottish Government Strategic Board was formed. Further information on the management structure of the Scottish Government is available on the Scottish Government website at www.scotland.gov.uk. The Scottish Government Strategic Board Members who served in the year were as follows:

Sir John Elvidge KCB	Permanent Secretary
Robert Gordon CB	Director General Justice and Communities
Dr. Andrew Goudie	Director General Economy and Chief Economic Advisor
Philip Rycroft	Director General Education
Richard Wakeford	Director General Environment
Dr. Kevin Woods	Director General Health
David Fisher	Non-executive director
Professor Bill Bound	Non-executive director
Shonaig Macpherson CBE	Non-executive director (until 16 August 2007)

18. The non-executive directors bring an external perspective to the consideration of corporate management issues such as staffing, administration costs, monitoring of programme expenditure, training and development, accommodation strategy and relations with stakeholders. Professor Bill Bound chaired the Scottish Government Audit Committee (SGAC) from 16 August 2007. Shonaig Macpherson chaired SGAC from 1 April 2007 to 16 August 2007.

REMUNERATION REPORT

19. All information disclosed in the tables at paragraphs 35 to 42 and paragraph 45 below has been audited by Audit Scotland. The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they were consistent with the financial statements.

Appointments

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

21. Sir John Elvidge is the Permanent Secretary at the Scottish Government. He was appointed in July 2003 by the Prime Minister, with the agreement of the First Minister, on the recommendation of the Head of the Home Civil Service following an open competition. The appointment is for an indefinite term under the terms of the Senior Civil Service contract. The rules for appointment were those set out in Chapter 1 and Chapter 5 of the Civil Service Management Code.

22. Other Executive members of the Scottish Government Strategic Board were appointed following approval by the Prime Minister, following consultation with the First Minister, on the recommendation of the Head of the Home Civil Service.

23. The Executive members of the Scottish Government Strategic Board covered by this report hold appointments which are open-ended until they reach the normal retirement age. The rules for termination 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 retirement age for the Senior Civil Service rose to 65 from 1 October 2006, in line with the implementation of the Employment Equality (Age) Regulations 2006. However, once an individual's pension becomes payable, from age 60, that employee can choose to leave work and collect his or her pension at any time, subject only to compliance with the basic notice of leave requirements.

24. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

25. Independent non-executive members of the Scottish Government Strategic Board are appointed by the Permanent Secretary for an initial period of two years. Such appointments can be terminated with one month's notice period. There is no provision for compensation for early retirement.

Remuneration Policy

26. 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) and reflected in the SPCB's annual accounts (www.scottish.parliament.uk).

27. The remuneration of senior civil servants is set in accordance with the Civil Service Management Code (available at www.civilservice.gov.uk) and with independent advice from the Senior Salaries Review Body (SSRB).

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on portfolios to meet the output targets for the delivery of portfolio services;
- the funds available to portfolios as set out in the Scottish Government's portfolio expenditure limits; and
- the Government's inflation target.

29. Further information about the work of the SSRB can be found at www.ome.uk.com.

30. Within the Scottish Government, the Top Level Pay Committee, comprising the Permanent Secretary, the Director-Generals and the Non-executive members of the Strategic Board, ensures that the Pay and Performance Management System (PPMS) policy falls within the parameters set by the SSRB and Cabinet Office. The SCS Pay Strategy 2007 determined that the base pay award for all members of the Senior Civil Service whose performance is satisfactory would be 2%; bonus awards (high £11,500, medium £7,500, low £3,500) were also available for satisfactory performers within a pool scheme based on a ranking of performance in achieving agreed business objectives and contributing to corporate priorities. The Pay strategy is administered by a system of Pay Committees who determine salary and bonus recommendations based on assessments of performance.

31. The Permanent Secretary's remuneration is set individually by the UK Government on the recommendation of the Permanent Secretaries' Remuneration Committee, which comprises members of the SSRB, the Head of the Home Civil Service and the Permanent Secretary of HM Treasury.

32. Remuneration for other members of the Scottish Government Strategic Board is determined by the Director General Pay Committee, which comprises the Permanent Secretary and the non-executive members of the Scottish Government Strategic Board. Starting salaries for new appointees are determined by the Permanent Secretary within a framework approved by the Civil Service Commissioners.

33. Non-executive members receive fees for attendance at regular Scottish Government Strategic Board meetings and Scottish Government Audit Committee (SGAC) meetings. Non-executive members expenses incurred in attending these meetings are also reimbursed.

Remuneration

34. The remuneration of the Ministers who served over the period 1 April 2007 to 31 March 2008 and members of the Scottish Government Strategic Board is noted below.

Ministers and Law Officers

35. The salary and benefits in kind of the First Minister and his cabinet team from 16 May 2007 to 31 March 2008 which are reflected in the accounts of the Scottish Parliamentary Corporate Body are shown in the table below. Ministerial salaries are in addition to their salaries and entitlements as MSPs.

	2007-08 Ministerial salary received £	2006-07 Ministerial salary received £
Rt Hon Alex Salmond, MSP (1)	71,479 (full year equivalent 77,887)	-
Nicola Sturgeon, MSP	34,857 (full year equivalent 40,405)	-
John Swinney, MSP	34,857 (full year equivalent 40,405)	-
Fiona Hyslop, MSP	34,857 (full year equivalent 40,405)	-
Kenny MacAskill, MSP	34,857 (full year equivalent 40,405)	-

(1) The First Minister has a benefit in kind for 2007-08 of £352, arising from the provision of accommodation at Bute House for the period 16 May 2007 to 31 March 2008.

36. The salary and benefits in kind of the First Minister and his cabinet team from 1 April 2007 to 16 May 2007 which are reflected in the accounts of the Scottish Parliamentary Corporate Body are shown in the table below. Ministerial salaries are in addition to their salaries and entitlements as MSPs.

	2007-08	2006-07
	Ministerial	Ministerial
	salary	salary
	received	received
	£	£
Jack McConnell, MSP (1)	9,717 (full year equivalent 77,887)	75,965
Nicol Stephen, MSP	5,041 (full year equivalent 40,405)	39,408
Andy Kerr, MSP	5,041 (full year equivalent 40,405)	39,408
Cathy Jamieson, MSP	5,041 (full year equivalent 40,405)	39,408
Hugh Henry, MSP <i>from 14 November 2006</i>	5,041 (full year equivalent 40,405)	15,083 (full year equivalent 39,408)
Rhona Brankin, MSP <i>from 9 January 2007</i>	5,041 (full year equivalent 40,405)	9,056 (full year equivalent 39,408)
Margaret Curran, MSP	5,041 (full year equivalent 40,405)	39,408
Ross Finnie, MSP	5,041 (full year equivalent 40,405)	39,408
Patricia Ferguson, MSP	5,041 (full year equivalent 40,405)	39,408
Tom McCabe, MSP	5,041 (full year equivalent 40,405)	39,408
Tavish Scott, MSP	5,041 (full year equivalent 40,405)	39,408

(1) Jack McConnell has a benefit in kind for 2007-08 of £19, arising from the provision of accommodation at Bute House for the period from 1 April 2007 to 16 May 2007 (2006-07: £2,800).

37. The salary and benefits in kind of the serving Law Officers for the year to 31 March 2008 are shown in the table below.

	2007-08 Salary received £	2006-07 Salary received £
Rt Hon Elish Angiolini, QC <i>Lord Advocate</i>	105,214	96,598
John Beckett, QC <i>Solicitor General (until 29 May 2007)</i>	35,629	43,579
Frank Mulholland, QC <i>Solicitor General (from 30 May 2007)</i>	76,383	-

Senior Management Team

38. The salary and benefits in kind of the Permanent Secretary and members of the Scottish Government Strategic Board, excluding the non-executive members, were as follows (equivalent information relating to senior managers of the other bodies consolidated within these accounts is given in their respective annual accounts):

	2007-08 Salary including performance pay £'000	2006-07 Salary including performance pay £'000
Sir J Elvidge KCB	165-170	155-160
RSB Gordon CB	150-155	140-145
AW Goudie	125-130	105-110
P Rycroft <i>from 4 May 2006</i>	115-120	105-110 (full year equivalent 105-110)
RG Wakeford (1)	145-150	135-140
KJ Woods	160-165	160-165

(1) A benefit in kind of £10,000 is shown as arising because, under the employment contract between the Scottish Government and Richard Wakeford, the Scottish Government agreed to meet the tax liability on that element of Richard Wakeford's remuneration which he offered to receive on a non pensionable, non consolidated basis (2006-07: £10,000).

39. The fees for the non-executive members of the Scottish Government Strategic Board are as follows:

	2007-08	2006-07
	Fees	Fees
	£'000	£'000
S Macpherson CBE	0-5	5-10
<i>to 16 August 2007</i>		
D Fisher	5-10	5-10
Prof. W Bound	5-10	5-10

No non-executive members of the Scottish Government Strategic Board received benefits in kind.

The non-executive members do not participate in the Civil Service Pension Scheme.

Salary

‘Salary’ includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation and any ex-gratia payments.

Benefits 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.

Pension benefits**Ministers and Law Officers**

40. The pension entitlements of the First Minister and his cabinet team from 16 May 2007 to 31 March 2008 are shown in the table below.

	Accrued pension at age 65 as at 31 March 2008 £'000	Real increase in pension at age 65 £'000	CETV at 31 March 2008 £'000	CETV at 31 March 2007 £'000	Real Increase in CETV £'000
Rt Hon Alex Salmond, MSP (1)	-	-	-	-	-
Nicola Sturgeon, MSP	0.5	0-2.5	6	-	6
John Swinney, MSP	0.5	0-2.5	7	-	7
Fiona Hyslop, MSP	0.5	0-2.5	7	-	7
Kenny MacAskill, MSP	0.5	0-2.5	9	-	9
Richard Lochhead, MSP	0.5	0-2.5	6	-	6

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.

(1) The First Minister's pension is payable from the Scottish Consolidated Fund and is equal to one half of salary payable at the point of ceasing to hold office. The pension is non-contributory and non-transferable so no Cash Equivalent Transfer Values (CETVs) is available. Additionally there is no option of commutation i.e. the First Minister may not commute (give up) some of his pension to provide a lump sum.

41. The pension entitlements of the First Minister and his cabinet team from 1 April 2007 to 16 May 2007 are shown in the table below.

	Accrued pension at age 65 as at 31 March 2008 £'000	Real increase in pension at age 65 £'000	CETV at 31 March 2008 £'000	CETV at 31 March 2007 £'000	Real Increase in CETV £'000
Jack McConnell, MSP (1)	-	-	-	-	-
Nicol Stephen, MSP	5-10	0-2.5	74	67	4
Andy Kerr, MSP	0-5	0-2.5	47	43	3
Cathy Jamieson, MSP	0-5	0-2.5	56	51	3
Hugh Henry, MSP	0-5	0-2.5	55	47	6
Rhona Brankin, MSP	0-5	0-2.5	52	44	6
Margaret Curran, MSP	5-10	0-2.5	63	57	4
Ross Finnie, MSP	5-10	0-2.5	120	109	7
Patricia Ferguson, MSP	5-10	0-2.5	77	73	2
Tom McCabe, MSP	5-10	0-2.5	77	70	4
Tavish Scott, MSP	0-5	0-2.5	32	29	2

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.

(1) The First Minister's pension is payable from the Scottish Consolidated Fund and is equal to one half of salary payable at the point of ceasing to hold office. The pension is non-contributory and non-transferable so no Cash Equivalent Transfer Values (CETVs) is available. Additionally there is no option of commutation i.e. the First Minister may not commute (give up) some of his pension to provide a lump sum.

42. The pension entitlements of the Law Officers are also reported in the accounts of the Crown Office and Procurator Fiscal Services.

	Accrued pension at age 65 as at 31 March 2008 £'000	Real increase in pension at age 65 £'000	CETV at 31 March 2008 £'000	CETV at 31 March 2007 £'000	Real Increase in CETV £'000
Rt Hon Elish Angiolini, QC <i>Lord Advocate</i>	10-15	0-2.5	156	118	34
John Beckett, QC <i>Solicitor General (until 29 May 2007)</i>	0-5	0-2.5	12	9	3
Frank Mulholland, QC <i>Solicitor General (from 30 May 2007)</i>	0-5	0-2.5	19	0	19

Cash Equivalent Transfer Values

43. 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. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

44. This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the Minister (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.

Senior Management Team

45. The pension entitlements of the Permanent Secretary and members of the Scottish Government Strategic Board were 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 age 60 as at 31 March 2008 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31 March 2008 £'000	CETV at 31 March 2007 £'000	Real Increase in CETV £'000
Sir J Elvidge KCB	65-70 plus 205-210 lump sum	2.5-5 plus 7.5-10 lump sum	1,633	1,395	58
RSB Gordon CB	65-70 plus 195-200 lump sum	0-2.5 plus 2.5-5 lump sum	1,538	1,337	29
AW Goudie	30-35 plus 95-100 lump sum	0-2.5 plus 5-7.5 lump sum	672	549	28
P Rycroft <i>from 4 May 2006</i>	25-30 plus 75-80 lump sum	2.5-5 plus 5-7.5 lump sum	447	336	53
RG Wakeford	50-55 plus 150-155 lump sum	0-2.5 plus 2.5-5 lump sum	1,104	950	18
KJ Woods (1)	50-55	0-2.5	1,009	854	31

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

Civil Service Pensions

46. Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined schemes; either a 'final salary' scheme (classic, premium, and classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

47. Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' 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 in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated 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 RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

50. Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

51. 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 individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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 drawn.

52. The CETV figures, and from 2003-04, the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in their scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

53. This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the Minister (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.



Principal Accountable Officer

Date: 23 September 2008

OPERATING AND FINANCIAL REVIEW 2007-08

Background

54. The Scottish Government publishes spending plans for the next three financial years at the start of a Spending Review period. These spending plans are then refined annually through consultation with the Parliament and the public, and to reflect changing circumstances, before Parliamentary approval is sought for plans for the forthcoming year in the annual Budget Act. These plans can themselves then be refined through in year budget revisions, implemented by statutory instrument.

55. The size of the Scottish Budget is partly determined by the block grant which is separately approved to the Secretary of State for Scotland by the UK Parliament (now accounted for by the Department for Constitutional Affairs), 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. A reconciliation between the UK "Departmental Expenditure Limit/Annually Managed Expenditure" framework and the Scottish Parliamentary aggregates is given in the supporting documents to the Budget Act and subsequent revisions and shown in Note 25.

Structure of the Scottish Government

56. Following the election in May 2007, the new administration set out to re-align the Scottish Government to deliver on a single overarching purpose through five strategic objectives. This meant establishing a smaller Ministerial team with the First Minister and five Cabinet Secretaries as well as putting in place a much more streamlined structure for the Scottish Government. This is reflected in the new portfolio structure closely aligned to those strategic objectives, which replaces the departmental structure previously reported in the accounts. A new management structure of five Directors General and supporting directorates has been created to support the portfolio structure. The Permanent Secretary leads the Scottish Government Strategic Board which includes the five Directors General.

57. The new administration set out its economic strategy in 'The Government Economic Strategy' published in November 2007. Sustainable economic growth is the one central purpose to which it is intended all government activity is directed and contributes. This central purpose underpinned the Spending Review 2007 which determined the government's spending plans for 2008-09, 2009-10 and 2010-11 as set out in 'Scottish Budget Spending Review 2007', again published in November 2007.

58. The Spending Review was carried out in the face of the tightest financial settlement from HM Treasury since devolution. This required a rigorous assessment of baseline budgets and the adoption of a new approach which is intended to provide greater focus and accountability across boundaries within government and between the private, public and third sectors. The impact of this new approach is perhaps best reflected in the Concordat with local government intended to establish a new relationship based on mutual respect and partnership which will deliver agreed national outcomes and local priorities right across Scotland.

2007-08 Spending Plans and Service Delivery Targets

59. Spending plans for 2007-08 were initially published in 'Building a Better Scotland: Spending Proposals 2005-2008: Enterprise, Opportunity, and Fairness' following the 2004 Spending Review. Full details of the 2007-08 budget are set out in the 'Draft Budget 2007-08' published in September 2006. Agencies within the Scottish Government also publish annual reports and accounts, and corporate plans.

60. After consideration by the Finance and other Committees, these plans were embodied in the Budget Bill laid in January 2007, and which received royal assent as Budget Act 2007 in March 2007. Parliamentary approval for the in-year revisions to the plans set out in the Budget Act was granted in the Autumn Budget Revision (SSI 2007 No. 551), made in December 2007 and Spring Budget Revision (SSI 2008 No. 107), made in March 2008.

61. Following the election in May 2007, the new administration used the Autumn Budget Revision as the first opportunity to formally represent the budget on the basis of the new Government's portfolio structure and reflect its '100 days commitments' such as the abolition of bridge tolls.

Financial Performance

62. The original budget of £29,774m which received parliamentary approval as Budget Act 2007 was increased by £1,128m and £157m respectively at the Autumn and Spring Budget Revisions to produce a final approved budget of £31,059m. The largest part of this increase is accounted for by the transfer of budget provision from the UK Government to fund revised pension forecasts for teachers, NHS and the Scottish Agricultural and Biological Research Institutes. Details of all budget revisions are published in Scotland's Budget Documents: The 2007-08 Autumn Budget Revision and The 2007-08 Spring Budget Revision. The budget reported in these accounts of £28,168m is net of adjustments to reflect those activities not included in the accounting boundary as set out in Note 25.

63. The financial results for the year are reported in the attached accounts. They record a Net Resource Outturn of £26,811m, compared to the Resource Budget of £27,058m, yielding an underspend of £247m. The Net Capital Outturn for the year was £1,082m, compared to the Capital Budget of £1,110m, yielding an underspend of £28m. See the Summary of Total Outturn on page 34 for further information. The total underspend of £275m represents just 1% of the total budget and an explanation of the major resource and capital variances is included within the accounts at pages 45 to 46 and page 65.

64. The outturn within the Health and Wellbeing portfolio includes income that relates to Scotland's share of the portion of National Insurance contributions determined for health. This is intended to reflect that part of spending on health that is not funded as part of the Scottish block and does not vary the resources available for spending which are controlled through the Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) budgets set. This mechanism works by accounting for this income outwith DEL and AME. Although accounted for in this way the income is nevertheless reported as part of the overall portfolio outturn, and any variance against its budget estimate contributes to the overall variance reported.

65. The Scottish Government relies on the information provided by HMRC in respect of the National Insurance Contributions (NIC) income that they forecast to pay in order to determine the budget for it. Any variance against this forecast is therefore completely outwith the Scottish Government's control. The final opportunity to revise the budget is at the Spring Budget Revision in January of each financial year. At that point in the 2007-08 financial year, the budget was adjusted in line with the forecast given by HMRC at that time. HMRC advised that the income would be £1m greater than forecast in March 2008 and did not advise of any further change to this position until July 2008 when the income receivable increased by a further £72m.

