Annual Report & Accounts 2012/2013

Scottish Canals

British Waterways Annual Report & Accounts 2012/2013

Accounts presented to Parliament pursuant to section 24 (3) of the Transport Act 1962 as amended by The British Waterways Board (Transfer of Functions) Order 2012, article 2(2) and paragraph 15 of Schedule 2 and article 5(1) and paragraph 3 of Schedule 4.

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Accounts presented to the Scottish Parliament pursuant to section 24 (3) of the Transport Act 1962 as amended by The British Waterways Board (Transfer of Functions) Order 2012, article 2(2) and paragraph 15 of Schedule 2 and article 5(1) and paragraph 3 of Schedule 4.

Annual report presented to the Scottish Parliament pursuant to section 27 (8c) of the Transport Act 1962 as amended by The British Waterways Board (Transfer of Functions) Order 2012, paragraph 17(5) of Schedule 2.

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Overview

These past twelve months have been an historic time for our waterways, with the separation of England and Wales from Scotland, heralding the end of a 50-year old cross-border public corporation.

For the first three months of the financial year, we operated as British Waterways, which was responsible for approximately 2,200 miles of canals and river navigations in England, Scotland and Wales. On 2 July 2012 these Great Britain-wide functions separated to become the Canal & River Trust in England and Wales and British Waterways, operating as Scottish Canals, continued as a standalone public body in Scotland covering 137 miles of canals.

British Waterways, which was established by the Transport Act of 1962, was sponsored by the Department for Environment, Food and Rural Affairs (DEFRA) in England and Wales, while Scottish Canals continues to be responsible to Transport Scotland, an agency of the Scottish Government.

With a wholly Scottish focus, the organisation has concentrated on a number of key areas since last summer. These include:

— Delivering business continuity
Continuing to deliver our key priority of maintaining safe, accessible, navigable canals and excellent customer service, whilst transferring all our governance and business processes in the background. As a result, we now have management systems which are proportionate to the size of our organisation.

— Driving efficiency, effectiveness and leverage
Whilst we continued to deliver against the Scottish Government's expectations over the past four years, Scottish Canals has also had an exceptional year in attracting additional investment into the canals, alongside the annual government grant. We have a range of indicators which suggest that for every £1 the Scottish Government spends, we have been able to lever many more, demonstrating excellent value for money.

— Improving health, safety and wellbeing
We have had an excellent year with exceptionally low levels of staff absence and sickness, as well as an excellent health and safety performance.

— Growing our income
Although Scottish Canals receives a core grant of £10m from the Scottish Government, it is vitally important to identify new ways of increasing our earned income in order to support a growth agenda.

— Engaging our stakeholders
Consulting our varied stakeholder groups across the country and putting in place a comprehensive communications strategy so we can work together to ensure a sustainable future for Scotland's canals.

To focus on, and deliver against, the drivers and needs of Scotland, Scottish Canals is developing a new vision, 'Safeguarding our heritage, building our future', which sets out the ambitions for Scotland's canals over the next five to ten years. This requires a shift in culture so we can continue to develop new and innovative approaches that make more productive uses of our assets, harnessing the capability of all our staff, partners and volunteers and above all, focusing on driving an improved customer experience.

Chairman's Statement

I was delighted when ministers asked me to become chairman of the British Waterways Board, now operating as Scottish Canals, and to oversee the transition as it became a standalone Scottish public body on 2 July last year.

Following the transfer of functions of the British Waterways Board in England and Wales to the Canal & River Trust, the Scottish Government believed it was right to retain the British Waterways model that had served us so well in the past. The challenge facing the organisation was to create a new business model which put the demands and expectations of government and our customers at the heart of all that we do.

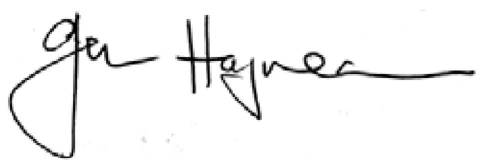
With that in mind, we have spent the majority of the past year fundamentally reviewing every aspect of the organisation, from health, safety, welfare and governance to finance, IT and operational processes and procedures. This has involved a huge amount of behind the scenes work as the Board was determined to ensure that Scottish Canals remains an effective, productive, responsive organisation which is well placed to safeguard these national assets for generations to come.