66. This additional NIC income was accrued in these accounts. The underspend of the Health and Wellbeing portfolio therefore increased by £72m. As explained above this does not relate to funding that would have been available for the Scottish Government to spend.

67. The provisional outturn announcement made by the Cabinet Secretary for Finance and Sustainable Growth in June 2008 reports the position in terms of total DEL expenditure within the Scottish Budget. This includes a number of items not included in these accounts and it is not strictly comparable.

Performance Against Targets

68. Key objectives and targets for 2007-08 were set as part of the 2004 Spending Review. Normally a mid-term report on progress against these targets would have been published in April 2007 as part of the Annual Evaluation Report. However such a report is not published in an election year and the new Administration set out its own new National Performance Framework in Scottish Budget Spending Review 2007, published in November 2007.

69. The Scottish Government National Performance Framework is based upon the successful outcomes-based model of the Commonwealth of Virginia, USA and each part is directed towards, and contributes to a single 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.'

70. Five Strategic Objectives, Wealthier and Fairer, Smarter, Healthier, Safer and Stronger and Greener support delivery of the Purpose. In turn these are supported by 15 national outcomes which describe in more detail what the Government wants to achieve over a ten year period. Full details are provided in the Scottish Budget Spending Review 2007 document.

71. The 'Scotland Performs' website (www.scotland.gov.uk/About/scotPerforms) has been created to provide the latest information on a range of topics affecting all aspects of Scottish life and follows the National Performance Framework.

72. The assessments of Scotland's progress are based on the best, most-up-to-date evidence and are accompanied by a note explaining how Government analysts have made their assessment, using clear and objective data. It is important to note that current data availability means most reported changes are for periods which are wholly or mainly before mid 2007. Over time, and as more data becomes available, further assessments of progress towards delivery of 'national outcomes' will be reported explicitly.

73. Following the signing of the Concordat with COSLA in November 2007, the Government has worked with local government to develop Single Outcome Agreements, which are a key part of the new relationship and are based on the agreed set of 15 national outcomes. Councils will report annually to the Government on the progress they make towards those national outcomes.

Future Developments

74. Spending plans beyond 2007-08 have been set as part of Spending Review 2007 covering the years 2008-09, 2009-10 and 2010-11, against a background of the tightest financial settlement for Scotland set by the UK Government since devolution. As a result those plans include:

- a challenging target of 2% cash releasing efficiencies each year over the next three years,
- access to £874m of End Year Flexibility balances held by HM Treasury across the three years, and
- a prudent level of over- allocation of £100m, £100m and £24m in 2008-09, 2009-10 and 2010-11 respectively.

75. Full details are provided in Scottish Budget Spending Review 2007.

76. Copies of all the documents mentioned above, giving full details of the subjects covered, are available on the Scottish Government's website at www.scotland.gov.uk/publications.

Post-Balance Sheet events

77. In October 2007 Scottish Ministers took the decision to move the functions of several Executive Agencies into the Scottish Government from 1 April 2008 and wind up the host bodies. The agencies effected were Communities Scotland (CS), Scottish Building Standards Agency (SBSA) and Scottish Agricultural Science Agency (SASA). In the case of Communities Scotland, activities undertaken by its Regulation and Inspection Division transferred to a new Executive Agency, the Scottish Housing Regulator, while all other activities moved to the Core of the Scottish Government. The Scottish Housing Regulator will be consolidated in the 2008-09 Scottish Government Consolidated Accounts.

78. The appointment of the new Director-General for Finance and Corporate Services was confirmed on April 29 2008. Stella Manzie CBE, took up her post in August 2008. The creation of this post will address some key issues highlighted by the Taking Stock review, particularly closer alignment between the Scottish Government's finance and corporate functions. The new Director-General is a Scottish Government Strategic Board member.

79. On 1 September 2008, Heather Logan was appointed as a non-executive director on the Strategic Board.

80. The Scottish Futures Trust was set-up in September 2008 and is a company limited by shares outside the Scottish Government Consolidation Boundary.

PUBLIC INTEREST REPORTING

Employment of People with Disabilities

81. The Scottish Government follows Cabinet Office good practice guidance on the employment of disabled people and is a Job Centre Plus Disability Symbol user. 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 ability, competence and suitability for the work.

82. 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 2008 was 1,490 (2006-07: 901). The large increase year-on-year is due to an incomplete report from Health Boards in 2006-07, which led to the figure being understated.

Staff Relations and Equal Opportunities

83. The Scottish Government is an equal opportunities employer. Policies are in place to guard against discrimination and to ensure that there is no unfair or illegal discriminatory treatment or any barriers to employment or advancement in the Scottish Government.

84. The Scottish Government gives a high priority to the development of all its staff. Training, development and learning in the Scottish Government is quality assured through its commitment to the Investor in People (IiP) Scheme. The latest review of its IiP status was in August 2007. The Scottish Government is committed to a programme of continuous improvement in relation to its implementation of the IiP standard.

85. The Cabinet Office is responsible for developing, formulating and promulgating equal opportunities guidance for the Civil Service as a whole, but operational responsibility rests with individual Departments. The Scottish Government has an Equal Opportunities Officer who is responsible for developing and promulgating equal opportunities and diversity policies and acting as an inter-departmental liaison officer with the Cabinet Office.

86. The Scottish Government Equal Opportunities policy states that all staff should be treated equally irrespective of their sex, marital status, age, race, ethnic origin, sexual orientation, disability or religion. Employment and promotion are solely on merit. Staff who work full time and those who work an alternative pattern are assessed on exactly the same basis.

87. The Scottish Government adopted a Diversity Strategy, which was launched by the then Permanent Secretary, in November 2000. The strategy commits the Scottish Government to increasing the diversity of staff within the organisation, to develop them regardless of irrelevant differences and to valuing the contribution of each individual.

Payment Policy

88. 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.

89. The payment performance of the Scottish Government, its Executive Agencies and the Crown Office and Procurator Fiscal Service for 2007-08 was 95.7% (2006-07: 97%) of all invoices paid within the terms of its payment policy. The specific payment performance of the individual bodies consolidated here will be reported separately within their individual accounts. The Core Scottish Government paid 93.6% (2006-07: 95.4%) of all invoices within the terms of its payment policy.

90. Payment policy statistics reflect the Scottish Government's relationship with suppliers. The majority of its expenditure involves grants and funding payments which are paid timeously in accordance with the agreed grant or funding conditions.

Environmental Reporting

91. The Scottish Government publishes annual reports on its environmental performance. Each report summarises the actions taken within its own buildings to reduce environmental impact and contribute to sustainable development. They also outline some of the challenges to be faced over the coming years in improving environmental performance.

92. The aim of the report is to outline the environmental issues affecting the Scottish Government, the policies for managing them and provide a review of environmental performance. In order to reduce the amount of paper consumed by the Scottish Government, these Reports are published in electronic form only and the latest report is available at the Environmental Management section of the Scottish Government website at www.scotland.gov.uk

Auditors

93. The accounts of the Scottish Government are audited by the Auditor General for Scotland. So far as the Principal Accountable Officer is aware, there is no relevant audit information of which the auditors are unaware. In addition, the Principal Accountable Officer has taken all the steps he ought to have taken to make himself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.



Principal Accountable Officer

Date: 23 September 2008

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

In accordance with an accounts direction (reproduced on page 104) 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 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 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.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Principal Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by the Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me.

I am supported by senior management colleagues who are the designated Accountable Officers for their respective areas of responsibility, and by the Accountable Officers of the respective bodies within the Scottish Government consolidation accounting boundary who bear this responsibility directly for their own organisations.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control. Information on how Scottish Government bodies have applied this guidance is contained in these accounts and in the separately published accounts of the individual bodies.

The following analysis is against a backdrop of dynamic change: responsive to the new political landscape, and building on the Taking Stock review, we have reorganised our organisation and our leadership structures around the purpose, strategic objectives and national outcomes of the new government.

Corporate Governance Framework

Responding to the significant changes in the context in which we are operating has required fundamental changes in almost all aspects of our governance structure.

Within the accountability framework established by the Public Finance & Accountability (Scotland) Act 2000, the Scottish Government senior management team is 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 Strategic Board, chaired by me, is the Scottish Government senior management team which provides the leadership and strategic direction for the organisation and acts as powerful advocates of the Scottish Government's programme and priorities, influencing and persuading colleagues and stakeholders to focus on the achievement of the Scottish Government's purpose. The Strategic Board comprises the Directors-General, including the newly appointed Director-General for Finance and Corporate Services from August 2008; the Scottish Government Finance Director from 18 September 2008; and non-executive members who bring independent, challenging and informed input to the Board's meetings. (Further information on the Strategic Board and its composition can be found at www.scotland.gov.uk/About/strategic-board). Strategic Board business is also taken forward by appropriate subgroups, including a People & Business Innovation Sub Group whose remit includes consideration of corporate governance matters. Other bodies within the Scottish Government consolidation boundary similarly have arrangements in place in respect of board structures and non-executive representation.

Audit committees in the Scottish Government, its Executive Agencies and relevant bodies support the Accountable Officer by monitoring and reviewing both the risk, control and governance processes which have been established in the organisation, and the associated assurance processes. These committees are constituted in line with the Policy Principles for Audit Committees in Central Government as set out in the SPFM, including the appointment of non-executive members from appropriate external sources.

The organisational structure of the Scottish Government has led to the establishment of the overarching Scottish Government Audit Committee (SGAC) with additional audit committees supporting Portfolio Accountable Officers. While audit committees in Executive Agencies and sponsored bodies exist essentially to service the needs of their own organisations; collectively they help to provide assurances on the risk, control and governance across the Scottish Government as a whole and to underpin this Statement on Internal Control.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the organisation's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within the Scottish Government accords with the guidance from the Scottish Ministers and has been in place during the period. Although the principles of internal controls were unchanged, there have been some changes in practice in the period, primarily as a result of the earlier organisational changes, and work continues to adapt and embed the consistent application of good practice as part of the continuous improvement of our corporate systems and controls.

Other Accountable Officers in Scottish Government bodies similarly have appropriate systems in place. (The annual accounts of these bodies contain separate specific Statements on Internal Control, which provide detailed information on their systems and plans).

The Risk and Control Framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM. Further information on how individual bodies do this is available in their separate annual accounts. As previously reported, the risk management framework for the Scottish Government, as documented in the SPFM, is being revised in the context of the new management structures and the continuing development of the role of the Strategic Board.

This has been a period of significant change. The Strategic Board has therefore played a significant role in risk management during the year as changes to business arrangements and working practices have been introduced. Given the period of transition, work continues to standardise processes for 2008-09 onwards.

Within Directorates, risk management controls are identified in project and delivery plans and are used to keep projects and programmes in line with plan. Business areas are responsible for maintaining risk registers based on objectives for assessing and monitoring risks and actions taken to manage risk, and for ensuring that risk assessment is embedded into corporate and performance management, business planning and financial reporting processes. Programmes, policies, projects and specific initiatives may also prepare risk registers as appropriate to manage risk.

Other Developments in 2007-08 and up to the signing of these accounts

More generally, the Scottish Government is committed to a process of continuous development and improvement, developing our systems following the results of any reviews and in response to developments in best practice in this area. In particular, in the period covering the year to 31 March 2008 and up to the signing of these accounts the Scottish Government has:

- Responded to the new approach to Government in Scotland, making significant changes to our own structures and ways of working to integrate our activity in furtherance of the single overarching Purpose of the Government, focusing on 5 Strategic Objectives, 7 Purpose targets and 15 National Outcomes. Published in November 2007, the Government Economic Strategy sets how the Purpose will be delivered and the Scottish Budget Spending Review 2007 sets out the new National Performance Framework. More information on these can be found within the *Operating and Financial Review* section of the annual report and at www.scotland.gov.uk/About/scotPerforms.
- Consolidated the organisational restructuring implemented in May 2007.
 - The Strategic Board meets once a month and receives regular reports from the Scottish Government Finance Director on the financial position.
 - The Board has clarified the structure of our corporate processes to facilitate more joined up working across the Scottish Government, defined the role of the Strategic Board and individual Directors-General, and delegated greater responsibility to Directorate level.
 - The new post of Director-General for Finance and Corporate Services has been created, which will address some key issues highlighted by the Taking Stock review, particularly closer alignment of our finance and corporate functions.

- Four key roles of Directors-General have been articulated: as a member of the Strategic Board; as manager overseeing the smooth running of directorates and effective management of staff; as key adviser to Cabinet Secretaries and Accountable Officer for the associated budgets, including responsibility for robust systems and processes; and championing work in driving forward delivery of the strategic objectives and national outcomes.
- Directorates are established as the building blocks of the organisation: Directors have a key role to play in the organisation and the running of the business of Government. They each have substantial resources to manage and responsibility for delivery of a number of outcome targets.
- Reviewed financial accountability and governance systems:
 - The Principal Accountable Officer has designated Directors-General as Accountable Officers for the programme expenditure of those parts of the Cabinet Secretary portfolios for which they are responsible.
 - The organisation has established a formal framework, approved by the People, Business and Innovation Group in May 2008, for the delegation of financial responsibilities from Directors-General to Directors and relevant managers and has rolled this out for the financial year 2008-09.
 - Re-assessed the competencies of the non-executive director members and used this to populate the membership of the Portfolio Audit Committees.
 - The structure of Audit Committees have been reviewed to establish Portfolio Audit Committees (PACs) which report to the Scottish Government Audit Committee and should have at least three members, all of whom are non-executives. Existing vacancies will be filled shortly.
 - The role of Portfolio Audit Committees has developed during 2007-08 with initial meetings concentrating on the formalisation of remits, and has continued to develop in accordance with later guidance.
 - An *Audit Committee Handbook* for those bodies subject to the SPFM, plus related Guidance for audit committee members in the core Scottish Government, was developed and issued in August 2008.(both available at <http://www.scotland.gov.uk/Publications/2008/08/Q/Page/3>)
 - Facilitated a network for the non executive members and close links with SGAC non executives.
- Completed a project in April 2008 to align the financial systems with the revised corporate structure and to facilitate improved financial information to support decision-making.
- Invested in the development of a business planning monitoring and reporting tool to provide increased capacity and standardisation across the Scottish Government. This is rolled out initially for business planning with further development in progress for the associated risk management and planned in respect of performance monitoring and reporting.
- Continued to build on its existing portfolio of Gateway Review projects as a method of reducing risk in large projects, mandatory for those organisations covered by the terms of the Scottish Public Finance Manual, specifically for those projects with a budget of £5m or more that are categorised as High-Risk or Mission Critical.

Review of Effectiveness

As Principal Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by:

- the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the relevant Audit Committees regular reports which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement; and
- comments made by the external auditors in their management letters and other reports.

Other bodies within the consolidated accounting boundary are also subject to internal and external audit and have in place systems for reporting by their executive managers.

Assurance on the maintenance and review of internal controls systems is provided by managers within the Scottish Government, who provide a certificate of assurance covering their areas of responsibility to the Director-General, who then provides an appropriate assurance to me. Similar processes exist within the other Scottish Government bodies, which may produce their own Statement on Internal Control if they publish their own annual accounts, or who will otherwise draw to the attention of the Portfolio Accountable Officers any significant internal control matters.

The Head of Internal Audit (HIA) gave his annual assurance report to SGAC in June 2008: this provided an overview of internal audit activity in the period and his independent opinion that he could provide substantial assurance on the overall arrangements for risk management, control and governance.

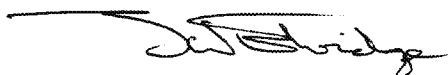
The audit committees support the Principal/Portfolio Accountable Officers with regard to their responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge and review. They provide advice on, and review the comprehensiveness of, assurances provided to the Accountable Officers, including the annual assurance provided by the HIA, reports from managers and the consideration of information on control issues received in respect of Executive Agencies or sponsored bodies. Assurances draw attention to those aspects of risk management, governance and internal control that are functioning effectively and, just as importantly, those that need to be improved. Where room for improvement is identified, appropriate action is taken forward by the relevant managers and this is subject to follow up by the Audit Committees.

PACs provide an annual report to the SGAC giving an assurance that the PAC is operating in accordance with SPFM guidance and drawing the SGAC's attention to issues that may fall within its remit. This report will include, where appropriate, any notifications of problems being experienced by audit committees of Executive Agencies or relevant sponsored bodies. The PAC chairs also met with SGAC members on 9 September to discuss their reports and identify any common issues. The SGAC provides an annual report to the Principal Accountable Officer, timed to support the preparation of this statement. No significant issues were reported via these processes, culminating in the SGAC meeting of 23 September which recommended the signing of these accounts, which require to be reported here.

Where any matters arise from the assurance process, appropriate action is put in place to address any weaknesses identified and to ensure the continuous improvement of the system. In particular there are the following areas where there is room for improvement and where action is already underway:

- Internal Audit's review of transition arrangements, risk and governance was largely positive but raised some key issues, particularly with reference to inconsistencies and uncertainties surrounding risk management and business planning systems. Work is in progress to consolidate and extend use of the Business Planning Tool; to embed consistent application of risk management principles and to apply formal processes for the senior management role in risk management.
- Related to this, we also recognise the need to further develop integrated financial and performance monitoring and link to outcomes.
- The Scottish Government recognises the need to document, review and further refine the respective roles of individuals and groups to ensure a shared understanding across the organisation.
- In view of the increased exposure to disallowance risk, transferred from the UK Government, a programme of action was under development during the 2007-08 period and is now being implemented in respect of controls related to expenditure funded by the European Agriculture Guarantee Fund and European Agricultural Fund for Rural Development. Work is continuing to embed these improvements.

Going forward, the Strategic Board will continue to develop our organisation to deliver the Scottish Government's purpose, underpinned by effective systems and processes.



Principal Accountable Officer

Date: 23 September 2008

Report of the Auditor General for Scotland to the Scottish Parliament

I have audited the financial statements of the Scottish Government Consolidated Accounts for the year ended 31 March 2008 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Summary of Total Outturn, the Summary of Resource Outturn, the Summary Portfolio Resource Outturn Statement, Resource Outturn Statements for each of the six Portfolios of the Scottish Government, the Crown Office and Procurator Fiscal Service and the Scottish Government Administration, the Analysis of Major Variances, the Consolidated Statement of Recognised Gains and Losses, the Core Portfolios' Balance Sheet, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Resources by Objectives, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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 123 of the Code of Audit Practice approved by me, I do not undertake to have responsibilities to members, in their individual capacities, or to third parties.

Respective responsibilities of the Accountable Officer and Auditor General

The Accountable Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers and for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with the relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice which was prepared by Audit Scotland and approved by me.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. I report to you whether, in my opinion, the information which comprises the Introduction/Background, details of Ministers and Senior Officers and the Operating and Financial Review, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects

- the expenditure and receipts shown 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.

In addition, I report to you if in my opinion the Scottish Government has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Scottish Government's compliance with its own guidance and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Scottish Government's corporate governance procedures or its risk and control procedures.

I read the other information in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises those parts of the Remuneration Report not subject to audit and certain other matters under the heading Public Interest Reporting. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Scottish Government and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scottish Government's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made thereunder by the Scottish Ministers, of the state of affairs of the Scottish Government and the consolidation of the entities within the consolidation accounting boundary as at 31 March 2008 and the consolidated net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- information which comprises the Introduction/Background, details of Ministers and Senior Officers and the Operating and Financial Review, included within the Annual Report, is consistent with the financial statements.

Regularity

In my opinion in all material respects:

- the expenditure and receipts shown 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.

Signature



Robert W Black
Auditor General for Scotland
110 George Street
Edinburgh
EH2 4LH

Date: 25 September 2008

**The Scottish Government
Summary of Total Outturn
For the year ended 31 March 2008**

Restated 2006-07 Outturn £m		Resource Outturn £m	Capital Outturn £m	Total Outturn £m	Budget £m	Variance £m
	Programme					
211	Office of the First Minister	249	5	254	256	(2)
10,807	Finance and Sustainable Growth	11,297	423	11,720	11,761	(41)
9,279	Health and Wellbeing	9,435	403	9,838	9,968	(130)
3,046	Education and Lifelong Learning	2,999	150	3,149	3,195	(46)
1,485	Justice	1,498	71	1,569	1,598	(29)
484	Rural Affairs and the Environment	991	10	1,001	1,026	(25)
99	Crown Office and Procurator Fiscal Service	91	6	97	98	(1)
25,411	Total Programme Outturn	26,560	1,068	27,628	27,902	(274)
253	Administration	251	14	265	266	(1)
25,664	TOTAL OUTTURN	26,811	1,082	27,893	28,168	(275)

**The Scottish Government
Summary of Resource Outturn
For the year ended 31 March 2008**

Restated 2006-07 Outturn £m		Outturn £m	Budget £m	Variance £m
	Programme			
210	Office of the First Minister	249	249	-
10,587	Finance and Sustainable Growth	11,297	11,353	(56)
8,946	Health and Wellbeing	9,435	9,561	(126)
2,898	Education and Lifelong Learning	2,999	3,023	(24)
1,396	Justice	1,498	1,514	(16)
496	Rural Affairs and the Environment	991	1,011	(20)
89	Crown Office and Procurator Fiscal Service	91	92	(1)
24,622	Total Programme Outturn	26,560	26,803	(243)
239	Administration	251	255	(4)
24,861	TOTAL OUTTURN *	26,811	27,058	(247)

*See pages 45 to 46 for a full Resource Outturn variance analysis.

**The Scottish Government
Summary of Capital Outturn
For the year ended 31 March 2008**

Restated 2006-07 Outturn £m		Outturn £m	Budget £m	Variance £m
	Programme			
1	Office of the First Minister	5	7	(2)
220	Finance and Sustainable Growth	423	408	15
333	Health and Wellbeing	403	407	(4)
148	Education and Lifelong Learning	150	172	(22)
89	Justice	71	84	(13)
(12)	Rural Affairs and the Environment	10	15	(5)
10	Crown Office and Procurator Fiscal Service	6	6	-
789	Total Programme Outturn	1,068	1,099	(31)
14	Administration	14	11	3
803	TOTAL OUTTURN*	1,082	1,110	(28)

* See Note 5 'Analysis of capital expenditure and associated receipts' for further information and variance analysis.

The Scottish Government
Summary Portfolio Resource Outturn Statement
For the year ended 31 March 2008

Restated 2006-07 Outturn £m		Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
Office of the First Minister						
210	Departmental Expenditure Limit	276	27	249	249	-
-	Annually Managed Expenditure	-	-	-	-	-
-	Other Expenditure	-	-	-	-	-
210		276	27	249	249	-
Finance and Sustainable Growth						
8,193	Departmental Expenditure Limit	9,023	156	8,867	8,888	(21)
2,335	Annually Managed Expenditure	2,353	-	2,353	2,361	(8)
59	Other Expenditure	77	-	77	104	(27)
10,587		11,453	156	11,297	11,353	(56)
Health and Wellbeing						
10,483	Departmental Expenditure Limit	11,489	319	11,170	11,188	(18)
8	Annually Managed Expenditure	61	-	61	97	(36)
(1,545)	Other Expenditure	90	1,886	(1,796)	(1,724)	(72)
8,946		11,640	2,205	9,435	9,561	(126)
Education and Lifelong Learning						
2,898	Departmental Expenditure Limit	3,093	94	2,999	3,015	(16)
-	Annually Managed Expenditure	-	-	-	-	-
-	Other Expenditure	-	-	-	8	(8)
2,898		3,093	94	2,999	3,023	(24)
Justice						
1,383	Departmental Expenditure Limit	1,526	39	1,487	1,500	(13)
-	Annually Managed Expenditure	-	-	-	-	-
13	Other Expenditure	11	-	11	14	(3)
1,396		1,537	39	1,498	1,514	(16)
Rural Affairs and the Environment						
496	Departmental Expenditure Limit	1,048	490	558	581	(23)
-	Annually Managed Expenditure	433	-	433	430	3
-	Other Expenditure	-	-	-	-	-
496		1,481	490	991	1,011	(20)
Crown Office and Procurator Fiscal Service						
89	Departmental Expenditure Limit	91	-	91	92	(1)
-	Annually Managed Expenditure	-	-	-	-	-
-	Other Expenditure	-	-	-	-	-
89		91	-	91	92	(1)
24,622	Total Programme Outturn	29,571	3,011	26,560	26,803	(243)
Administration						
239	Departmental Expenditure Limit	269	18	251	255	(4)
-	Annually Managed Expenditure	-	-	-	-	-
-	Other Expenditure	-	-	-	-	-
239		269	18	251	255	(4)
24,861	TOTAL OUTTURN	29,840	3,029	26,811	27,058	(247)

**The Scottish Government
Office of the First Minister
Portfolio Resource Outturn Statement for the Year Ended 31 March 2008**

Restated 2006-07 Outturn		Gross Expenditure	Income Applied	Outturn	Budget	Variance
£m	PROGRAMME	£m	£m	£m	£m	£m
	Departmental Expenditure Limit (DEL)					
	7 Europe and External Affairs	10	-	10	12	(2)
191	Culture	254	27	227	224	3
	12 Corporate and Central Budgets	12	-	12	13	(1)
210	Total DEL	276	27	249	249	-
	Annually Managed Expenditure (AME)					
	- Total AME	-	-	-	-	-
	Other Expenditure					
	- Total Other Expenditure	-	-	-	-	-
210	TOTAL	276	27	249	249	-

Note: In addition to direct expenditure, the share of administration costs allocated to the Office of the First Minister Portfolio is £6m (2006-07: £6m). This gives a total net expenditure of £255m (2006-07: £216m).

Gross Expenditure excludes £1m which was paid to the Administration Portfolio for PC/Network support. This has been treated as an inter-entity transaction for the purposes of these accounts. The budget has also been amended to reflect the elimination of this transaction.

The Scottish Government
Finance and Sustainable Growth
Portfolio Resource Outturn Statement for the Year Ended 31 March 2008

Restated 2006-07 Outturn		Gross Expenditure	Income Applied	Outturn	Budget	Variance
£m	PROGRAMME	£m	£m	£m	£m	£m
	Departmental Expenditure Limit (DEL)					
	9 Scottish Public Pensions Agency	8	-	8	9	(1)
5,829	Local Government	6,287	-	6,287	6,287	-
25	Committees, Commissions and Other Expenditure	38	-	38	30	8
653	Rail Services in Scotland	678	-	678	675	3
78	Ferry Services in Scotland	85	-	85	82	3
33	Air Services in Scotland	44	-	44	47	(3)
163	Concessionary Fares	174	-	174	173	1
256	Other Transport	338	-	338	358	(20)
313	Motorways and Trunk Roads	275	3	272	282	(10)
84	Other Transport Grants to Local Authorities	73	-	73	73	-
63	Bus Services in Scotland	67	-	67	68	(1)
-	European Social Fund - 2000-06 Programmes	46	46	-	-	-
-	European Regional Development Fund - 2000-06 Programmes	107	107	-	-	-
2	Planning	5	-	5	5	-
670	Enterprise, Industrial Affairs & Tourism	777	-	777	775	2
15	Third Sector and Social Economy	21	-	21	24	(3)
8,193	Total DEL	9,023	156	8,867	8,888	(21)
	Annually Managed Expenditure (AME)					
1,884	Local Government	1,860	-	1,860	1,860	-
451	Motorways and Trunk Roads (capital charges)	493	-	493	501	(8)
2,335	Total AME	2,353	-	2,353	2,361	(8)
	Other Expenditure					
-	Tay Bridge Grant	14	-	14	14	-
59	Cost of Capital on Scottish Water Voted Loans	63	-	63	90	(27)
59	Total Other Expenditure	77	-	77	104	(27)
10,587	TOTAL	11,453	156	11,297	11,353	(56)

Note: In addition to direct expenditure, the share of administration costs allocated to the Finance and Sustainable Growth Portfolio is £55m (2006-07: £57m). This gives total net expenditure of £11,352m (2006-07: £10,644m).

Gross Expenditure excludes £1m which was paid to the Administration Portfolio for PC/Network support. This has been treated as an inter-entity transaction for the purposes of these accounts. The budget has also been amended to reflect the elimination of this transaction.

The Scottish Government
Health and Wellbeing
Portfolio Resource Outturn Statement for the Year Ended 31 March 2008

Restated 2006-07 Outturn		Gross Expenditure	Income Applied	Outturn	Budget	Variance
£m	PROGRAMME	£m	£m	£m	£m	£m
	Departmental Expenditure Limit (DEL)					
8,875	National Health Service	9,796	274	9,522	9,545	(23)
140	Health Improvement	148	-	148	136	12
60	Other Health Services	47	-	47	47	-
34	Community Care	47	12	35	36	(1)
	Delivering Good Quality, Sustainable and					
1,161	Affordable Housing for Everyone	1,216	32	1,184	1,186	(2)
	Building Stronger, Safer Communities through					
183	Regeneration	214	1	213	214	(1)
	Closing the Opportunity Gap by Providing					
	Routes out of Poverty, Ensuring Equal					
30	Opportunities & Supporting Active Citizenship	21	-	21	24	(3)
10,483	Total DEL	11,489	319	11,170	11,188	(18)
	Annually Managed Expenditure (AME)					
-	National Health Service	54	-	54	90	(36)
	Delivering Good Quality, Sustainable and					
8	Affordable Housing for Everyone	7	-	7	7	-
8	Total AME	61	-	61	97	(36)
	Other Expenditure					
	National Health Service (National Insurance					
(1,653)	Contributions) (1)	-	1,886	(1,886)	(1,814)	(72)
108	Housing Debt Repayment	90	-	90	90	-
(1,545)	Total Other Expenditure	90	1,886	(1,796)	(1,724)	(72)
8,946	TOTAL	11,640	2,205	9,435	9,561	(126)

Note: In addition to direct expenditure, the share of administration costs allocated to the Health and Wellbeing Portfolio is £47m(2006-07: £45m). This gives a total net expenditure of £9,482m(2006-07: £8,991m).

Gross Expenditure excludes £1m which was paid to the Administration Portfolio for PC/Network support. This has been treated as an inter-entity transaction for the purposes of these accounts. The budget has also been amended to reflect the elimination of this transaction.

(1) The underspend is due to £72m of additional National Insurance Contributions due from HMRC which were not included in the budget that they advised.

**The Scottish Government
Education and Lifelong Learning
Portfolio Resource Outturn Statement for the Year Ended 31 March 2008**

Restated 2006-07 Outturn		Gross Expenditure	Income Applied	Outturn	Budget	Variance
£m	PROGRAMME	£m	£m	£m	£m	£m
	Departmental Expenditure Limit (DEL)					
336	Schools	312	1	311	322	(11)
172	Children, Young People and Social Care	163	-	163	184	(21)
252	Specific Grants	270	-	270	271	(1)
344	Student Awards Agency Scotland (SAAS)	452	90	362	374	(12)
	Scottish Further and Higher Education					
1,714	Funding Council	1,807	-	1,807	1,753	54
80	Other Lifelong Learning	89	3	86	111	(25)
2,898	Total DEL	3,093	94	2,999	3,015	(16)
	Annually Managed Expenditure (AME)					
	- Total AME	-	-	-	-	-
	Other Expenditure					
	- SAAS (Student Loans Bank Interest Subsidy)	-	-	-	8	(8)
	- Total Other Expenditure	-	-	-	8	(8)
2,898	TOTAL	3,093	94	2,999	3,023	(24)

Note: In addition to direct expenditure, the share of administration costs allocated to the Education and Lifelong Learning Portfolio is £42m (2006-07: £44m). This gives total net expenditure of £3,041m (2006-07: £2,942m).

Expenditure relating to the Education Maintenance Allowance has been changed in 2007-08 to include it in Other Lifelong Learning within DEL. This expenditure was previously reported in AME. Prior year figures have been restated to reflect this change.

**The Scottish Government
Justice
Portfolio Resource Outturn Statement for the Year Ended 31 March 2008**

Restated 2006-07 Outturn		Gross Expenditure	Income Applied	Outturn	Budget	Variance
£m	PROGRAMME	£m	£m	£m	£m	£m
	Departmental Expenditure Limit (DEL)					
161	Legal Aid	168	-	168	168	-
23	Criminal Injuries Compensation	21	-	21	29	(8)
282	Scottish Prison Service	295	2	293	300	(7)
109	Police Central Government	162	13	149	136	13
12	Fire Central Government	15	-	15	12	3
93	Criminal Justice Services	103	-	103	107	(4)
583	Justice Support to Local Authorities	603	-	603	605	(2)
15	Miscellaneous	21	-	21	31	(10)
16	Courts Group	14	-	14	12	2
70	Scottish Court Services	102	19	83	83	-
6	Accountant in Bankruptcy	12	5	7	8	(1)
13	Safer Communities	10	-	10	9	1
1,383	Total DEL	1,526	39	1,487	1,500	(13)
	Annually Managed Expenditure (AME)					
-	Total AME	-	-	-	-	-
	Other Expenditure					
13	Police Loan Charges	11	-	11	14	(3)
13	Total Other Expenditure	11	-	11	14	(3)
1,396	TOTAL	1,537	39	1,498	1,514	(16)

Note: In addition to direct expenditure, the share of administration costs allocated to the Justice Portfolio is £19m (2006-07: £20m). This gives total net expenditure of £1,517m (2006-07: £1,416m).

Income Applied excludes £3m which was paid to the Scottish Court Service for accommodation. This has been treated as an inter-entity transaction for the purposes of these accounts. The budget has also been amended to reflect the elimination of this transaction.

The Scottish Government
Rural Affairs and the Environment
Portfolio Resource Outturn Statement for the Year Ended 31 March 2008

Restated 2006-07 Outturn		Gross Expenditure	Income Applied	Outturn	Budget	Variance
£m	PROGRAMME	£m	£m	£m	£m	£m
	Departmental Expenditure Limit (DEL)					
	1 CAP Support	422	421	1	-	1
	89 Rural Development	169	50	119	119	-
	113 Agricultural and Biological Science and Other	118	7	111	119	(8)
	48 Fisheries	61	12	49	56	(7)
	96 Natural Heritage	82	-	82	84	(2)
	140 Environmental Protection	183	-	183	188	(5)
	6 Greener Scotland	8	-	8	8	-
	3 Water Grants	5	-	5	7	(2)
496	Total DEL	1,048	490	558	581	(23)
	Annually Managed Expenditure (AME)					
	- SABRI Pensions	433	-	433	430	3
	- Total AME	433	-	433	430	3
	Other Expenditure					
	- Total Other Expenditure	-	-	-	-	-
496	TOTAL	1,481	490	991	1,011	(20)

Note: In addition to direct expenditure, the share of administration costs allocated to the Rural Affairs and the Environment Portfolio is £82m (2006-07: £67m). This gives total net expenditure of £1,073m (2006-07: £563m).

The Scottish Government
The Crown Office and Procurator Fiscal Service
Resource Outturn Statement for the Year Ended 31 March 2008

2006-07		Gross	Income			
Outturn		Expenditure	Applied	Outturn	Budget	Variance
£m	PROGRAMME	£m	£m	£m	£m	£m
	Departmental Expenditure Limit (DEL)					
	Staff Costs					
53	Directly Employed Staff	55	-	55	56	(1)
	Administration Expenditure					
9	Accommodation	8	-	8	7	1
1	Travel/Transport	1	-	1	1	-
15	Legal	15	-	15	14	1
7	Supplies and Services	7	-	7	7	-
1	Training	-	-	-	1	(1)
3	Capital Charges	1	-	1	4	(3)
-	Other Office	4	-	4	2	2
89	Total DEL	91	-	91	92	(1)
89	TOTAL	91	-	91	92	(1)

Note: Gross Expenditure excludes £3m which was paid to the Scottish Court Service for accommodation. This has been treated as an inter-entity transaction for the purposes of these accounts. The budget has also been amended to reflect the elimination of this transaction.

**The Scottish Government
Administration
Resource Outturn Statement for the Year Ended 31 March 2008**

2006-07 Outturn £m	PROGRAMME	Gross Expenditure £m	Income Applied £m	Outturn £m	Budget £m	Variance £m
	Departmental Expenditure Limit (DEL)					
	Staff Costs					
158	Directly Employed Staff	163	-	163	174	(11)
17	Seconded Staff Costs	16	-	16	17	(1)
9	Other Staff Costs	12	-	12	4	8
	Administration Expenditure					
17	Accommodation	18	-	18	18	-
7	Travel	7	-	7	5	2
-	Transport	1	-	1	-	1
1	Legal	1	-	1	2	(1)
11	Supplies and Services	16	-	16	18	(2)
3	Training	3	-	3	3	-
1	Hospitality	1	-	1	1	-
1	Audit Fee	1	-	1	1	-
21	Capital Charges and Impairment	18	-	18	18	-
10	Other Office	12	-	12	11	1
	Administration Income					
-	Accommodation Charges	-	1	(1)	-	(1)
(15)	Staff Secondments and Other Staff Income	-	15	(15)	(15)	-
(1)	Fees & Charges	-	1	(1)	(1)	-
(1)	Miscellaneous Income	-	1	(1)	(1)	-
239	Total DEL	269	18	251	255	(4)
	Annually Managed Expenditure (AME)					
-	Total AME	-	-	-	-	-
239	TOTAL	269	18	251	255	(4)

Note: The allocation of administration costs to individual portfolios is set out in the note to the Resources by Scottish Government objectives.

Income excludes £3m which was received from the Office of the First Minister, Finance and Sustainable Growth and Health and Wellbeing Portfolios for PC/Network support. This has been treated as an inter-entity transaction for the purposes of these accounts. The budget has also been amended to reflect the elimination of this transaction.