It has been a privilege to oversee such historic change and I am delighted to report that despite a detailed organisational review, the process has gone very smoothly, with the service to our customers remaining unaffected throughout.

We now have a Board which consists of individuals who have been appointed by ministers for their expertise and range of skills, and with the future direction of the organisation very firmly in mind. The Board has spent the past three months developing a new strategy for the future of Scottish Canals which involves becoming more financially sustainable - generating more of our own income as well as receiving a grant from the Scottish Government.

This more ambitious approach chimes well with the Scottish Government's agenda for growth and recognises that as well as being treasured historic monuments, Scotland's canals have the potential to contribute substantially to the Scottish economy. With careful management, they can not only help to stimulate business activity, but also create jobs and help communities along the canal network to become more resilient – all of which we, as a Board, hope to build on in the months and years ahead.

This past year, which has seen the transition from being part of a much larger organisation to a standalone business, has been both challenging and exciting. I would like to take this opportunity to thank our employees throughout the network for playing their part in helping to develop Scottish Canals for the future.



Dr Jon Hargreaves
Chairman

Directors' Report
Chief Executive's Statement

Following discussions with the Scottish Government, it was agreed with the newly appointed Board that we would develop a strategy during the year of separation which concentrated on the following:

— Work with the Canal & River Trust to effect an efficient and complete separation of the two businesses.

— Maintain customer service and, where possible, enhance delivery at a local level.

— Improve Scottish Canals' performance in areas of health and safety and the wellbeing of our staff.

— Implement a fundamental review of all business processes, procedures and systems.

— Define the strategic direction of the business for the next five years.

I am pleased to report that we have made significant progress in implementing these objectives. However, before I report on the achievements for the year, I would like to thank our former colleagues at British Waterways, now the Canal & River Trust, for their co-operation and support in managing, what was, a very complex demerger. I would also like to thank our staff for their dedication, enthusiasm and hard work in helping to create the new organisation, whilst maintaining high levels of customer service.

We continue to invest in our core business of maintaining the canals as navigable and operational structures. There will never be enough funds to do all that we would like to each year, but over the past twelve months we have responded to issues as they have emerged. This included carrying out critical repairs to Cobbinshaw Reservoir in the interest of health and safety and investing £1 million in towpath upgrades, which benefit the majority of our users.

We were delighted to be awarded an additional £4.6 million for shovel ready projects to be spent over this and the next financial year. This will stimulate jobs and economic growth. This year we spent the planned £1.4 million on a number of high profile projects, such as the regeneration of Bowling Harbour, which is crucial to opening up the gateway to the west. It has also helped us create more residential moorings across the country as part of our Living on the Water initiative and has allowed us to start constructing the new Pinkston Paddlesports Centre in Glasgow, a watersport facility that will cater for local communities and world-class athletes alike.

As well as being the only centre of its kind in Scotland, Pinkston is integral to the wider regeneration of North Glasgow that is currently being discussed with Glasgow City Council and follows our great success in establishing a creative quarter in and around Speirs Locks. The momentum is continuing with the National Theatre for Scotland announcing plans to join Scottish Opera, the Royal Conservatoire of Scotland and Glasgow Sculpture Studio by relocating next to the canal. This regeneration is beginning to expand to Port Dundas, where the recent purchase of Port Dundas Business Park will help to breathe new life into the north of the city and lay the foundations for a new destination that boaters can enjoy.

However, Glasgow has not been our only large scale regeneration destination. We are working to create a canal quarter in Edinburgh which is beginning to increase the amount of available waterspace and stimulate further private and public sector development, from schools and homes to a new 28-berth marina at Ratho.

These works have helped to maintain the level of customer visits across the network and despite tough trading conditions, we have seen an increase in the number of boats in transit, cyclists, walkers and canoeists both along and on the canal network over the past year – particularly along the Great Glen Ways and the Crinan Canal which offer world-class outdoor adventure experiences.