Analysis of major variances in the Consolidated Portfolio Outturn Statements

	Resource Outturn £m	Resource Budget £m	Variance £m
Departmental Expenditure Limit	25,672	25,768	(96)
Annually Managed Expenditure	2,847	2,888	(41)
Other Expenditure	(1,708)	(1,598)	(110)
	26,811	27,058	(247)

Explanation of major variances (in excess of £10m)**Within Departmental Expenditure Limit (DEL)**

	Variance £m	Variance £m
Office of the First Minister		
Minor variances of less than £10m.	-	-
Finance and Sustainable Growth		
Underspend in the Other Transport programme due to earlier than expected contribution (£4m) from Edinburgh Council in form of land transfer. Various spending areas (Freight, Cycling, Rural Transport) less than anticipated (£3m). Final costs for major public transport programmes in 07-08 less than anticipated (£10m). Repayment of Tay Bridge loans (£2m).	(20)	
The non-cash roads depreciation was less than anticipated (£41m). The Structural Repairs, Routine & Winter Maintenance spending increased to maintain network in a stable state.	(10)	
Minor variances of less than £10m.	9	(21)
Health and Wellbeing		
Slippage on project expenditure by NHS Boards.	(23)	
Overspend in Health Improvement relates to planned additional grant to sportscotland.	12	
Minor variances of less than £10m.	(7)	(18)
Education and Lifelong Learning		
Underspend in the Schools programme is mainly due to smaller than anticipated PPP claims from Local Authorities.	(11)	
Underspend in the Children and Young People programme is due to lower than expected take-up of demand led grant schemes and delays in capital projects.	(21)	
Underspend in the Student Awards Agency programme relates to maintenance bursaries and the reduced resource cost of student loans due to loans advanced being less than budgeted. Graduate Endowment income was also higher than budgeted.	(12)	

Explanation of major variances (in excess of £10m) - Continued

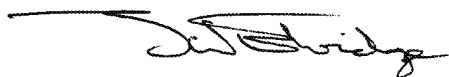
Within Departmental Expenditure Limit (DEL)	Variance £m	Variance £m
Education and Lifelong Learning Cont'd		
Planned overspend at financial year-end to meet the Scottish Further and Higher Funding Council's academic year profile. This overspend intentionally offsets the planned underspend including the provision included within the Lifelong Learning Other programmes.	54	
Planned underspend in the Other Lifelong Learning programme to help to offset the planned overspend in grant to the Scottish Further and Higher Funding Council.	(25)	
Minor variances of less than £10m.	(1)	(16)
Justice		
Underspend in Miscellaneous is due to delays in various minor projects.	(10)	
Other minor variances of less than £10m.	(3)	(13)
Rural Affairs and the Environment		
Minor variances of less than £10m.	(23)	(23)
Crown Office and Procurator Fiscal Services		
Minor variances of less than £10m.	(1)	(1)
Administration		
The underspend in Directly Employed Staff has been managed in to allow for the planned overspend on other staffing costs.	(11)	
Minor variances of less than £10m.	7	(4)
Total within Departmental Expenditure Limit		(96)
Other variances outwith Departmental Expenditure Limit		
Annually Managed Expenditure		
Impairment costs by NHS Boards less than budgeted.	(36)	
Minor variances of less than £10m.	(5)	(41)
Other Expenditure		
Additional National Insurance Contributions due from HMRC not included in the budget that they advised.	(72)	
Scottish Water cost of capital budget was overestimated based on historic forecasts.	(27)	
Minor variances of less than £10m.	(11)	(110)

The Scottish Government
Consolidated Statement of Recognised Gains and Losses
As at 31 March 2008

2006-07			2007-08
£m		Note	£m
956	Net gain on revaluation of tangible fixed assets	15(a)	1,314
6	Movement in donated asset reserve	15(b)	10
962	Recognised gains for the financial year		1,324
-	Prior year adjustments	22(b)	-
962	Gains recognised since last accounts		1,324

**The Scottish Government
Core Portfolios' Balance Sheet
As at 31 March 2008**

Restated 2006-07 £m	Note	2007-08 £m
Fixed Assets		
192 Tangible Assets	6(a)	195
6 Intangible Assets	6(d)	5
3,967 Investments	7	4,308
4,165		4,508
- Stocks	9	-
363 Debtors	10	503
116 Cash at Bank and in Hand	11	33
479		536
654 Creditors (due within one year)	12(a)	598
(175) Net Current Assets/(Liabilities)		(62)
3,990 Total Assets less Current Liabilities		4,446
842 Creditors (falling due after more than one year)	12(a)	829
659 Provisions for Liabilities and Charges	14	711
1,501		1,540
<u>2,489</u>		<u>2,906</u>
Taxpayers' Equity		
2,406 General Fund	22(a)	2,822
83 Revaluation Reserve	15(a)	84
<u>2,489</u>		<u>2,906</u>

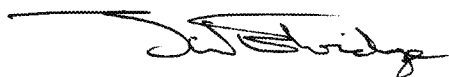


Principal Accountable Officer:

Date: 23 September 2008

**The Scottish Government
Consolidated Balance Sheet
As at 31 March 2008**

Restated 2006-07 £m	Note	2007-08 £m
Fixed Assets		
19,615 Tangible Assets	6(b)	21,111
43 Intangible Assets	6(e)	53
4,040 Investments	7	4,388
23,698		25,552
130 Debtors falling due after 1 year	10	152
89 Stock	9	83
742 Debtors	10	804
149 Cash at Bank and in Hand	11	69
980		956
2,288 Creditors (due within one year)	12(a)	2,311
(1,308) Net Current Assets /(Liabilities)		(1,355)
22,520 Total Assets less Current Liabilities		24,349
1,183 Creditors (falling due after more than one year)	12(a)	1,162
1,107 Provisions for Liabilities and Charges	14	1,217
2,290		2,379
20,230		21,970
Taxpayers' Equity		
12,955 General Fund	22(b)	13,433
7,207 Revaluation Reserve	15(a)	8,462
68 Donated Asset Reserve	15(b)	73
- European Union Grant Reserve	16	2
20,230		21,970



Principal Accountable Officer:

Date: 23 September 2008

The Scottish Government
Consolidated Cash Flow Statement
For the year ended 31 March 2008

2006-07

£m	Note	£m
(23,470) Net cash outflow from operating activities	(A)	(25,381)
(738) Capital expenditure and financial investment	(B)	(1,039)
(79) Payments to the SCF for income not applied	(D)	(172)
24,374 Financing	(C)	26,514
87 Increase/(Decrease) in cash in the period		(78)
(A) Reconciliation of operating costs to operating cash flows		
(24,633) Net Operating Cost	(E)	(26,713)
981 Adjust for non-cash transactions	3(a)	1,159
69 Adjust for movements in working capital other than cash	13	68
113 Net movement on provisions and long term accruals	12&14	105
(23,470) Net cash outflow from operating activities		(25,381)
(B) Analysis of capital expenditure and financial investment		
(638) Purchase of fixed assets	6 (b) &(e)	(678)
82 Proceeds of disposal of fixed assets	6 (b) &(e)	20
(556)		(658)
Investments:	Advances Repayments	
(6) Shares	7 - -	-
(55) Voted Loans	7 (268) 25	(243)
35 NLF Loans	7 - 20	20
(146) Student Loans	7 (211) 62	(149)
(10) Housing Association Loans	7 (13) 4	(9)
(182)	(492) 111	(381)
(738) Net cash outflow from investing activities		(1,039)
(C) Analysis of financing		
24,408 From Consolidated Fund	22(b)	26,531
(35) Loan transactions with the National Loans Fund	12	(21)
1 Adjustment for rent free period	12	2
- EU Grant Reserve	16	2
24,374 Net financing		26,514
(87) Decrease/(Increase) in cash	(F)	(78)
24,287 Net cash requirement		26,436

(D) Payments to the SCF represents the income not applied, £116m (Note 4b), plus the decrease in the outstanding balances payable to the SCF, £74m (Note 12a), and less the £18m of Fines, Forfeitures and Fixed Penalties relating to the Crown Office.

(E) Net operating cost is the net resource outturn of £26,811m less £116m of income which cannot be applied and is surrenderable to the SCF (see Note 4), plus £18m of Fines, Forfeitures and Fixed Penalties relating to the Crown Office.

(F) Decrease in cash represents the movement in cash at bank and in hand (Note 11) and bank overdraft (Note 12a).

**The Scottish Government
Resources By Objectives
For the year ended 31 March 2008**

	Expenditure £m	2007-08 Income £m	Net £m	2006-07 Net £m
Wealthier and Fairer – enable businesses and people to increase their wealth and more people to share fairly in that wealth.	5,949	183	5,766	5,438
Smarter – expand opportunities for people in Scotland to succeed from nurture through to life long learning, ensuring higher and more widely shared achievements.	6,056	94	5,962	5,668
Healthier – help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.	13,442	2,205	11,237	10,612
Safer and Stronger – help local communities to flourish, become stronger, safer places to live, offering improved opportunities and a better quality of life.	2,643	39	2,604	2,414
Greener – improve Scotland's natural and built environment and the sustainable use and enjoyment of it.	1,732	490	1,242	729
	29,822	3,011	26,811	24,861

In previous years the Scottish Government Consolidated Accounts have included a Statement of Resources by Aim and Objectives for each department. The objectives were obtained from the 'Draft Budget' which was published each year. This year Draft Budget 2007-08 was published under the previous administration and is based on the objectives of the departments. Since the election there has been a reorganisation of the Scottish Administration from departments to portfolios and a change in emphasis of the purpose and objectives of the Scottish Government. This transition has been reported on in the Operating and Financial Review (pages 21 to 23) and in the Statement on Internal Control (pages 27 to 30).

Due to the nature of the transition period, there is no established methodology available to strictly apportion income and expenditure against the five strategic objectives announced by the new Scottish Government soon after the election. For the purposes of this statement, expenditure and income have been allocated directly against their parent objective as outlined on page 52.

Notes to the Statement on Resources by Scottish Government objectives

The resources of the Scottish Government, as represented by the Total Programme Outturn and Total Outturn as disclosed in the Summary of Resource Outturn, have been attributed to the objectives of the Scottish Government. The prior year figures have been restated.

Programme expenditure and income in each Portfolio have been allocated directly to their parent objective. The funding to Local Government within the Finance and Sustainable Growth Portfolio has been allocated to the five objectives using the settlement based GAE (Grant Aided Expenditure) allocations for the financial year.

Direct administration costs, which include staff-related costs for the staff numbers shown at Note 2, have been allocated to the Portfolio they support. Administration costs for support functions, e.g. Corporate Services, have been apportioned to portfolios pro-rata to the direct administration costs allocation. The total net administration expenditure allocated by portfolio is:

	2007-08	Restated
	£m	2006-07
		£m
Office of the First Minister	6	6
Finance and Sustainable Growth	55	57
Health and Wellbeing	47	45
Education and Lifelong Learning	42	44
Justice	19	20
Rural Affairs and the Environment (1)	82	67
TOTAL	251	239

Comparative net resource expenditure by objectives is provided for 2006-07. Prior year figures have been restated to reflect changes in objectives and departmental structure.

(1) In 2007-08 there was a small increase in administration costs (excluding staff costs) in the Rural Affairs and Environment Portfolio, which increased that portfolio's share of the support function costs.

THE SCOTTISH GOVERNMENT

NOTES TO THE ACCOUNTS

For the Year Ended 31 March 2008

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 (reproduced at page 104) these accounts have been prepared in compliance with the principles and disclosure requirements of the *Government Financial Reporting Manual*, which follows generally accepted accounting practice in the UK to the extent that it is meaningful and appropriate in the public sector context. The particular accounting policies adopted by the Scottish Government are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

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 Financial Reporting Standard 18: *Accounting Policies*. Changes in accounting policies which do not give rise to a prior year adjustment are reported in the relevant note.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the organisation by reference to their current costs.

1.2 Basis of Consolidation

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 as defined by the *Government Financial Reporting Manual* (Section 1.5). Transactions between entities included in the consolidation are eliminated. A list of all those entities within the consolidation boundary is given at Section 2 of the Annual Report.

The Executive Agencies detailed at Section 2 of the Annual Report are reported within the Outturn Statements of their sponsoring portfolio.

The core Scottish Government was restructured in 2007-08 into portfolios. As a result all the prior year comparatives have been restated where the information is available.

1.3 Transfer of Function/Merger Accounting

The Scottish Police Services Authority (SPSA) was created in April 2007 as a non-departmental public body of the Justice Portfolio. The assets and liabilities were transferred out of the Scottish Government to SPSA on 1 April 2007. As this was a transfer of function, merger accounting applied and all the relevant schedules and notes to the accounts have been restated. See Note 28.

In addition, some functions were transferred from Communities Scotland to the Core Portfolios on 1 April 2007. As Communities Scotland have applied merger accounting to their accounts for this transfer, the Core Schedules have also done so. This transaction was removed upon consolidation as it will have no overall effect, as the Core and Communities Scotland adjustments will in effect be cancelled out.

1.4 Tangible Fixed Assets

Recognition

Scottish Ministers hold the legal title or enjoy the risks and rewards of all land and buildings shown in the accounts.

Historic Scotland holds a number of non-operational assets that are held primarily for the maintenance of the nation's heritage. Non-operational assets are not valued and are therefore not included in these accounts.

Assets classified as under construction are recognised in the balance sheet to the extent that money has been paid or a liability has been incurred.

Capitalisation

The minimum levels for capitalisation of a tangible fixed asset within the Core Scottish Government 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.

All NHS assets costing over £5,000 are capitalised and pooled assets individually costing less than £5,000 but with a combined value of £20,000 are capitalised.

Furniture, fixtures and fittings within the Core Scottish Government Portfolios are treated as current expenditure and are not capitalised. Exceptionally some smaller bodies have capitalised furniture, fixtures and fittings where the amounts are material to them. The differences in capitalisation policy have no material effect on the financial statements.

Valuation

Land and buildings have been stated at open market value for existing use or depreciated replacement cost for specialised buildings under a rolling 5-year programme of professional valuations and appropriate indices in intervening years. Surplus land and buildings are stated at open market value for their alternative use. From 1 April 2007, other tangible assets are no longer revalued using indices but will be reported at depreciated historic cost.

Losses in value reflected in valuations are accounted for in accordance with Financial Reporting Standard 11. The consumption of economic benefits is charged to the Outturn Statement. Decreases in asset value that relate to fluctuations in market prices are first charged to the element of the revaluation reserve relating to the asset and that amount is recognised in the Statement of Recognised Gains and Losses. Further losses, beyond the level of the revaluation reserve relating to that asset, are charged to the Outturn Statement, except where it is anticipated that the reduction in value will reverse in the foreseeable future.

The road network is valued on the basis of current replacement cost, adjusted to reflect the current condition of the road component and the depreciation of structures and communications components of the network. It is recognised that the network is to be maintained in perpetuity and the related cost is charged each year to the Consolidated Finance and Sustainable Growth Portfolio Outturn Statement. Roads or structures detrunked (i.e. where the road or structure is taken out of the trunk road network and responsibility for its maintenance passed to another body) are dealt with as disposals for nil consideration and are reflected in the General Fund.

Within Scottish Court Service, all owner occupied courthouses are considered to be specialised operational properties and valuations are therefore on the basis of Depreciated Replacement Cost (DRC). The open market value of these properties is substantially lower. Properties regarded by the Scottish Prisons Service as operational were valued on the basis of Existing Use Value or, where this could not be assessed because there was no market for the subject asset, the DRC, subject to the prospect and viability of the occupation and use.

1.5 Depreciation

Freehold land is not depreciated.

Depreciation is provided at rates calculated to write off the valuation of buildings and other tangible fixed assets by equal instalments over their estimated useful lives which are normally in the following ranges:

Dwellings and other buildings	5 to 100 years (as per valuation)
Vehicles	3 to 10 years
Vessels	15 to 35 years
Equipment – fixed plant	5 to 50 years
Equipment – non fixed plant	3 to 10 years
ICT systems	3 to 10 years
Internally generated software	3 to 5 years
Leasehold improvements	Over the shorter of asset life and lease term
Fixtures and fittings	5 to 10 years

The road network is depreciated at rates calculated to write off the valuation of structures and communications components by equal instalments over their estimated useful lives, which are normally between 20 and 120 years. Changes in value due to variations in the condition of the road element of the network are reflected in the Consolidated Finance and Sustainable Growth Portfolio Outturn Statement. Assets under construction are not depreciated.

1.6 Donated assets

Donated tangible fixed assets are capitalised at their valuation on receipt and this value is credited to the Donated Assets Reserve. Subsequent revaluations are also accounted for in this reserve. Each year an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the relevant Consolidated Portfolio Outturn Statement.

1.7 Intangible Assets

Purchased software licences are valued on a historic cost basis. Amortisation is applied at rates calculated to write off the valuation of purchased software licences by equal instalments over the shorter of the term of the licence and their estimated useful life.

EU greenhouse gas emissions allowances are intended for use on an ongoing basis and are held as intangible assets at their fair value.

1.8 Investments

Investments 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, and repayment and deferred loans relating to housing associations. Such investments are generally reported as fixed assets. If an investment is held on a short-term basis, or a loan is granted for an original term of less than one year, it will be treated as a current asset.

All investments in the form of shares are carried at their nominal value. All loans are included at the capital sum outstanding as at the balance sheet date and, with the exception of loans made under the terms of the student loans scheme, adjusted if necessary to reflect any amounts where recovery is considered to be doubtful. The estimated future write-offs in respect of the non-recovery of student loans are dealt with via a provision – see Note 1.19 below.

1.9 Stocks

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.

1.10 Private Finance Initiatives (PFI)/Public Private Partnerships (PPP)

PFI/PPP transactions are accounted for in accordance with HM Treasury's Technical Note No 1 (Revised) '*How to account for PFI transactions*', which sets out additional guidance on how the Accounting Standards Board's Application Note, *Amendment to FRS5 – Private Finance Initiative and Similar Contracts*, is to be followed in the public sector. All set up costs in relation to PPP schemes are written off as incurred. The annual commitment in respect of such contracts is included within Note 18 'PFI/PPP Contracts' while any reversionary interests in fixed assets within such schemes are included under the relevant fixed asset heading dependant on the nature of the underlying asset.

1.11 Income

Operating income is income that relates directly to the operating activities of the Scottish Government, its Executive Agencies, the Crown Office and Procurator Fiscal Service and NHS Bodies. 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 without limit and income applied with limit as outlined by the Scottish Budget documents. 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.

1.12 Administration and Programme Expenditure

The Summary Consolidated Portfolio 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 consolidation boundary: such costs are included within the appropriate category of programme expenditure in the relevant Portfolio Outturn Statements. The relevant staff numbers and staff costs information is collected together in a note to the accounts (Note 2).
- Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.
- Programme expenditure reflects non-administration costs, including payments of grants and other disbursements, including the administration costs of those bodies within the consolidation 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).

1.13 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.