I am pleased to be able to report that customer service has remained high, with no increase in complaints year on year. In fact, in some cases, we have been able to enhance the service within existing budgets. This can be seen with the introduction of the Crinan assisted passage, which provides help to boaters through the locks, should they require it. The review of systems, processes and procedures has also progressed well and we have introduced changes that will transform the activities of the business over the next three years

The £43 million Helix project has dominated our investment plans for the past five years. In partnership with Falkirk Council, we have seen major progress in creating an international visitor destination between Falkirk and Grangemouth. For our part, the construction of a 1km extension to the Forth & Clyde Canal is progressing well and will open up the Lowland Canals to more and varied vessels. We await the arrival later this year of the Kelpies, two colossal horses' heads, which will tower over the new canal next to the M9 motorway, becoming iconic features that will attract generations of visitors on and off the water for years to come.

There is still much to do but our people are responding very positively to our new status and our determination to contribute significantly more to the economic and social success of Scotland. Our new vision for the future of Scotland's canals, which was launched in April, sets out ambitious plans for the next five to ten years. Our task now is to get on and deliver against them for the benefit of all.

The future

As well as forming a new business with all the relevant infrastructure, from IT and finance to operations and health and safety, much of the past year was spent identifying future business objectives and shaping the type of organisation we want to be.

In creating the new business, it was necessary to look at the challenges which lie ahead and develop new ambitions for the organisation, as well as a new vision and set of values that would enable us to deliver for Scotland.

This led to the creation of a bold new vision, 'Safeguarding our heritage, building our future', which celebrates the 250-year heritage of Scotland's canals and sets out to increase the contribution they make to Scotland's economic and social prosperity.

Business Review

Our people

The business change over the past 12 months would not have been possible without the hard work and commitment of our staff. As well as ensuring business continuity and maintaining – in some cases improving – our customer offering and level of service, progress has been made in health and safety across the business. There have been no RIDDORs (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) during the 12 months, ending on 31 March 2013 and very low levels of absence which is a testament to the diligence and dedication of the workforce. Despite a tough economic climate, Scottish Canals has continued to invest significantly in staff training and development and it remains a major focus for the business going forward.

Maintaining our canals

In 2012/13 direct expenditure on the waterways which includes repairs, maintenance, customer service and creation of new stretches of canal together with the cost of support teams for technical, environmental and heritage expertise was £15.4m compared to £11.6m in 2011/12 including shovel ready funding and the following major infrastructure work:

— Commenced work at Cobbinshaw Reservoir to meet legislative requirements - project is being delivered over two years costing in total £1.2m.

— Various embankment improvements at Linnvale and Gogar totalling £0.2m.

— Culvert and bridge repairs costing £0.3m.

— Commenced installation of a waste water plant for all Scottish Canals buildings in Ardrishaig to prevent foul sewerage going to sea at a cost of £0.1m.

— Power upgrade to Laggan Locks for £0.1m.

— Other small works totalling £0.3m, including secondary grouting to locks on the Caledonian Canal.

Towpath improvements totalling £1.1m with contributions from our third party partners resulted in 10km of towpaths being improved. This was a 50 % increase on 2011/12. Our thanks to Sustrans, East Dunbartonshire Council, Strathclyde Passenger Transport, Falkirk Council, Argyll & Bute Council, Landfill Communities Fund, Shanks, North Lanarkshire Council, Environmental Key Fund, Wren and Viridor for their continued support in this area.

We continued to invest in the Helix project, a £43m investment to regenerate 350 hectares of land between Falkirk and Grangemouth, with work commencing on the new stretch of canal linking the Forth and Clyde canal to the River Carron. Our investment contribution to the Helix project is £7.3m over 5 years and at 31 March 2013 we had invested £4.8m. The project is progressing well with the new 45 hectare Helix park anticipated for completion in Autumn 2013. The canal is now 75 % complete and includes the critical construction of the canal beneath the M9 motorway. Works have also begun on the new lift bridge and the construction of a major new sealock. The site preparation and foundations are in place for the construction during the summer of 2013 of one of the major attractions of the Helix - the 30m high Kelpie sculptures which will stand either side of the Kelpie canal lock. The design and development of a complementary visitor centre is progressing well and is planned for completion in Spring 2014.