1.14 European Union Funds

Funds received from the European Union (EU), whatever the source, are treated as income and shown in the relevant Consolidated 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 debtor or creditor balances are reflected in the Consolidated Balance Sheet.

1.15 Cost of Capital Charge

A charge, reflecting the cost of capital utilised by the Scottish Government and consolidated entities, is included in outturn expenditure. The charge for each item in the balance sheet is calculated on the basis of the average net book value of that item over the year. For 2007-08 the charge is calculated at the Government's standard rate of 3.5% (2006-07: 3.5%) in real terms on all assets less liabilities, except for:

- Student Loan balances where the applicable rate is 2.2%;
- fixed assets which are investments in a public sector body outside the consolidation boundary, where the amount of the charge represents the appropriate rate, as determined by the Treasury, applied to the underlying net assets of the body in question; and
- donated assets, cash balances with the Office of HM Paymaster General and amounts to be paid to and from the Scottish Consolidated Fund where the charge will be at a nil rate.

In 2007-08 capital charges, with the exception of cost of capital incurred in relation to the roads network and Scottish Water, score against Departmental Expenditure Limits and are reflected in Consolidated Portfolio Outturn Statements accordingly.

1.16 Foreign Exchange

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.

1.17 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 and non-contributory. 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 Note 2.) 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

The expenditure of the Rural Affairs and Environment (RA&E) Portfolio and of the Justice Portfolio includes grant in aid to bodies sponsored by the Scottish Government, covering their pension-related expenditure in respect of pension schemes operated by relevant bodies for the eligible employees. These are unfunded defined benefit schemes (in the case of RA&E Portfolio the scheme is analogous to the PCS; the scheme of the Scottish Legal Aid Board sponsored by the Justice Portfolio is analogous to the NHS Pensions Scheme Scotland) with the pension obligations for each financial year being met out of grant in aid resources provided by the Portfolio. These arrangements 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. The most recent actuarial valuation took place in the year to 31 March 2004 and details can be found in the separate statement of the Scottish Public Pensions Agency.

1.18 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the entity, the asset is recorded as a tangible fixed asset and a debt recorded to the lessor, with the interest element of the finance lease payment charged to the Outturn Statement. Rentals from operating leases are charged to the Consolidated Portfolio Outturn Statements on a straight line basis over the term of the lease.

1.19 Provisions

Provisions are made for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation.

Student Loans

Loans made under the terms of the student loans scheme are subsidised loans. Provisions are established to reflect:

- i) estimated future write-offs for non-recovery;
- ii) over the whole life of the loan, the difference between the cost of capital charge and the interest earned; and
- iii) debt sale subsidy.

Early Departure Costs

The Scottish Government and its consolidated bodies are required to meet the additional cost of benefits beyond the normal PCS benefits in respect of employees who retire early. The Scottish Government and its consolidated bodies provide in full for this cost when the early retirement programme has been announced and is binding on the portfolio/consolidated entity. The liability shown in the balance sheet has been discounted using a 2.2% discount rate in line with HM Treasury guidance.

Prisoner Compensation

The Scottish Prison Service has provided for potential prisoner compensation claims.

NHS

NHS bodies provide for all claims notified to the NHS Central Legal Office 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. 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 and which will be recoverable from the centrally administered fund by the Clinical Negligence and Other Risks Indemnity Scheme in the event of payment by an individual health body. The corresponding recovery in respect of amounts provided for is recorded as a debtor and that in respect of amounts disclosed as contingent liabilities is disclosed as a contingent asset.

1.20 Contingent Liabilities

Contingent liabilities include those required to be disclosed under FRS12 and other liabilities arising from indemnities and guarantees which are 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 of statement of comfort unless it arises in the normal course of business or the sum of the risk is £1m or less.

1.21 **Value Added Tax (VAT)**

Most of the activities of the Scottish Government and its consolidated bodies 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.

1.22 **European Union Grant Reserve**

Grants received from the European Union for capital assets are credited to the European Union Grant Reserve, which is released to the outturn statement over the expected useful lives of the relevant assets.

2. Staff numbers and costs

The average number of whole-time equivalent persons employed during the year, analysed across portfolios, was as follows:

	Strategic Board	Special Advisors	Permanently Employed Staff	Others	Total 2007-08
Finance and Sustainable Growth - Core	1	-	789	77	867
Finance and Sustainable Growth - Other	-	-	500	48	548
Health and Wellbeing - Core	1	-	530	86	617
Health and Wellbeing - Other	-	-	134,639	1,570	136,209
Education and Lifelong Learning - Core	1	-	415	152	568
Education and Lifelong Learning - Other	-	-	413	29	442
Justice - Core	1	-	450	206	657
Justice - Other	-	-	5,342	72	5,414
Rural Affairs and the Environment - Core	1	-	1,082	41	1,124
Rural Affairs and the Environment - Other	-	-	773	21	794
Crown Office and Procurator Fiscal Service	-	-	1,481	83	1,564
Central Services including (1):					
Office of the First Minister - Core	1	8	1,360	57	1,426
Office of the First Minister - Other	-	-	1,009	20	1,029
	6	8	148,783	2,462	151,259

This years total includes 51 (2006-07:65) members of staff engaged on capital projects. Please note the 2006-07 figure has been restated to include Transport Scotland and Scottish Fisheries Protection Agency capital staff.

Scottish Government Departments were superseded by Portfolios following the Holyrood Election in May 2007. The Department totals for 2006-07 were as follows:

	Management Group	Special Advisors	Permanently Employed Staff	Others	Restated Total 2006-07
Environment and Rural Affairs - Core	1	-	1,101	104	1,206
Environment and Rural Affairs - Other	-	-	793	5	798
Development - Core	1	-	271	44	316
Development - Other	-	-	431	39	470
Education - Core	1	-	392	130	523
Education - Other	-	-	1,231	37	1,268
Enterprise, Transport and Lifelong Learning - Core	1	-	428	76	505
Enterprise, Transport and Lifelong Learning - Other	-	-	385	40	425
Finance and Central Services - Core	2	-	465	109	576
Finance and Central Services - Other	-	-	211	2	213
Health - Core	1	-	354	61	416
Health Bodies	-	-	131,605	1,525	133,130
Justice - Core	1	-	337	253	591
Justice - Other	-	-	5,374	80	5,454
Crown Office	1	-	1,462	78	1,541
Central Services (1)	2	12	1,130	81	1,225
	11	12	145,970	2,664	148,657

The 2006-07 Justice staff numbers have been restated following the transfer of the Scottish Police Services Authority out of the Scottish Government on 1 April 2007 (see Note 28).

(1) Central Services includes staff in:

(a) The Office of the Permanent Secretary which incorporates staff from the Ministers' private offices including the Office of the First Minister, the Ministerial Support Group, the Analytical Services Group, the Performance and Innovation Unit, and Change and Corporate Services (which incorporates the Human Resources Division, Information Technology and Facilities and Estate Services); and

(b) Legal and Parliamentary Services.

The disclosures in respect of staff numbers and costs reflect the staff of the Scottish Government and other bodies within the consolidation boundary (split between Core Portfolios and the other consolidated bodies), as stated in the accounting policy Note 1.12.

The aggregate payroll costs of staff for 2007-08 were as follows:

	Total Staff £m	Special Advisers £m	2007-08 Total £m
Wages and Salaries - Core	149	1	150
Wages and Salaries - Other	4,245	-	4,245
Social security costs - Core	12	-	12
Social security costs - Other	343	-	343
Other pension costs - Core	29	-	29
Other pension costs - Others	524	-	524
Sub-total	5,302	1	5,303
Non Permanent Staff - Core	15	-	15
Non Permanent Staff - Other	144	-	144
Total	5,461	1	5,462
Less recoveries in respect of outward secondments - Core	15	-	15
Less recoveries in respect of outward secondments - Other	36	-	36
Total net costs	5,410	1	5,411

Most of the payroll costs are charged to the Administration outturn statement. However, a small amount of the payroll cost is charged directly to programme and is reflected in the portfolio outturn statements. Of the total £2m has been charged to programmes as capital expenditure.

The aggregate payroll costs of staff for 2006-07 were as follows:

	Restated Total Staff £m	Special Advisers £m	Restated Total 2006-07 £m
Wages and Salaries - Core	141	1	142
Wages and Salaries - Other	4,027	-	4,027
Social security costs - Core	11	-	11
Social security costs - Other	326	-	326
Other pension costs - Core	28	-	28
Other pension costs - Others	478	-	478
Sub-total	5,011	1	5,012
Non Permanent Staff - Core	19	-	19
Non Permanent Staff - Other	143	-	143
Total	5,173	1	5,174
Less recoveries in respect of outward secondments - Core	(14)	-	(14)
Less recoveries in respect of outward secondments - Other	(25)	-	(25)
Total net costs	5,134	1	5,135

Of the total £2m has been charged to capital expenditure (restated from prior year to include Transport Scotland and Scottish Fisheries Protection Agency costs).

Staff in the Core Departments and consolidated bodies can choose from the following pension options:

Principal Civil Service Pension Scheme (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme. The PCSPS is unable to identify the Scottish share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the separate scheme statement for the PCSPS (Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk).

For 2007-08 normal employer contributions of £85m were payable to PCSPS (2006-07: £74m) at one of five rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09 the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions (0.8 per cent of pensionable pay) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no contributions due to the partnership pension or prepaid at the balance sheet date.

For 2007-08 the value of Employers' Contributions relating to the partnership pension account is £166,000 (2006-07: £174,000).

NHS Superannuation Scheme for Scotland

The National Health Service Superannuation Scheme for Scotland is a multi-employer scheme where the share of the assets and liabilities applicable to each employer is not identified. The related pension costs are therefore accounted for on a defined contribution basis as permitted by Financial Reporting Standard 17, *Retirement Benefits*.

The NHS Bodies in Scotland responsible for the planning, promotion and delivery of healthcare paid contributions of £466m (2006-07: £431m) into the NHS Superannuation Scheme for Scotland at the rate of 14 per cent (2006-07: 14 per cent) of total pensionable salaries. The most recent actuarial valuation discloses a balance of £934m to be met by future contributions from employing authorities. As a result of the valuation, employers' superannuation contributions rose to 14 per cent on 1 April 2004 (previously 5.5 per cent).

3. Non-Cash Expenditure Analysis

3a) Summary of non cash transactions

	2007-08 £m	Restated 2006-07 £m
Depreciation	382	347
Impairments/Write Backs	46	10
Cost of capital	740	691
Total Capital Charges	1,168	1,048
Loss/(Profit) on disposals	-	(72)
Student Loans capitalised interest	(56)	(42)
Student Loans inflation adjustment	45	45
Auditor's Remuneration	2	2
Total	1,159	981

3b) Capital Charges Portfolio	Depreciation	Impairments/ Write Backs	Cost of capital	2007-08 Total	Restated 2006-07 Total
	£m	£m	£m	£m	£m
Office of the First Minister	1	1	1	3	2
Finance and Sustainable Growth	15	(4)	548	559	558
Health and Wellbeing (1)	280	56	119	455	354
Education and Lifelong Learning	3	1	29	33	26
Justice	57	(8)	36	85	72
Rural Affairs and the Environment	9	-	3	12	12
Crown Office and Procurator Fiscal Service	3	-	1	4	2
Total Programme	368	46	737	1,151	1,026
Administration	14	-	3	17	22
Total Capital Charges	382	46	740	1,168	1,048

Cost of capital was charged at 3.5% in 2007-08 (2006-07: 3.5%) other than on Student Loans where 2.2% is charged (2006-07: 2.2%)

(1) In 2007-08 HM Treasury re-categorised several types of impairments as Annually Managed Expenditure (AME) that were previously charged to DEL. There were two main types of impairments that were incurred by NHS Boards. The first of these related to write downs in respect of reductions in the valuation of surplus assets relating to a change in the required valuation methodology from Depreciated Replacement Cost to Market Value. The second related to write downs in respect of capital expenditure on buildings that were not reflected in their subsequent valuation.

The first type of impairment was previously managed from within the DEL budget by accelerated depreciation. The second type of impairment was generally avoided by NHS Boards through the choice of building projects that were unlikely to lead to such impairments, as those that would were generally considered unaffordable. The overall increase in the impairment charge for NHS Scotland is due to the fact that the former type of impairment was previously accounted for as depreciation and an increase in the latter type that was previously unaffordable.

3c) Audit Fee

The consolidated audit fee for the period is £6m (Core Departments £1m). Part of the audit fee, including that of the Core Departments, is a notional charge, as noted above. Other entities within the departmental boundary pay fees. The consolidated audit fee for the previous year was £6m (Core Departments £1m).

4. Income (Note 1.11)

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

	Total Income £m	Income Not Applied £m	2007-08 Income Applied £m	Restated 2006-07 Income Applied £m
Administration income:				
Allowable within cost limit	17	-	17	16
Other:				
Fees and charges to external customers	4	4	-	-
Fees and charges to other departments	1	-	1	1
Total Administration Income	22	4	18	17
Office of the First Minister	27	-	27	26
Finance and Sustainable Growth	220	64	156	187
Health and Wellbeing	2,205	-	2,205	1,992
Education and Lifelong Learning	94	-	94	62
Justice	68	29	39	36
Rural Affairs and the Environment	491	1	490	475
Crown Office and Procurator Fiscal Service	18	18	-	-
Total Programme Income	3,123	112	3,011	2,778
TOTAL	3,145	116	3,029	2,795

4b) Income not applied includes excess receipts not covered by Budget Act authority and receipts specified in the Scotland Act 1998 (Designation of Receipts) Order 2004, which must be paid over to the Secretary of State for surrender to the UK Consolidated Fund.

The major items of income not applied are:	Cash received £m	Accrued £m	2007-08 £m	2006-07 £m
Repayment of interest	65	-	65	63
Fines, forfeitures and fixed penalties	41	-	41	36
Excess receipts not covered:				
Justice	10	-	10	-
Health and Wellbeing	-	-	-	146
Total Income Not Applied	116	-	116	245

4c) All interest receivable is external to the departmental boundary and is not from other government departments. It is included within the Operating Income in respect of the following:

	Voted Loans £m	Housing Association Loans £m	2007-08 Total £m	Restated 2006-07 Total £m
Programme Income:				
Rural Affairs and the Environment	1	-	1	1
Health and Wellbeing	-	3	3	3
Finance and Sustainable Growth	64	-	64	62

5. Analysis of capital expenditure and associated receipts

						Restated 2006-07
Portfolio	Expenditure	Disposals Repayments	Total	Budget	Variance	Total
	£m	£m	£m	£m	£m	£m
1. DEL						
Office of the First Minister	5	-	5	7	(2)	1
Finance and Sustainable Growth	426	(3)	423	408	15	225
Health and Wellbeing	418	(15)	403	407	(4)	333
Education and Lifelong Learning	1	-	1	2	(1)	2
Justice	71	-	71	84	(13)	89
Rural Affairs and the Environment	14	(4)	10	15	(5)	(12)
Crown Office and Procurator Fiscal Service	6	-	6	6	-	10
Administration	14	-	14	11	3	14
	955	(22)	933	940	(7)	662
2. AME						
Education and Lifelong Learning	211	(62)	149	170	(21)	146
3. Outside DEL						
Finance and Sustainable Growth	-	-	-	-	-	(5)
	1,166	(84)	1,082	1,110	(28)	803
4. NLF loan repayments (no budget required)						
Finance and Sustainable Growth	-	(20)	(20)	-	-	(35)
	-	(20)	(20)	-	-	(35)
Total capital outturn	1,166	(104)	1,062	1,110	(28)	768

The expenditure and disposals/repayments are analysed as follows:

	Expenditure	Disposals	Total
	£m	Repayments £m	£m
Tangible fixed assets	632	(11)	621
Intangible fixed assets	22	-	22
Investments	530	(111)	419
	1,184	(122)	1,062

Voted loans to Scottish Water are budgeted for on a net expenditure basis so that repayments of £20m have been netted off from the expenditure within Finance and Sustainable Growth Portfolio.

Explanation of major variances

	£m
Approved additional loans to Scottish Water.	7
Expected capital receipt in Transport was not agreed by the end of the financial year.	7
Underspend in Justice was due to slippage in capital projects in the Scottish Prison Service.	(13)
Lower uptake and higher repayment of student loans than expected.	(21)
Other minor variances.	(8)
	(28)

6a) Tangible fixed assets**Core**

	Land and Buildings £m	Dwellings £m	Vehicles £m	Equipment £m	ICT Systems £m	Fixtures and Fittings £m	Assets under Construction £m	Total £m
Cost or valuation								
Balance at 1 April 2007	157	15	7	12	58	6	9	264
Transfers to Scottish Police Services Authority	(2)	-	(4)	(6)	(7)	-	-	(19)
Adjusted balance at 1 April 2007	155	15	3	6	51	6	9	245
Additions	2	-	1	-	10	-	3	16
Adjustments	-	-	-	-	-	-	(2)	(2)
Transfers within core departments	-	-	-	-	4	-	(5)	(1)
Transfers outwith core departments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(6)	(4)	-	(10)
Revaluation	(3)	-	-	-	-	-	-	(3)
Impairments	-	-	-	-	-	-	-	-
At 31 March 2008	154	15	4	6	59	2	5	245
Depreciation								
Balance at 1 April 2007	8	-	4	7	40	5	-	64
Transfers to Scottish Police Services Authority	(1)	-	(2)	(3)	(5)	-	-	(11)
Adjusted balance at 1 April 2007	7	-	2	4	35	5	-	53
Charged in year	6	-	-	1	8	1	-	16
Adjustments	(2)	-	-	-	-	-	-	(2)
Transfers outwith core departments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(6)	(4)	-	(10)
Revaluation	(7)	-	-	-	-	-	-	(7)
Revaluation to outturn statements	-	-	-	-	-	-	-	-
At 31 March 2008	4	-	2	5	37	2	-	50
Net book value current year	150	15	2	1	22	-	5	195
Net book value prior year (restated)	148	15	1	2	16	1	9	192

6b) Tangible fixed assets
Consolidated

	Land and Buildings £m	Road Network £m	Dwellings £m	Vessels and Vehicles £m	Equipment £m	ICT Systems £m	Fixtures and Fittings £m	Assets under Construction £m	Total £m
Cost or valuation									
At 1 April 2007 (restated)	5,100	15,145	465	159	846	355	62	808	22,940
Additions	74	-	6	9	81	38	4	419	631
Donations	2	-	-	-	2	-	-	1	5
Detrunings	-	-	-	-	-	-	-	-	-
Adjustments	(3)	(43)	2	-	-	-	-	-	(44)
Transfers	191	1	35	7	50	19	6	(309)	-
Transfers within core departments	-	-	-	-	-	4	-	(5)	(1)
Disposals	(20)	-	-	(8)	(21)	(14)	(5)	-	(68)
Impairments	(42)	4	-	-	-	-	-	(2)	(40)
Revaluations	132	1,249	21	4	-	-	-	13	1,419
At 31 March 2008	5,434	16,356	529	171	958	402	67	925	24,842
Depreciation									
At 1 April 2007 (restated)	377	2,072	14	74	526	226	36	-	3,325
Additions	-	-	-	-	-	-	-	-	-
Charged in year	206	12	30	13	66	41	5	-	373
Detrunings	-	-	-	-	-	-	-	-	-
Adjustments	(2)	(14)	-	-	-	-	-	-	(16)
Transfers	5	-	(5)	-	-	-	-	-	-
Disposals	(11)	-	-	(8)	(19)	(14)	(5)	-	(57)
Impairments	5	-	-	-	-	1	-	-	6
Revaluation	(67)	175	(9)	1	-	-	-	-	100
At 31 March 2008	513	2,245	30	80	573	254	36	-	3,731
Net book value current year	4,921	14,111	499	91	385	148	31	925	21,111
Net book value prior year (restated)	4,723	13,073	451	85	320	129	26	808	19,615

67

6c)

As part of the 5-year rolling programme, nine properties underwent a formal inspection and revaluation on the basis of Existing Use Value at 31st March 2008 by GVA Grimley, International Property Advisors. These properties were Cotgreen Road, Tweedbank; Wellhall Road, Hamilton; Thainstone, Inverurie; Tankerness Lane, Kirkwall; Jeanfield House, Perth; Scorrybreck, Portree; Station Street, Stranraer; Strathbeg House, Thurso and Balivanich, Benbecula. These valuations were carried out in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

Two properties have been identified as surplus to requirements as at 31 March 2008. The total market value of these properties is £1.6m as at 31 March 2008.