Asset condition

We grade our infrastructure assets from A to E, with A being excellent and E being poor. Since the Millennium Link was constructed, the general condition of our assets has been good. During 2012/13 we continued to make improvements, with six assets moving in to the category A to C from the lower category D to E. During the year we successfully migrated our asset data onto new asset management software as part of our organisational change. We are pleased to be able to report that the condition of the assets is not only being maintained but improved.

Over the past eighteen months the Caledonian Canal has had a cluster of lock structure failures. These were largely due to a combination of failing lock cills, heel post and associated components. All repairs have been completed.

As a consequence of these failures, we enhanced some of our monitoring techniques, including working with the Scottish Sensor Systems Centre to explore opportunities for using sensor technology to enable remote monitoring to be carried out. In addition, we are carrying out trials with underwater surveillance equipment to better inform our asset inspection teams about the condition of key submerged assets, such as lock chambers and lock gates. Underwater inspections often have visibility issues and we are looking at a variety of other technologies to further develop this inspection activity.

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Business improvement

In April 2012 we established a business improvement programme, which was created to identify key areas in the business where we could improve the way we operated, increase efficiency and reduce costs so that these savings could be reinvested into waterway maintenance. During 2012/13 we met the 3% efficiency target set by Scottish Government by the:

— Introduction of new technology to improve communications across all teams and support mobile working.

— Introduction of an apprenticeship scheme.

— Training our work teams to provide competencies in the teams to carry out tasks which would otherwise require expensive contracts or not be done at all.

— Continue the drive towards a customer-assisted lock & bridge operation.

— The introduction of a lean vegetation and facilities cleaning contract.

— A root and branch review of all plant and equipment to investigate opportunities to reduce costs in these areas.

Innovation

We are partnering with a number of academic institutions to drive innovation in our business and case studies include:

Scottish sensor systems – embankment project

This pioneering project will combine current geophysical research with leading wireless sensor networks. It is hoped that it will lead to the development of a system for the remote monitoring earthwork assets to inform maintenance scheduling, planning and design.

Making our canals successful for freight transport

Although built to support industry, today Scotland's canals face a number of challenges in, once again, becoming commercial links. The main concern is making the transporting of goods by boat a commercially viable option by being able to move sufficient volumes of cargo. Given the physical nature of the canals, only vessels with the right dimensions can make passage - however the crafts already on the canal are not suitable cargo vessels. Working with the School of Naval Architecture at Strathclyde University we have sponsored a PhD student to design a freight vessel for the Lowland Canal to be a viable and realistic option for a commercial venture.

Bringing canal spaces to life

Our canals are special places, each with a distinctive character. Working in partnership with cultural organisations such as the Royal Conservatoire Scotland, we will bring spaces along the canals to life as unique event and performance venues. Scotland is rich in arts and culture and we want to embrace and promote this at the same time as raising awareness of the canals.

North Glasgow Sustainable Surface Water Drainage

The North Glasgow Sustainable Surface Water Drainage Board is reviewing options to tackle flooding in North Glasgow, rather than use traditional drainage methods this project proposes using more sustainable and innovative methods to manage flooding in North Glasgow. By managing surface water through the canals and working with partners to address local flood risks, we can help to unlock the development potential of the area; attract housebuilders and businesses into North Glasgow, create jobs for local people and inject new life into the area.

Estate management

Our Estates strategy focuses on increasing income streams across the portfolio by identifying new opportunities and managing existing leases. The Estates team continues to identify poorly performing assets and implement strategies to increase income potential and deliver wider regeneration in key sites along the canal corridors. For example, in partnership with Igloo Regeneration Partnership (an Aviva Fund) we created a limited partnership, Bigg Regeneration Limited Partnership, to purchase the Port Dundas Business Park which extends to 247k sq ft on a 7.4 acre site in Port Dundas, North Glasgow.

Overall property income has increased by £0.1m to £0.8m over the last 12 months. There are currently 13 vacant properties of which eight will be refurbished into holiday lets over the next 12/18 months. Voids will be kept to a minimum by actively managing and monitoring lease expiry dates and tenant break options. Our newly formed planned and preventative maintenance programmes including regular condition inspections have significantly improved the condition of our residential portfolio.

Our maintenance liability for commercial properties is low with the majority of tenants undertaking this responsibility. Annual inspections will ensure that tenants are complying with their repair obligations. In addition we will implement interim and end of lease dilapidation notices to protect our portfolio.