At 31 March 2008, land within assets under construction was valued at £204m (2006-07: £204m) of which £16m (2006-07: £15m) is held for schemes where construction has not yet been approved.

At 31 March 2008, the closing balance of ICT systems included £1m (2006-07: £1m) relating to capitalised staff costs.

In addition to the land and buildings recorded in the core portfolios' accounts, the consolidated accounts reflect 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 SG policy on revaluation as set out in Note 1.4 to these accounts.

Losses in value are accounted for in accordance with Financial Reporting Standard 11, *Impairment of fixed assets and goodwill*, with the consumption of economic benefits being charged to the Outturn Statement. Decreases in asset value that relate to fluctuations in market prices are first charged to the element of the revaluation reserve relating to the asset and that amount is recognised in the Statement of Recognised Gains and Losses. Further losses, beyond the level of the revaluation reserve relating to that asset, are charged to the Outturn Statement, except where it is anticipated that the reduction in value will reverse in the foreseeable future.

Historic Scotland is responsible for over 300 monuments. The majority of these are treated as non-operational heritage assets as they are held primarily for the maintenance of the nation's heritage. Full disclosure on the treatment of these assets is contained within the accounts of Historic Scotland which can be found on their website at www.historic-scotland.gov.uk.

6d) Intangible Assets**Core**

Computer Software Licenses	Total
£m	£m

Cost or Valuation**Balance at 1 April 2007**

27 27

Transfers to Scottish Police Services Authority

(4) (4)

Adjusted balance at 1 April 2007

23 23

Additions

1 1

Disposals

(1) (1)

Transfers within core portfolios

1 1

At 31 March 2008

24 24

Amortisation**Balance at 1 April 2007**

21 21

Transfers to Scottish Police Services Authority

(4) (4)

Adjusted balance at 1 April 2007

17 17

Charged in year

3 3

Disposals

(1) (1)

At 31 March 2008

19 19

Net book value current year

5 5

Net book value prior year

6 6

6e) Intangible Assets**Consolidated**

EC Emission Rights	Computer Software Licenses	Total
£m	£m	£m

Cost or Valuation

At 1 April 2007 (restated)

1 79 80

Additions

1 21 22

Donations

- - -

Disposals

- (2) (2)

Adjustments

- - -

Transfers

- 2 2

Revaluation

- - -

As at 31 March 2008

2 100 102

Amortisation

At 1 April 2007 (restated)

- 37 37

Charged in year

- 14 14

Disposals

- (2) (2)

Transfers

- - -

Revaluation

- - -

At 31 March 2008

- 49 49

Net book value current year

2 51 53

Net book value prior year

1 42 43

7. Investments

Core

	Shares in Nationalised Industries & Limited Companies £m	Voted Loans £m	NLF Loans £m	Student Loans £m	Public Dividend Capital £m	Total £m
Balance at 1 April 2007	23	1,362	787	1,795	-	3,967
Add element reported within debtors	-	23	20	52	-	95
Advances and acquisitions	-	306	-	211	-	517
Adjustment	-	-	-	-	4	4
Capitalised interest	-	-	-	56	-	56
Repayments and disposals	-	(25)	(20)	(62)	-	(107)
Transfers	-	-	-	-	-	-
Permanent diminution in value	-	-	-	-	-	-
At 31 March 2008	23	1,666	787	2,052	4	4,532
Loans repayable within 12 months transferred to debtors	-	(151)	(7)	(62)	(4)	(224)
At 31 March 2008	23	1,515	780	1,990	-	4,308

Consolidated

	Shares in Nationalised Industries and Limited Companies £m	Voted Loans £m	NLF Loans £m	Student Loans £m	Housing Association Loans £m	Public Dividend Capital £m	Total £m
Balance at 1 April 2007	23	1,362	787	1,795	73	-	4,040
Add element reported within debtors	-	23	20	52	-	-	95
Advances and acquisitions	-	306	-	211	13	-	530
Capitalised interest	-	-	-	56	-	-	56
Adjustments	-	-	-	-	-	4	4
Transfers	-	-	-	-	(1)	-	(1)
Repayments and disposals	-	(25)	(20)	(62)	(4)	-	(111)
At 31 March 2008	23	1,666	787	2,052	81	4	4,613
Loans repayable within 12 months transferred to debtors	-	(151)	(7)	(62)	(1)	(4)	(225)
At 31 March 2008	23	1,515	780	1,990	80	-	4,388

Nationalised Industries

As at 31 March 2008, the Scottish Ministers are the sole shareholder in Caledonian Maritime Assets Ltd, David MacBrayne Ltd and the Highlands and Islands Airports Ltd (HIAL). The Scottish Ministers hold the following investments:

Caledonian Maritime Assets Ltd	1,500,000 ordinary shares of £10 each
David MacBrayne Ltd	5,500,002 ordinary shares of £1 each
HIAL	50,000 ordinary shares of £1 each

These organisations are operated and managed independently of the Scottish Government, and do not fall within the consolidation boundary. The companies publish an annual report and accounts. The net assets and results of the above bodies are summarised below.

	Highlands and Islands Airports Ltd	Caledonian Maritime Assets Ltd	David MacBrayne Ltd
	£m	£m	£m
Net Assets as at 31 March 2008	99	69	10
Turnover	31	12	151
Profit/Loss for the financial year	(1)	1	2

Partnerships UK Ltd (PUK)

The Scottish Ministers own 444,444 ordinary shares of £1 each and £1,555,554 of 6% convertible loan stock in Partnerships UK Limited. This equates to a 4.4% shareholding. PUK is a private sector company and further information can be found at <http://www.partnershipsuk.org.uk/>.

Highlands and Islands Airports Ltd

The Scottish Ministers are the sole shareholders in HIAL. On 1 December 2007, HIAL assumed responsibility for the operation of Dundee Airport from Dundee City Council and operates it via a wholly owned subsidiary, Dundee Airport Limited.

Caledonian Maritime Assets Ltd

Following restructuring of the Caledonian MacBrayne group in 2006-07, that part of the company which was formerly known as Caledonian MacBrayne is now known as Caledonian Maritime Assets Ltd. There was no change to the number and value of shares owned by the Scottish Ministers.

David MacBrayne Ltd

The Scottish Ministers previously owned 2 shares of £1 in a dormant company, David MacBrayne Ltd. In the course of the restructuring of the Caledonian MacBrayne group in 2006-07, Scottish Ministers' shareholding in David MacBrayne Ltd was increased by 5,500,000 shares to 5,500,002 ordinary shares of £1. David MacBrayne Ltd is now the holding company for the ferry operating companies.

Student Loan Company

The Student Loan Company (SLC) 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 Secretary of State for Innovation, Universities and Skills) and the Secretary of State for Scotland. From 1 July 1999, the student support function was transferred to Scottish Ministers with respect to students ordinarily resident in Scotland. Scottish Ministers currently hold 5 shares (half of the equity) in the SLC.

Voted Loans

The Scottish Ministers provide loans from voted provision to Caledonian Maritime Assets Limited to be used for the construction of new shipping; to crofters for building purposes; to Scottish Water for their capital investment programmes; for harbour improvements; to Independent Harbour Trusts; and to the Tay Road Bridge Joint Board. In 2007-08, the Tay Road Bridge Joint Board redeemed its loans.

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.

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 Secretary of State for Innovation, Universities and Skills. These loans are accounted for on the basis of the loan balances of students domiciled in Scotland.

Housing Association 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.

Public Dividend Capital

Public Dividend Capital was provided to Registers of Scotland when it set up as a Trading Fund in 1996 in order to provide funding until it was generating sufficient income to cover its costs.

8(a). Allocation of total net assets across portfolios**Core**

	Office of the First Minister	Finance and Sustainable Growth	Health and Wellbeing	Education and Lifelong Learning	Justice	Rural Affairs and the Environment	Administration	Centrally Managed Assets and Liabilities	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fixed Assets	3	2,299	-	1,992	65	40	109	-	4,508
Current Assets	6	271	73	112	1	21	10	9	503
Corporate Cash (OPG - Note 11)	-	-	-	-	-	-	-	33	33
Creditors<1year	(12)	(265)	(47)	(90)	(36)	(92)	(15)	(41)	(598)
Creditors>1year	-	(825)	-	-	-	-	(4)	-	(829)
Provisions	-	(23)	(1)	(677)	-	(3)	(7)	-	(711)
Total	(3)	1,457	25	1,337	30	(34)	93	1	2,906

The centrally managed assets and liabilities include balances in accounts which cannot be allocated to individual portfolios such as the cash and the accounts payable and receivables control accounts. These balances had been allocated to departments in the prior year.

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Allocation of prior year net assets across departments

	Environment and Rural Affairs	Development	Education	Enterprise, Transport and Lifelong Learning	Finance and Central Services	Health	Justice	Administration	Restated Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total (restated)	1,275	(9)	(13)	1,135	(23)	(171)	25	270	2,489

8(b). Allocation of total net assets across portfolios
Consolidated

	Office of the First Minister £m	Finance and Sustainable Growth £m	Health and Wellbeing £m	Education and Lifelong Learning £m	Justice £m	Rural Affairs and the Environment £m	Crown Office £m	Administration £m	Centrally Managed Assets and Liabilities £m	Total £m
Fixed Assets	31	16,975	4,995	1,997	1,249	172	24	109	-	25,552
Current Assets	11	311	402	112	10	26	2	10	9	893
Debtors>1year	-	3	148	-	1	-	-	-	-	152
Corporate Cash (OPG - Note 11)	5	-	21	-	2	-	2	-	33	63
Creditors<1 year	(24)	(408)	(1,535)	(91)	(86)	(101)	(10)	(15)	(41)	(2,311)
Creditors>1year	-	(940)	(208)	-	(10)	-	-	(4)	-	(1,162)
Provisions	(1)	(91)	(353)	(677)	(84)	(3)	(1)	(7)	-	(1,217)
Total	22	15,850	3,470	1,341	1,082	94	17	93	1	21,970

The centrally managed assets and liabilities include balances in accounts which cannot be allocated to individual portfolios such as the cash and the accounts payable and receivables control accounts. These balances had been allocated to departments in the prior year.

Allocation of prior year net assets across departments

	Environment and Rural Affairs £m	Development £m	Education £m	Enterprise, Transport and Lifelong Learning £m	Finance and Central Services £m	Health £m	Justice £m	Crown Office £m	Administration £m	Restated Total £m
Total (restated)	1,391	(136)	13	14,354	(21)	3,348	998	13	270	20,230

9. Stock

	Consolidated	
	2007-08	2006-07
	£m	£m
NHS stock	79	85
Other stock	4	4
Total	83	89

10a) Debtors

Amounts falling due within 1 year:

	Core		Consolidated	
	2007-08	2006-07	2007-08	2006-07
	£m	£m	£m	£m
Trade debtors	4	10	26	28
Short Term Loans	224	95	225	96
VAT	16	24	43	59
Prepayments and accrued income	133	65	246	218
Accrued income relating to EU funding	114	97	116	98
Amounts receivable from the SCF	-	2	1	2
Other Debtors	12	19	147	190
Corporate balance with the SCF	-	51	-	51
Total	503	363	804	742

Amounts falling due after 1 year:

Prepayments and accrued income	-	-	22	27
Other debtors	-	-	130	103
Total	503	363	956	872

Trade debtors are shown net of provisions as follows:

	Core		Consolidated	
	2007-08	2006-07	2007-08	Restated 2006-07
	£m	£m	£m	£m
At 1 April	1	1	8	5
Provided for/(released) during the year	-	-	-	1
Utilised during the year	-	-	(1)	2
At 31 March	1	1	7	8

Included within debtors is interest receivable on NLF loans of £11m (2006-07: £11m) that will be paid to the Scottish Consolidated Fund as income not applied once the debt has been settled.

10b) Intra-government debtor balances

	Core		Consolidated	
	Amounts falling due within one year £m	Amounts falling due after more than one year £m	Amounts falling due within one year £m	Amounts falling due after more than one year £m
Balances with other central government bodies	141	-	134	-
Balances with local authorities	-	-	44	-
Balances with NHS Boards	-	-	2	-
Balances with public corporations and trading funds	169	-	169	-
Balances relating to European Union funding	114	-	115	-
Intra-government debtor balances at 31 March 2008	424	-	464	-
Balances with bodies external to government	79	-	340	152
As at 31 March 2008	503	-	804	152

Prior Year

Balances with other central government bodies	114	-	152	-
Balances with local authorities	2	-	25	-
Balances with NHS Boards	-	-	-	-
Balances with public corporations and trading funds	52	-	52	-
Balances relating to European Union funding	97	-	98	-
Total Intra-governmental balances	265	-	327	-
Balances with bodies external to government	98	-	415	130
At 31 March 2007	363	-	742	130

11. Cash at bank and in hand

	Core		Consolidated	
	2007-08 £m	2006-07 £m	2007-08 £m	2006-07 £m
At 1 April	116	29	149	61
Movement	(83)	87	(80)	88
At 31 March	33	116	69	149
Office of HM Paymaster General (OPG)	33	115	63	139
Commercial banks and cash in hand	-	1	6	10
At 31 March	33	116	69	149

12a) Creditors: amounts falling due within one year

	Core		Consolidated	
	Restated			
	2007-08	2006-07	2007-08	2006-07
	£m	£m	£m	£m
Trade creditors	16	53	414	420
Accruals and deferred income	332	310	1,295	1,321
Other taxation and social security	6	6	173	113
Other creditors	77	47	248	179
Early departure costs	4	3	5	4
Restructuring Costs	7	5	7	5
Current instalments & accrued interest due on NLF loans	17	31	17	31
PFI - Deferred residual interest	-	-	5	4
PFI imputed finance leases	-	-	1	1
Strathclyde Partnership for Transport accruals	6	6	6	6
Corporate balance with the SCF	15	-	16	3
Income not applied balances payable to the SCF	118	193	119	193
Bank overdraft	-	-	3	5
Current element of finance leases	-	-	2	3
Total	598	654	2,311	2,288

Amounts falling due after more than one year:

	Core		Consolidated	
	Restated			
	2007-08	2006-07	2007-08	2006-07
	£m	£m	£m	£m
Accruals and deferred income	-	-	3	3
Instalments due on NLF loans	780	787	780	787
PFI - Deferred residual interest	-	-	205	210
PFI imputed finance leases	-	-	119	123
Strathclyde Partnership for Transport accruals	45	51	45	51
Lease adjustment for rent free period	4	4	8	6
Lease Creditors	-	-	2	3
Total	829	842	1,162	1,183

The balance payable to the SCF includes amounts due on non-domestic rates £89m (2006-07: £12m) and income not applied £19m (2006-07: £181m).

12b) Intra-government creditor balances

	Core		Consolidated	
	Amounts		Amounts	
	falling due		falling due	
	within one year	after more than one year	within one year	after more than one year
	£m	£m	£m	£m
Balances with other central government bodies	204	780	326	780
Balances with local authorities	142	-	346	21
Balances with NHS Boards	46	-	4	-
Balances with public corporations and trading funds	41	-	41	-
Balances relating to European Union funding	73	-	73	-
Total Intra-governmental balances	506	780	790	801
Balances with bodies external to government	92	49	1,521	361
At 31 March 2008	598	829	2,311	1,162

Prior Year

Balances with other central government bodies	338	787	469	787
Balances with local authorities	124	-	334	22
Balances with NHS Boards	25	-	5	-
Balances with public corporations and trading funds	7	-	7	-
Balances relating to European Union funding	55	-	55	-
Total Intra-governmental balances	549	787	870	809
Balances with bodies external to government	105	55	1,418	374
At 31 March 2007	654	842	2,288	1,183

13. Movements in working capital other than cash

	Core		Consolidated	
	Restated			
	2007-08	2006-07	2007-08	2006-07
	£m	£m	£m	£m
Increase/(decrease) in stocks/WIP	-	-	(6)	7
Increase/(decrease) in debtors	191	(169)	135	10
Decrease/(increase) in creditors (excluding NLF, SCF and overdraft)	(18)	369	(100)	(41)
Adjusted for changes in working capital due to:				
Transfers from Investments (Note 10a)	(129)	4	(129)	4
Transfer to Transport Scotland	-	(108)	-	-
Transfer from Communities Scotland	-	(2)	-	-
Less increase in capital creditors	38	1	23	27
(Increase)/decrease in Capital Debtors	-	-	9	(76)
Total	82	95	(68)	(69)

14. Provisions for liabilities and charges**Core**

	Early Departure Costs 2007-08 £m	Other Provisions 2006-07 £m	Total 2007-08 £m	2006-07 £m
Balance as at 1 April	6	26	32	10
Add: element reported as due within one year	3	6	9	20
Total as at 1 April	9	32	41	30
Provided in the year	5	20	25	32
Provisions not required written back	-	(8)	(8)	(2)
Amounts utilised in year	(3)	(5)	(8)	(19)
Payable in 1 year	(4)	(12)	(16)	(9)
At 31 March	7	27	34	32

Student Loans

	Write Offs £m	Interest Subsidy £m	Sale Subsidy £m	Total 2007-08 £m	2006-07 £m
Balance as at 1 April	268	299	60	627	592
Provided in the year	26	40	-	66	61
Provisions not required written back	-	-	-	-	(1)
Amounts utilised in year	(3)	(40)	(5)	(48)	(57)
Discount amortised	14	15	3	32	32
At 31 March	305	314	58	677	627
Total Provisions				711	659

Consolidated

	Early Departure Costs £m	NHS Clinical Medical £m	Other Provisions £m	Total 2007-08 £m	2006-07 £m
Balance as at 1 April	140	128	212	480	359
Add: element reported as due within one year	4	-	6	10	85
Total as at 1 April	144	128	218	490	444
Provided in the year	21	38	140	199	255
Provisions not required written back	(4)	(12)	(24)	(40)	(62)
Amounts utilised in year	(16)	(12)	(64)	(92)	(147)
Payable in 1 year	(5)	-	(12)	(17)	(10)
At 31 March	140	142	258	540	480

Student Loans

	Write Offs £m	Interest Subsidy £m	Sale Subsidy £m	Total 2007-08 £m	2006-07 £m
Balance as at 1 April	268	299	60	627	592
Provided in the year	26	40	-	66	61
Provisions not required written back	-	-	-	-	(1)
Amounts utilised in year	(3)	(40)	(5)	(48)	(57)
Discount amortised	14	15	3	32	32
At 31 March	305	314	58	677	627
Total Provisions				1,217	1,107

NHS

Included within provisions is an amount of £142m (2006-07: £128m) within the NHS Bodies which relates to clinical and medical negligence costs. NHS Bodies provide for all claims notified to the NHS Central Legal Office 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. The provision should be the amount considered to be the liability in respect of any claims outstanding and which will be recoverable from the centrally administered fund by the Clinical Negligence and Other Risks Indemnity Scheme in the event of payment by the body. During the year approximately £38m worth of estimated settlement value of medical and clinical negligence claims were added to the provision and £12m in claims were settled.