As landlords we have a responsibility to comply with legislation which protects our tenants and staff. We will continue to ensure full compliance with all statutory obligations and implement systems of review and control. We recently implemented a programme of regular water temperature testing on all our tenanted properties in order to reduce the risk of legionnaires disease.

Customers

Customers are vital to the successful future of Scottish Canals and we interact with our customers in a variety of ways to ensure we are maximising opportunities to share ideas at both a local, national and international level.

The direct relationships we have with boaters and towpath users are central to our objectives, but our canals also have an impact on local communities and on economic and social outcomes at a national level.

We recognise that our customers provide essential financial income as well as giving the canals a strong sense of purpose and local civic pride. This generates tremendous goodwill and support for our activities and is demonstrated through volunteering, advocacy and care of the assets.

To enable this we must not only manage and maintain our canals as working, dynamic assets but engage with our customers to provide attractive, safe and welcoming locations in order to support tourism, learning, leisure and recreation, and sustain a unique historic and environmental resource.

Our boating community consists of residential, commercial and leisure customers, as well as visitors from the rest of the UK and overseas. This is a critical group in providing vibrancy and life to the waterways as well as income. There are currently c. 260 boats permanently moored on the Lowland canals - 170 on the Caledonian and 60 on the Crinan. In addition, we welcome 2,800 transit vessels, with 40% of those coming from Northern Europe, principally Scandinavia.

There are over 25 million towpath users each year; primarily walkers, anglers and cyclists. However, the canal also accommodates a wide range of other leisure and recreational activities such as the Great Glen Canoe Trail for paddlers. These groups add to the usage of the canals and also share in the health and wellbeing that they can offer.

The Falkirk Wheel continues to be a major Scottish visitor attraction with over 400,000 visitors per annum, with about a third coming from outwith Scotland. It is a major tourism driver in the Falkirk/Forth Valley area and is Scotland's most visited attraction outside of Glasgow and Edinburgh.

Local communities are another important customer. Many of our canals pass through fragile economies or areas with severely disadvantaged communities. Often, particularly in the Lowlands, the canals can be subject to anti-social behaviour such as littering, dog fouling and petty vandalism. However, we recognise they can offer local communities the opportunity to sustain and improve their economic as well as physical health and work closely with our stakeholders to encourage local involvement and solutions.

Communication with our customers is vital to our development and we meet regularly, on a formal and informal basis, with user groups, boating societies, commercial operators, clubs and societies, councils, community groups, MSP/MPs, tourism and economic organisations among others. We actively seek feedback through our digital and hard copy transit boat surveys.

Our staff receive regular customer service training and we closely monitor feedback, such as compliments and complaints, so that we can identify trends and take corrective action as quickly as possible.

During 2012/13 we entered two new markets to obtain best value and add vibrancy to our canals and we intend to build on the success of these ventures over the forthcoming years.

VIVAT

Working with the VIVAT Trust - a registered charity and an active building preservation trust dedicated to restoring derelict historic buildings and sensitively restoring them into short stay self-catering holiday lets - we brought back into use seven of our historic cottages and houses on the Caledonian and Crinan canals, generating £1m in capital value. Two further properties including Bona Lighthouse will join the portfolio by March 2014.

Living on the Water

As part of our Living on the Water initiative, a choice of new, high-quality residential and commercial moorings have been developed at key places along our beautiful canal network. The first phase was located at Leamington Wharf near to our capital city of Edinburgh: an eight berth residential hub generating an average of £3.3k per berth in mooring fees. There are sixteen berths available in Inverness averaging £2.8k per berth. A further eighteen sites are being developed over the next two years.

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Stakeholder engagement

Collaboration with public, private and third sector organisations is vital to all that we do at Scottish Canals. Over the past year, we have worked closely with the Scottish Government and the nine local authorities that have canals within their boundaries to ensure that we not only safeguard the assets but identify new ways to develop them for the wider benefit of Scotland.

The Pinkston Paddlesports Centre at Speirs Wharf is a great example of how we have worked with partners to deliver a project of national significance that will also benefit local people. Our four-year partnership with the paddling community and Glasgow City Council was integral to achieving the first stage of funding: a £2.3million package which allowed work to get underway on this exciting new sports and leisure facility in May this year.

Volunteering

Volunteering on Scottish canals has grown rapidly over the last few years. We are lucky enough to have many canal societies and organisations which remain passionate about the canals and the opportunities these historic corridors present to engage the public in the waterways. These organisations continue to engage in excess of 40,000 people a year in activities on and around the canals. New volunteers are continuing to be brought to the waterways through Scottish Canals, the Scottish Waterways Trust and the Lowland Canal Volunteer Group. This is an important and growing sector for the canals, engaging communities in the maintenance and care of the corridors and developing individual skills and experiences.

Regular engagement is held between the volunteer organisations and Scottish Canals through the Lowland Canal Volunteer Group, the User Groups and the Royal Yachting Association's Inland Committee.

Scottish Waterways Trust

Scottish Canals contributes each year to the Scottish Waterways Trust, formerly The Waterways Trust Scotland (TWTS). It works to create brighter futures for people and places across our Scottish canals through creating innovative projects which connect people with the heritage, wildlife and green open spaces of the Scottish canals. It inspires people to get active and provides opportunities for people to improve their health and mental well-being.

Our partnership with the Scottish Waterways Trust, a new Scottish charity formed for the transfer of the Scottish assets of The Waterway Trust, delivers a wealth of social, educational and environmental benefits throughout the canal corridors. Over the past 12 months a range of projects have taken place, from volunteering initiatives to capturing the knowledge of our staff.

Last year 9,200 people were enriched through innovative community-based projects such as Green Action - an employability skills programme for 16-25 year olds using the canal environment as a skills, training and learning zone. Some 63% of the young people move into a positive destination at the end of the programme. At Scottish Canals' offices on the Caledonian Canal and the Forth & Clyde and Union, the group delivered guided walks along the canal, heritage and wildlife safaris, tree planting, clean ups and school education visits. Their work resulted in the achievement of the John Muir Award and raised £126k towards improving canal towpaths.

Additional fundraising involved the new Paddlesports Centre at Pinkston Basin, the Unlocking the Story project which will animate and interpret the Forth & Clyde Canal in Glasgow, and Canal College - our major new flagship project for 16-25 year olds.

Sustainability

Scottish Canals recognises the impact that our operations and activities have on both the community and the environment. We therefore recognise the increasing need for these activities to be delivered by sustainable means.

Over the past twelve months, we have invested in new technology to support mobile working, reducing the need for car travel between sites. We are reviewing our vehicle fleet policy and arrangements and will maximise the opportunity given to us in this process to look at appropriate ways to reduce our carbon footprint and running costs.

Many of our assets are classified as scheduled ancient monuments and we have a duty to comply with the Ancient Monuments and Archaeological Areas Act 1979. However, we also strive to act in a responsible, sustainable way when maintaining, repairing and building new assets.

— We strive to ensure that all our timber is Forestry Stewardship Council (FSC) certified by writing it into all contracts and carrying out spot sampling of certification.

— Recycled material use is often at the heart of our thinking when carrying out work on our assets as it makes sense both commercially and environmentally. Typically we would seek to re-use recovered masonry, recycled sub-base and recycled timber on our maintenance and repair works. We used stone for the construction of the Falkirk Wheel waterpark which was recovered from the Kirkintilloch basin during the construction of the marina.

— Where possible we encourage the use of local suppliers for construction projects, balancing sensibly the use of nationwide framework contractors with the local supply chain. This is based on competitive tendering but with a view to harnessing the appropriate mix of skills, experience and cost.

We manage our water via the Controlled Activities Regulations and the water use licences issued for the canals. These licenses are issued as a part of the water framework directive transposed into Scottish legislation and seek to control the volumes of water abstracted from the feeder reservoirs. Both the Caledonian and Crinan Canals have been given an overall compliance band of excellent, and the Lowland canals have been assessed as good.

There are opportunities for our canal network to play a bigger part in Scotland's water story, with the potential to increase usage of the canal for surface water drainage - utilising sustainable urban drainage techniques - and for increased use of our water for industry and energy production via ground and water source heat pumps.