Other Provisions

Other provisions include NHS balances of £82m (2006-07: £53m), Transport Scotland balances of £67m (2006-07: £55m), prisoner compensation of £67m (2006-07: £73m), European Union funding repayments of £23m (2006-07: £23m), compensation for Hepatitis C of £1m (2006-07: £2m) and retirement costs of £2m (2006-07: £Nil). The NHS balances relate to various Health Boards and Bodies and include: non-medical claims for damages, provision for future development costs, the 'Agenda for Change' program, the Protein Fractionation Centre and a variety of other smaller provisions.

Transport Scotland

The Transport Scotland provision contains £4m relating to major projects (2006-07: £4m), £1m relating to migration (2006-07: £1m), £1m relating to damages (2006-07: £1m) and £61m relating to land and property acquisition (2006-07: £50m). The land and property acquisition provision relates primarily to the estimates made at the point of taking entry to compulsorily purchased land. A valuation provided by the Valuation Office Agency is charged to the project from the point of taking entry to the land to the claim being settled.

Prisoner Compensation

Included within the Scottish Prison Service (SPS) is an amount of £67m (2006-07: £73m) based on estimates of exposure to potential prisoner compensation claims. During the year approximately £6m of the provision was utilised as a number of court cases were settled following a House of Lords ruling in October 2007. This led to the decrease in the provision and a decrease in contingent liabilities (see Note 21).

Student loans

The Student Loans write-off provision is estimated to meet the future cost of loans that are not likely to be recovered 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 Portfolio estimates the future cost of bad debts based on a percentage of new loans issued during the financial year. This is offset by the actual debts written off by the Student Loans Company.

The interest subsidy is the difference between the interest paid by students and the cost of capital on loans. The interest subsidy provision is estimated to meet the cost of the interest over the life of the loan and is offset by the annual interest capitalised. The calculation of the subsidy includes the application of an inflation adjustment on the loan balances of £45m (2006-07: £45m) to reflect the full extent of the subsidy, which is credited to the General Fund.

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.

15a) Revaluation Reserve

	Core		Consolidated	
	2007-08	2006-07	2007-08	2006-07
	£m	£m	£m	£m
Balance at 1 April	83	4,838	7,207	6,313
Arising on revaluation (net) during the year	4	10	1,314	966
Transferred to Outturn (loss not covered by reserve)	-	-	-	1
Transferred to the general fund (realised element)	(3)	(6)	(59)	(62)
Transfer to Transport Scotland	-	(4,759)	-	-
Adjustment to TS PFI assets (to General Fund)	-	-	-	(11)
Balance at 31 March	84	83	8,462	7,207

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets)

15b) Donated Assets Reserve

	Consolidated	
	2007-08	2006-07
	£m	£m
Balance at 1 April	68	67
Additions	5	5
Depreciation	(5)	(5)
Revaluation	5	1
Net balance at 31 March	73	68

The donated assets reserve reflects the net book value of assets donated to the consolidated body.

16) European Union Grant Reserve

	Consolidated	
	2007-08	2006-07
	£m	£m
Balance at 1 April	-	-
Additions	2	-
Release to Outturn Statement	-	-
Revaluation	-	-
Disposals	-	-
Net balance at 31 March	2	-

17. Capital commitments

	Core		Consolidated	
	2007-08	Restated 2006-07	2007-08	Restated 2006-07
	£m	£m	£m	£m
Contracted capital commitments for which no provision has been made	4	7	779	272
Authorised but not contracted capital commitments for which no provision has been made	575	810	837	1,074
Total	579	817	1,616	1,346

18. Commitments under operating leases

At 31 March 2008, the Scottish Government was committed to making the following payments during the next year in respect of operating leases expiring:

	Core		Consolidated	
	2007-08	2006-07	2007-08	2006-07
	£m	£m	£m	£m
Land and buildings				
within one year	-	-	3	3
between two and five years	-	-	7	6
after five years	7	6	30	25
Total	7	6	40	34
Other				
within one year	-	-	6	8
between two and five years	-	-	17	17
after five years	-	-	1	2
Total	-	-	24	27

19. PFI/PPP Contracts

19a) Off-Balance Sheet

Description of schemes

M6 (M74) DBFO – The contract covers the design, construction, financing and operation of 28.3km of new Scottish motorway and the operation and maintenance of 90km of new and existing Scottish motorway. Payments are made under a shadow toll regime. The toll period began in July 1997 and expires in July 2027. The estimated capital value of the asset is £236m. Included in assets under construction is an amount of £121m representing the reversionary interest of the asset.

M77/GSO DBFO - This is a joint Public Private Partnership (PPP) formed by the Scottish Government, East Renfrewshire and South Lanarkshire Councils. The project covers the design, construction, financing and operation of 15km of 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. The estimated current capital value of the asset is £95m. Included in assets under construction is an amount of £37m representing the reversionary interest of the asset.

Kilmarnock Prison - Scottish Prison Service awarded a contract to design, construct, manage and finance a prison at Kilmarnock. This contract commenced in March 1999 and was let for a period of 25 years. The estimated capital value of the project is £53m (2006-07: £53m). Included in assets under construction is an amount of £22m representing the reversionary interest in the prison. At the end of the contract the asset reverts to SPS at nil cost.

Addiewell Prison - Scottish Prison Service awarded a contract to design, construct, manage and finance a prison at Addiewell. This contract commenced in December 2008 and was let for a period of 25 years. The estimated capital value of the project is £81m (2006-07: £Nil). At the end of the contract the asset reverts to SPS at nil cost.

NHS Boards are involved in a number of off-balance sheet PFI projects, brief details of which are given below. Full information on each of these projects is provided in the individual accounts of the respective Boards.

<u>NHS Board</u>	<u>Estimated Capital Value</u>	<u>Period of contract</u>	<u>Reversionary Interest Value</u>
	£m		£m
<u>Argyll and Clyde</u>			
Larkfield Care of the Elderly, Inverclyde Royal	9	Nov 00 - Jan 26	-
Mid Argyll Hospital	19	Jun 06 - May 36	13
<u>Ayrshire & Arran</u>			
Ayrshire Maternity Unit	20	Jul 06 - Jun 36	14
<u>Dumfries and Galloway</u>			
Maternity and Day Surgery	10	Jan 02 - Jan 32	-
<u>Fife</u>			
HOISS - operational division	13	Feb 02 - Feb 17	-
<u>Greater Glasgow</u>			
Mearns Kirk House	2	Jul 97 - Jul 18	-
Greater Glasgow Hospital Information System	-	Mar 01 - Mar 09	-
Elderly bed facility	8	Apr 01 - Mar 29	-
Yorkhill Hospital Information System	3	Dec 97 - Dec 09	-
Stobhill Local Forensic Unit	19	Mar 07 - Mar 42	-
Gartnavel Royal Hospital	19	Oct 07 - Oct 37	-
<u>Highland</u>			
Easter Ross Primary Care Centre	9	Feb 05 - Feb 30	10
<u>Lanarkshire</u>			
Hairmyres Hospital	68	Mar 01 - Jun 31	-
Wishaw Hospital	121	May 01 - Nov 28	-
Stonehouse Hospital	4	May 04 - Apr 34	3
<u>Lothian</u>			
Findlay House	3	Jun 03 - Jun 33	-
Bathgate Primary Care Centre	2	Oct 01 - Sep 26	-
Ferryfield House	3	Oct 96 - Oct 21	-
Ellens Glen	3	Nov 99 - Nov 29	-
Tippethill Hospital	2	Sep 00 - Sep 25	-
<u>Tayside</u>			
Carseview Centre	10	Jun 01 - Jun 26	-
Forfar and Kirriemuir Community Resource Centre	12	Mar 05 - Mar 30	12
<u>Forth Valley</u>			
Clackmannanshire Community Health	18	July 07 - Jun 37	14
Total	377		66

The total amount charged in the Finance and Sustainable Growth, Health and Wellbeing and Justice Portfolio Consolidated Outturn Statements in respect of PFI/PPP transactions is:

	Core		Consolidated	
	2007-08	2006-07	2007-08	2006-07
	£m	£m	£m	£m
M6 Motorway	-	-	35	28
M77 Motorway	-	-	8	8
Kilmarnock Prison	-	-	14	10
Hairmyres Hospital	-	-	19	18
Wishaw Hospital	-	-	24	23
Other NHS	-	-	24	21
Total	-	-	124	108

There is a commitment to make the following payments during the next year, analysed between those periods in which the commitment expires:

	1-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years	Total	2006-07
	£m	£m	£m	£m	£m	£m	£m	£m
M6 Motorway	-	-	-	-	32	-	32	33
M77 Motorway	-	-	-	-	-	9	9	8
Kilmarnock Prison	-	-	-	14	-	-	14	14
HMP Addiewell	-	-	-	-	5	-	5	-
Hairmyres Hospital	-	-	-	-	20	-	20	18
Wishaw Hospital	-	-	-	-	25	-	25	23
Other NHS	2	1	1	5	8	8	25	25
Total	2	1	1	19	90	17	130	121

19b) On Balance Sheet

Description of Schemes:

Edinburgh Royal Infirmary - This is a Private Finance Initiative project sponsored by NHS Lothian to establish the £180m Royal Edinburgh Infirmary hospital and teaching establishment. The contract end date is 16 February 2028.

East Ayrshire Community Hospital - This is a Private Finance Initiative project sponsored by NHS Ayrshire and Arran to establish a single site hospital in Ayrshire and Arran. The hospital opened in August 2000. The contract has a capital value of £9m and a duration of 25 years.

New Craigs Hospital - This is a Private Finance Initiative project sponsored by NHS Highland to establish a £16.5m Mental Health and Learning Disabilities Centre in Inverness. The New Craigs Hospital opened in October 2001.

The substance of these contracts is that each of the Health Board schemes referred to above are effectively finance leases and that the payments comprise two elements - imputed finance lease charges and service charges.

	Consolidated	
	2007-08	2006-07
	£m	£m
Imputed finance lease obligations under on-balance sheet PFI contracts comprise:		
Rentals due within 1 year	30	29
Rentals due within 2-5 years	122	118
Rentals due thereafter	577	593
Total	729	740
Less interest element	(526)	(537)
Total	203	203

The total amount charged to the operating statement in respect of the service element of the on-balance sheet PFI transactions was £18m (2006-07: £14m); and the payments to which the Boards are committed, analysed by the period in which the commitment expires, are as follows:

	16-20 years £m	21-25 years £m	26-30 years £m	Total £m	2006-07 £m
Edinburgh Royal Infirmary	-	-	41	41	42
East Ayrshire Community Hospital	2	-	-	2	2
New Craigs Hospital	4	-	-	4	3
Total	6	-	41	47	47

20. Other Commitments

	Core		Consolidated Restated	
	2007-08 £m	2006-07 £m	2007-08 £m	2006-07 £m
Other commitments at 31 March for which no provision has been made.	1	1	216	263

Other commitments include £194m of commitments to expenditure relating to grants payable by Communities Scotland resulting from contractual agreements made prior to 31 March 2008 (2006-07: £241m). They also include £21m relating to indicative authorisations provided to grant applicants by Historic Scotland (2006-07: £21m). While these do not represent a firm offer of grant they reflect future potential offers and are an indication of the pressure on grants which Historic Scotland faces.

21. Contingent Assets and Liabilities

21(a) Contingent Assets

Contingent Assets include those from unplanned or unexpected events which give rise to the possibility of an inflow of economic benefits.

At 31 March 2008, Communities Scotland had reported the following contingent assets. The Annual Report and Accounts of Communities Scotland for the year ended 31 March 2008 provides full details.

Brief Description	Financial Effects	Amount or Timing Uncertainties
Grants repayable as a result of sales of Housing Association Properties to tenants or as a result of conditions of grant being breached.	Not quantifiable	Grants become repayable when conditions of grant cease to be met. For example, Housing Access Grant (HAG) is repayable when the house the grant was provided to build is sold to the tenant or ceases to become available for rent. Income from grants repayable in 2007-08 was £12m. It is not possible to predict the level of activity in future years.
Receipts payable to Communities Scotland following right to buy sales of ex-council housing stock and ex-Scottish Homes housing stock.	Not quantifiable	Cannot predict sales levels in future years.
Retained interests in land disposed of by Scottish Homes and Communities Scotland. Typically further receipts where planning consent given or further development of the site is undertaken.	£5.6m	Timing uncertain as to when events giving rise to the realisation of this contingent asset are likely to occur.

21 b) Contingent Liabilities disclosed under FRS 12: Provisions, Contingent Liabilities and Contingent Assets.

The definition of a Contingent Liability under *FRS 12: 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.

Brief Description	Financial Effects		Amount or Timing Uncertainties
	01 April 2007	31 March 2008	
Finance and Sustainable Growth			
Closure of the European Structural Fund Programmes may result in a reduction in the funds recoverable from the European Commission.	unquantifiable	unquantifiable	Amount and timing uncertain
Possible penalties as a result of the European Commission investigation in respect of the Gourock - Dunoon ferry service.	-	£6m	Amount and timing uncertain
Transport Scotland have guarantees in place to the EU in relation to grant payments to other bodies for the Edinburgh Airport Rail Link (EARL) and the Glasgow Airport Rail Link (GARL).	£1.36m	£1.475m	Amount and timing uncertain

Brief Description	Financial Effects		Amount or Timing Uncertainties
	01 April 2007	31 March 2008	
Health and Wellbeing			
Potential liability arising from Glasgow Housing Stock Transfer.	£155m	£140m	Outcome is uncertain
Communities Scotland litigation	£1.51m	£0.42m	Amount and timing uncertain
Clinical and Medical Compensation Payment	£77.2m	£68.6m	Amount and timing uncertain
NHS Employers liability	£2.9m	£3.1m	Amount and timing uncertain
NHS Third Party liability and Doubtful Debts	£0.5m	£0.34m	Amount and timing uncertain
Cost of settling backdated pay increases in relation to an Equal Pay Directive.	unquantifiable	unquantifiable	Amount and timing uncertain
Cost of environmentally sound disposal of waste arising from assets obtained prior to 13 August 2005 under the Waste Electronic and Electrical Equipment Regulations 2006.	unquantifiable	unquantifiable	Amount and timing uncertain
Legal or other costs in excess of those covered by insurance arising from any damages awarded against the Scottish Blood Transfusion Service as a result of its supply of surplus by-products to the Indian Company Life Medical and Diagnostic PVT Ltda and to the Turkish company BIEM ilac.	-	unquantifiable	Amount and timing uncertain
Legal or other costs in excess of those covered by insurance arising from damages awarded against the Scottish National Blood Transfusion Service resulting from its agreement to process Taiwanese blood products.	-	unquantifiable	Amount and timing uncertain
Justice			
Scottish Prison Services - potential prisoner compensation	£31m	£27m	Amount and timing uncertain
Rural Affairs and the Environment			
Possible legal action for compensation for Lanarkshire and Lothian Councils in relation to the phase 2 waste infrastructure projects.	-	£2m	Amount and timing uncertain

21c) Possible liabilities not required to be disclosed under FRS 12: Provisions, Contingent Liabilities and Contingent Assets, but included for parliamentary reporting and accountability purposes.

The Scottish Government has offered the following guarantees, indemnities and letters of comfort. None of these is a contingent liability within the meaning of FRS 12: Provisions, Contingent Liabilities and Contingent Assets, since the likelihood of a transfer of economic benefit in settlement is too remote.

	Financial Effects	
	01 April 2007	31 March 2008
Guarantees		
Finance and Sustainable Growth		
Scottish Water - Overdraft Guarantee.	£20m	£20m
Guarantee to Lothian Pension Fund in relation to any unfunded costs of the Improvement Service.	-	£1m
Health and Wellbeing		
The Scottish Government has given a guarantee to meet any potential economic shortfall of the Organising Committee arising from the preparations for, and the hosting of, the 2014 Commonwealth Games, including providing the funding for capital projects necessary to deliver the Games.	-	unquantifiable
Education and Lifelong Learning		
In respect of the following pension schemes the Scottish Government has given a guarantee to cover the costs of scheme members who will transfer from Scottish Enterprise, Highlands and Island Enterprise and Scottish University for Industry to Skills Development Scotland:		
Scottish Enterprise Pension and Life Assurance Scheme	-	unquantifiable
Highlands and Islands Enterprise Superannuation Scheme	-	unquantifiable
Scottish University for Industry Retirement Benefits Scheme	-	unquantifiable
The Scottish Government has given a guarantee to cover any unfunded costs relating to Skills Development Scotland staff that may arise following the withdrawal of Skills Development Scotland from the following pension schemes:		
The Local Government Pension Scheme Administered by Glasgow City Council (Strathclyde Pension Fund)	-	unquantifiable
The Local Government Pension Scheme Administered by Highland Council (Highlands Pension Fund)	-	unquantifiable

21c) Possible liabilities not required to be disclosed under FRS 12: Provisions, Contingent Liabilities and Contingent Assets, but included for parliamentary reporting and accountability purposes - Cont'd.