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Finance Review

Separation background

The British Waterways Board (Transfer of Functions) Order 2012, which transferred the assets, liabilities and operations in respect of BW in England & Wales to the Canal & River Trust, a new charity formed to care for the waterways under BW's control in England & Wales, came into force on 2 July 2012. The Scottish Government decided that canals would remain in the public sector in Scotland and BW, operating as Scottish Canals, continues to operate in Scotland, reporting wholly to the Scottish Government.

An agreement between the Scottish Government and the Department of Environment, Food and Rural Affairs (DEFRA) separated the Scottish assets and liabilities from the England & Wales' net assets.

The agreement defined that Scottish assets comprised all the property, equipment, vessels, waterways, structures and fixtures physically and geographically located in Scotland, together with the Scotland commercial capital bank account. Other Scottish assets included on the Scotland balance sheet comprised all debtors, prepayments, and deferred expenditure that related to Scottish activities and assets. Similarly, the Scotland balance sheet included liability for all creditors, accruals, deferred income and provisions that related to the Scottish activities and assets.

Cash receipts and payments relating to sales of commercial investments and commercial purchases and additions to non-operational capital assets were funded through the BW Scotland commercial capital bank account from 1 April 2008. Prior to this date all capital receipts and payments were received and payments made centrally from BW. All revenue transactions (cash payments and cash receipts) were funded centrally through the BW trading bank account and formed an integral part of the Shared Services Centre function in Leeds. At separation it was agreed there was no opening trading cash balance but the collection of debtors and payments of creditors after 1 April 2012 would rectify this and therefore these items were excluded from the capital calculation.

As at 31 March 2011, the Scotland balance sheet showed a net asset position of £26.5m prepared under the agreement as summarised above. It was agreed between the parties that the notional asset of £10m included in the balance sheet would be removed and further assets and liabilities would be added and removed from the BW Scotland balance sheet, such that the net assets as shown in the completion accounts (prepared at the date of transfer) would be equal to £30m (the Agreed Net Assets) but as adjusted for various items. Based on values at 31 March 2012 Scottish Canals would receive a commitment from the Canal & River Trust to pay £10.9m in six equal installments commencing six months after completion and at six monthly intervals thereafter until the third anniversary of completion. Interest shall accrue at the rate of 5% per annum (calculated on a semi-annual basis) on the balancing amount or any part thereof that is not paid to Scottish Canals until the final installment is paid.

The agreement also included the retention of The Boat House public house in Auchinstarry, The Union Inn in Falkirk and 49% of the net assets of Edinburgh Quay Limited, a joint venture with Miller Developments Limited.

In addition, Scottish Canals would be relieved indefinitely from any obligation to make deficit repair contributions for the Scotland share of the deficit on the BW Pension Fund shown in an Actuary's interim valuation of the BW Pension Fund as at 2 July 2012. Scottish Canals shall be liable to make a fair share and proportionate contribution, as determined by the Scheme Actuary from time to time, towards any deficit that exceeds the valuation deficit as at Completion, between one triennial valuation and the next, commencing from the valuation carried out as at 31 March 2013.

Financial results

Because of the separation of the cross border entity of BW, the report and accounts for Scottish Canals for the year ending 31 March 2013 include three months of results for the cross border organisation, England, Wales and Scotland and nine months results for the Scottish public body.

This has resulted in a deficit of £433.1m of which £433.3m relates to the transfer of assets for England and Wales to the Canal & River Trust. The net result for Scotland for discontinued operations after taxation is a surplus of £0.7m and a transfer of unrealised capital gains of £0.5m to capital reserves.

Full details of the loss on discontinued operations can be found at note 8.

Operating activities

Excluding the discontinued operations deficit for the transfer of England and Wales operations, the position for Scottish Canals shows a surplus for continuing operations after taxation of £0.7m. This is made up of an operating deficit of £0.6m, plus interest received from the Canal & River Trust on the outstanding balance of the capital payment owed to Scottish Canals of £0.4m, a gain on the revaluation of investment properties of £0.5m and release of deferred taxation of £0.4m.

Income

The introduction of new information systems for recording property, boat licensing and other income, as well as the transition from a central shared service department for debt collection has been challenging, with many customers settling their debts to the Canal & River Trust in error. We have now reconciled the position with the Canal & River Trust and monthly transfers between the entities are now being made as well as continued communication with our customers.