	Financial Effects	
	01 April 2007	31 March 2008
Indemnities		
Office of the First Minister		
Owners of objects lent under the National Heritage Act 1980 and National Heritage (Scotland) Act 1985.	£1,126m	£1,045m
Local Museums and Galleries	£23m	£14m
Finance and Sustainable Growth		
Indemnities issued to the Trustees of the two Scottish Transport Group pension schemes.	unquantifiable	unquantifiable
Operating agreement with indemnity dated 2005 to TIE Limited for the promotion of the EARL Project.	unquantifiable	unquantifiable
Operating agreement (ScotRail Franchise Agreement) with indemnity dated 2004 to First ScotRail.	unquantifiable	unquantifiable
Letter of underwriting to Edinburgh Airport Limited (subsidiary of BAA) dated 2006 for the EARL Project being promoted by TIE Limited.	unquantifiable	unquantifiable
Health and Wellbeing		
The cost of injury claims arising from the clinical trials of manufactured products produced by the Scottish National Blood Transfusion Service.	unquantifiable	unquantifiable
Legal costs of those, other than qualified medical personnel, distributing iodine tablets to the general public in the event of a nuclear emergency.	unquantifiable	unquantifiable
Mortgage indemnities issued by Communities Scotland.	£0.7m	£0.6m

**22(a). Reconciliation of net operating cost to changes in general fund
Core**

	Note	2007-08 £m	2007-08 £m	2006-07 £m
General fund at 1 April			2,416	9,902
Transfer of assets and liabilities to Scottish Police Services Authority			(8)	-
Transfer of assets and liabilities from Communities Scotland			(2)	-
Adjusted general fund at 1 April			2,406	9,902
Net resource outturn			(26,101)	(24,228)
Parliamentary funding			26,345	24,156
Add funding from pension schemes and Forestry Commission (Scotland)			112	174
Less funding to NAS, GRO and OSCR			(22)	(17)
Net parliamentary funding			26,435	24,313
Movement of balance with SCF			(66)	51
Non cash items reported in outturn statements				
Cost of capital		95		86
Student loans inflation adjustment		45		45
Auditor's Remuneration		1		1
			141	132
Fixed asset transactions				
Registers of Scotland Public Dividend Capital	7	4		-
Transferred realised element of revaluation reserve	15(a)	3		6
			7	6
Transfer of assets and liabilities to Transport Scotland			-	(7,760)
Net increase/(decrease) in general fund			416	(7,486)
General fund at 31 March			2,822	2,416

22(b). Reconciliation of net operating cost to changes in general fund
Consolidated

	Note	2007-08 £m	2007-08 £m	2006-07 £m
General fund at 1 April			12,963	12,572
Transfer of assets and liabilities to Scottish Police Services Authority	28		(8)	-
Adjusted general fund at 1 April			12,955	12,572
Net resource outturn			(26,811)	(24,861)
Parliamentary funding			26,441	24,251
Add funding from pension schemes and Forestry Commission (Scotland)			112	174
Less funding to NAS, GRO and OSCR			(22)	(17)
			<u>26,531</u>	<u>24,408</u>
Movement of balance with SCF			<u>(64)</u>	<u>51</u>
Non cash items reported in outturn statements	3(a)			
Cost of capital		740		691
Student loans inflation adjustment		45		45
Auditor's Remuneration		2		2
			<u>787</u>	<u>738</u>
Fixed asset transactions				
Transfer of assets		-		(3)
Registers of Scotland Public Dividend Capital		4		-
Road detrunkings		-		(32)
Fixed asset adjustments		(28)		23
TS Adjustment to PFI assets from revaluation reserve		-		11
Transferred realised element of revaluation reserve		59		62
Adjustment to General Fund		-		(6)
			<u>35</u>	<u>55</u>
Net increase/(decrease) in general fund			478	391
General fund at 31 March			13,433	12,963

23. Related Party Transactions

The Scottish Government is the sole shareholder and sponsor of two nationalised industries: of Caledonian Maritime Assets Ltd and David MacBrayne Ltd and of Highland and Islands Airports Limited, a shareholder in Partnerships UK 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. Further details of Scottish Public Bodies are available from the Scottish Government website - 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 Department for Constitutional Affairs, the Rural Payments Agency, the Intervention Board, the Home Office, the Department for Work and Pensions and the Student Loans Company.

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 and Health Bodies contain details of related party transactions specific to those entities.

24. Financial Instruments

Financial Reporting Standard (FRS) 13, *Derivatives and Other Financial Instruments*, 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 FRS 13 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.

As permitted by FRS 13, short-term debtors and creditors (i.e. those which mature or become payable within 12 months from the balance sheet date) have been omitted from all the disclosures, except that the current elements of long term financial assets and liabilities have been included within the scope of the disclosures.

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 FRS 13 and FRS 4 *Capital Instruments*. The maturity profile for NLF loans is matched by the corresponding profile for the related fixed asset investments.

24. Financial Instruments (Cont'd)

Financial Liabilities	Total £m	< 1 year £m	>1yr<2yrs £m	>2yrs<5yrs £m	>5yrs £m
NLF loans and SPT					
Accruals	825	-	24	78	723

Interest Rate Risk

55% of the Scottish Government's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest and it is not therefore exposed to significant interest rate risk.

Interest Rate Profile

Financial Liabilities

Total	At fixed rates	Weighted average interest rate	At floating rates	Weighted average fixed period	Non-interest bearing	Weighted average period to maturity
£m	£m	%	£m	Years	£m	Years
1,232	825	6.58	-	15	407	1

Financial assets

Total (note a)	At fixed rates	Weighted average interest rate	At floating rates	Weighted average fixed period	Non-interest bearing	Weighted average period to maturity
£m	£m	%	£m	Years	£m	Years
4,459	2,317	9.76	1,995	39	147	see (a) below

Note:

a) The Scottish Government's non-interest bearing financial assets comprise cash at bank and in hand (£69m), shares (£23m) and repayable grant and deferred financial commitments related to Communities Scotland (£55m).

Foreign Currency Risk

The Scottish Government has no significant exposure to foreign currency risk. Transactions between the Finance and Sustainable Growth Portfolio and the European Commission in respect of the European Structural Fund programmes are denominated in Euros, but any exchange risk is managed within the programmes.

24. Financial Instruments (Cont'd)**Fair Value**

Set out below is a comparison by category of book values and fair values of the Scottish Government's financial assets and liabilities at 31 March 2008:

Fair Value

	Book value	Fair value	Basis of fair
	£m	£m	valuation
Financial assets			
Equity Holdings	23	180	Note a
Voted Loans	1,515	1,512	Note b
NLF Loans	780	927	Note b
Student Loans	1,990	1,371	Note c
HA Loans	80	61	Note d
Cash at Bank	69	69	
Financial liabilities			
NLF Loans	(780)	(927)	Note b
Hepatitis C Provision	(1)	(1)	Note e
Early Departure Costs Provision	(140)	(137)	Note e
Scottish Natural Heritage	(1)	(1)	Note e
EU repayments	(23)	(22)	Note e
Medical Negligence	(142)	(139)	Note e
Prisoner Compensation	(67)	(66)	Note e
Other Provisions	(164)	(160)	Note e
Strathclyde Partnership for Transport	(45)	(47)	Note b
Hannah Research	(2)	(1)	Note e

24. Financial Instruments (Cont'd)

Note a - The fair value of the investments in Caledonian Maritime Assets Ltd, David MacBrayne Ltd and Highlands and Islands Airports Ltd is their total net assets on a current cost basis. The investment in Partnerships UK Ltd is a minority shareholding and so reflected at its nominal value.

Note b - The fair value of loans has been based on the discounted value of the future cash flows expected to be received, using the current NLF loan rate applicable to the terms of the repayment.

Note c - Student Loans have no predetermined repayment schedule from which the discounted value of the future cash flows could be determined. The fair value is based on estimated recoverable amount which has been established by deducting the carrying value of the write off and interest subsidy elements of the provision from the carrying value of the loans (see note 14).

Note d - The Housing Association Loans can be Split into three distinct types as follows:

	Book Value	Fair Value
	£m	£m
Repayment Loans	19	32
Repayable Grant	50	21
Deferred Assets	12	8
	81	61

The fair value of the Repayment Loans and a portion of the Deferred Assets is based on the value of expected future cash flows, discounted at the current NLF loan rate applicable to the terms of the repayment. The fair value of the Repayable Grant and the remainder of the Deferred Assets is based on the value of expected future cash flows, discounted at the Treasury discount rate of 3.5%.

Note e - The fair values of the provisions relating to Hepatitis C, Early Departure Costs, Scottish Natural Heritage, EU Repayments, Medical Negligence, Prisoner Compensation, Hannah Research and 'Other', have been based on the expected cash flows discounted by the HM Treasury discount rate of 2.2% in real terms.

25. 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.

	2007-08 £m	2006-07 £m
Budget (Scotland) Act 2007	29,774	28,761
Scotland's Autumn Budget Revisions - Scottish Statutory Instrument 2007 No 551	1,128	(546)
Scotland's Spring Budget Revisions - Scottish Statutory Instrument 2008 No 107	157	(126)
Total approved spending	31,059	28,089
Less activities not included in these accounts		
General Register Office for Scotland	(13)	(9)
National Archives of Scotland	(12)	(15)
Office of the Scottish Charity Regulator	(3)	(3)
Food Standards Agency	(10)	(11)
Forestry Commission (Scotland)	(98)	(93)
Scottish Parliament	(97)	(95)
Audit Scotland	(10)	(10)
Pension Schemes	(2,648)	(1,933)
Consolidated Portfolios' approved estimates	28,168	25,920
Capital budget - see summary table Note 5	1,110	890
Operating budget as reflected in portfolio outturn statements	27,058	25,030
	28,168	25,920

Portfolio analysis

	Budget Act Approval £m	Other RAB adjustments (1) £m	Consolidated Portfolios Budget £m	2007-08 Capital Budget £m	2007-08 Operating Budget £m
Office of the First Minister	257	(1)	256	7	249
Finance and Sustainable Growth	11,762	(1)	11,761	408	11,353
Health and Wellbeing	9,969	(1)	9,968	407	9,561
Education and Lifelong Learning	3,195	-	3,195	172	3,023
Justice	1,595	3	1,598	84	1,514
Rural Affairs and the Environment	1,026	-	1,026	15	1,011
Crown Office and Procurator Fiscal Service	101	(3)	98	6	92
Administration	263	3	266	11	255
	28,168	-	28,168	1,110	27,058

(1) Since the outturn statements have been adjusted to eliminate any intra-portfolio transactions, the budgets have been altered accordingly.

25. Resource Budget (Cont'd)

In 2006-07 budgets were approved on a departmental basis as shown below:

	2006-07 Total Budget	2006-07 Capital Budget	2006-07 Operating Budget
	£m	£m	£m
Environment and Rural Affairs	655	68	587
Development	1,517	8	1,509
Education	1,036	2	1,034
Enterprise, Transport and Lifelong Learning	5,209	300	4,909
Finance and Central Services	7,772	1	7,771
Health	7,868	391	7,477
Justice	1,506	96	1,410
Crown Office and Procurator Fiscal Service	99	9	90
Administration	258	15	243
	25,920	890	25,030

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 2007-08 budget approved by the Scottish Parliament and the amount drawn down from HM Treasury is provided below.

	2007-08 £m
Total spending approved by Scottish Parliament	31,059
NDPB's non cash budgets	97
Local Authority supported borrowing	305
Judicial salaries	27
Repayment of NLF and other loans by Scottish Water	(48)
NHS impairment adjustment - DEL to AME	(25)
Cost of capital adjustment for Scottish Water	130
Interest on loans payable by Scottish Water	(90)
Minor justice adjustments	(12)
NHS AME adjustments - HMT directed AME Restriction	(35)
Over-allocation of budgets approved by Scottish Parliament	(28)
Total budget draw down from HM Treasury	31,380
Analysed by spending category	
Departmental expenditure limit (DEL)	27,409
Annually managed expenditure (AME)	5,672
Other expenditure	(1,701)
	31,380

26. Cash Requirement

	2007-08	2006-07
	£m	£m
Total Approved Spending (see Note 25)	31,059	28,089
Less activities with separate cash approvals:		
Food Standards Agency	(10)	(11)
Forestry Commission (Scotland)	(98)	(93)
Scottish Parliament	(97)	(95)
Audit Scotland	(10)	(11)
Scottish Administration Spending	30,844	27,879
Adjustments for non consumption of cash	(3,990)	(3,340)
Approved Cash Requirement per SSI 2008/107	26,854	24,539
Less non consolidated activities not included in these accounts:		
General Register Office for Scotland	(12)	(7)
National Archives of Scotland	(10)	(13)
Pension schemes	104	141
Office of the Scottish Charity Regulator	(3)	(3)
Approved Cash Requirement for consolidated activities	26,933	24,657
Funding Drawn Down	26,441	24,251
Undrawn Funding	492	406

27. Losses, Special Payments and Gifts

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.

27a) Losses Statement

		2007-08
Portfolio	No of cases	£m
Office of the First Minister	43	0.04
Finance and Sustainable Growth	60	5.40
Health and Wellbeing	5,863	12.71
Education and Lifelong Learning	2	0.00
Justice	2,648	2.40
Rural Affairs and the Environment	13	0.10
Administration	66	0.10

		2006-07
Department		£m
Environment and Rural Affairs	5	0.10
Development	121	1.10
Education	111	0.10
Enterprise, Transport and Lifelong Learning	706	1.20
Health	15,340	25.30
Finance and Central Services	48	0.10
Justice	6,671	4.30
Administration	1	1.00

Details of cases over £0.25m

Portfolio and Category Description	Details	£m
Finance and Sustainable Growth		
Innovation & Investment Grant Write Off	Company in liquidation with no prospect of recovery.	0.36
Innovation & Investment Grant Write Off	Company in liquidation with no prospect of recovery.	0.28
Innovation & Investment Grant Write Off	Company in liquidation with no prospect of recovery.	0.42
Innovation & Investment Grant Write Off	Company in liquidation with no prospect of recovery.	0.27
Innovation & Investment Grant Write Off	Company in liquidation with no prospect of recovery.	0.40
Regional Selective Authority Grant Write Off	Company in administration with no prospect of recovery.	0.40
Regional Selective Authority Grant Write Off	Company in administration with no prospect of recovery.	0.75

**27b) Special
Payments**

		2007-08
Portfolio	No of cases	£m
Office of the First Minister	-	-
Finance and Sustainable Growth	-	-
Health and Wellbeing	1,505	18.20
Education and Lifelong Learning	-	-
Justice	2,006	7.20
Rural Affairs and the Environment	6	0.20
Crown Office	12	0.01
Administration	54	0.30
		2006-07
Department		£m
Environment and Rural Affairs	2	0.02
Development	3	0.10
Health	1,721	20.80
Justice	455	2.50
Crown Office	6	0.04

Details of cases over £0.25m

Portfolio and Category Description	Details	£m
Health and Wellbeing	Clinical compensation payments made following receipt of legal advice:	
	Borders Health Board (1 case)	1.50
	Grampian Health Board (1 case)	0.90
	Grampian Health Board (1 case)	0.80
	Lanarkshire Health Board (1 case)	1.50
	Lothian Health Board (1 case)	0.30
	Lothian Health Board (1 case)	0.30

27c) Gifts

The Scottish Government made gifts in the year as follows:

		2007-08
Portfolio	No of cases	£m
Office of the First Minister	190	0.004

The gifts made in year, reported above is not exhaustive, and represents those gifts given by the First Minister, Cabinet Secretaries and Ministers presented in an international context with the involvement of the international division.

28. Disclosure of transfers of assets and liabilities to/from other public sector bodies

Scottish Police Services Authority (SPSA) was created in April 2007 as a non-departmental public body of the Justice portfolio. It provides expert policing and support services to Scotland's eight police forces and criminal justice community. It plays an important role in the effectiveness of modern policing by providing criminal records, forensic services, specialist ICT, training -including the Scottish Police College -corporate services and specialist officers and staff for the Scottish Crime and Drug Enforcement Agency (SCDEA).

SPSA has an independent Convener and a Board comprising representatives of Scotland's police forces, police boards and independent directors.

The following table discloses the assets and liabilities that were transferred out of the Scottish Government to SPSA on 1 April 2007. As this was a transfer of function, merger accounting applies and relevant notes have been restated.

	£m
Fixed Assets	
Tangible Fixed Assets	8
Current Assets	
Other Debtors	-
Prepayments and Accrued Income	-
Creditors (due within one year)	
Accruals & Deferred Income	-
Other Creditors	-
Net Current Liabilities	-
Total Assets less Current Liabilities	8
Creditors (falling due after more than one year)	-
	8
Taxpayers' Equity	
General Fund (Transfers)	8
Revaluation Reserve	-
	8

Merger accounting requires the Justice portfolio to be restated, but in this situation there was no impact on the outturn statement.

	2006-07 net outturn £m
Justice Portfolio	
Police Central Government	
as reported in 2006-07 consolidated accounts	109
Add capital expenditure	2
Less capital charges	(2)
Revised net outturn	<u>109</u>

28. Disclosure of transfers of assets and liabilities to/from other public sector bodies (Cont'd)**Additional Information Relating to Core Schedules:**

At 31 March 2007, Communities Scotland recorded accruals of £2m on its balance sheet that should have been within Core. Subsequently the 2007 Core creditors have been restated by £2m. This adjustment has been removed from consolidated statements as an inter-entity adjustment.

29. Third Party Assets

Assets held at balance sheet date to which monetary value can be assigned

	At 31 March 2007 £m	Gross Inflows £m	Gross Outflows £m	At 31 March 2008 £m
Monetary amounts such as bank balances and monies on deposit	52	12	12	52
Unclaimed dividends and unapplied balances	9	3	-	12
Total Monetary Assets	61			64

Accountant in Bankruptcy holds funds of £39m (2006-07: £30m) on behalf of third parties. This mainly comprises realised assets that are held whilst awaiting repayment to the public purse or distribution to creditors £27m (2006-07: £22m). The balance of £12m (2006-07: £8m) relates to money consigned in respect of unclaimed dividends and unapplied balances.

Scottish Court Service holds funds of £24m (2006-07: £30m) on behalf of third parties. These sums were monies consigned to court for a number of reasons, which includes sums submitted in respect of liquidations, cautions and expenses in civil actions.

The Scottish Prison Service also holds small amounts of money (less than £1m) on behalf of Prisoners.



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 2006 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 15 July 2002 is hereby revoked.

A handwritten signature in blue ink, appearing to read 'Alison Stelfox'.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006

Glossary

Departmental Expenditure Limit (DEL)	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.
Annually Managed Expenditure (AME)	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.
Other Expenditure Outwith the Departmental Expenditure Limit (Other)	Expenditure that is provided for in the budget but is not included in the total budget for Scotland for control purposes.
Capital charges	An annual charge reflecting the consumption of fixed assets (depreciation) and the opportunity cost of tying up such assets (cost of capital), to ensure that the full cost of departmental activities is measured.
Resource accounting	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.
Resource budgeting	Planning and controlling public expenditure on a resource accounting basis.
End Year Flexibility (EYF)	Freedom to carry forward unspent DEL budget provision from one year to the next.