Scottish trading income, other than Grant in aid, increased from £6.0m to £7.0m in 2012/13. This increase related to £0.2m property option received in 2002 that expired in 2012 as the option was not exercised on land holdings by the due date this option was released from the balance sheet. Increased property rental income of £0.1m, additional third party income of £0.3m and in mooring fees and a dividend distribution from Edinburgh Quay Limited, a joint venture between Scottish Canals and Miller Developments Limited, for the prior regeneration of the canal quarter in Edinburgh where phase one and two are fully complete.

Utility income was £0.1m less than the previous year due to the disaggregation of the BSkyB contract between England and Wales and Scotland relating to income from the fibre optic cable network installed along the canal towpaths. At separation this was calculated and agreed between the two entities on a percentage of the length of fibre optic cable installed along the towpaths.

Grant in aid received reflects the agreed payment for the financial year of £10m, plus additional funding of £1.4m received in early 2013 for shovel ready projects. These projects will deliver the start to the regeneration of the entrance to the Forth & Clyde at Bowling Harbour, improvements to the public realm at Spiers Wharf paving the way for residential berths for our Living on the Water initiative and the commencement of the Glasgow Paddlesports Centre at Port Dundas. A further £3.2m will be received in 2013/14 to complete these projects.

Scotland only Group commercial income	2012/13 £m	2011/12 £m
Property rentals, wayleaves and premiums	1.2	0.6
Utility income and water sales	1.3	1.4
Boat licences and mooring fees	1.0	0.9
Retail sales	1.5	1.7
Cost recoveries and other income	0.3	0.3
Dividends received from joint ventures	0.2	-
Group commercial income	**5.5**	**4.9**
Contributions from third parties	1.5	1.1
Grants receivable from Government	11.4	10.5
Transfer of grant to fund separation	-	1.4
Interest receivable	0.4	-
Total Income	**18.8**	**17.9**

Operating costs

Operating expenditure reduced by £1.8m compared to 2011/12, this was predominantly due to the one off cost of transition included in the central services cost in 2011/12. Cost of canal restoration and third party costs increased by £2.0m due to additional funding from Government for shovel ready projects £1.4m and securing additional third party funding for towpath improvements. Also included in operating costs is a £0.2m provision for holiday accrual not previously allocated to Scotland.

Waterway maintenance and customer operations include the operational costs of the five canals and the engineering, heritage and environmental support for the core operation. In 2011/12 these were allocated to central costs.

Expenditure on dredging has been deferred due to funding commitments to the Helix project.

The reduction in central functions cost is because of the transition cost in the prior year of £1.4m and reallocation of costs for engineering and heritage support to core waterway. Central functions are the cost of Information Technology, Finance, Legal, HR and Chief Executive Office.

Analysis of operating costs	2012/13 £m	2011/12 £m
Waterway maintenance and customer operations	9.0	7.5
Major infrastructure works	1.7	1.4
Water maintenance and major works	**10.7**	**8.9**
Central functions	1.3	4.7
Property and retail income operating costs	2.3	2.5
Operating expenditure	**14.3**	**16.1**
Cost of canal restoration and other funded works	4.7	2.7
Total operating costs	**19.0**	**18.8**
Deficit on operating activities after finance changes before taxation	**(0.2)**	**(0.9)**

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Scottish Canals is part funded by grant in aid from Scottish Government which is deficit funding; this is not drawn down in advance of need. Scottish Canals targets a break even result on its operating revenue account from year to year. Unrealised gains on the revaluation of investment properties was £0.5m. Scottish Canals only revalued part of the investment portfolio as agreed by the Board and Audit Scotland due the impact of transition and tendering a new contract.

During 2012/13 we had investments of £2.4m in joint ventures. This comprised £2.1m in Bigg Regeneration Limited Partnership and £0.3m in Edinburgh Quay Limited.

Edinburgh Quay Limited is a partnership with Miller Developments Limited and a dividend of £0.2m was received in the year. Scottish Canals owns 49 % of this investment.

Bigg Regeneration Limited Partnership was a newly formed joint venture in early 2013 and only the cost of the investment is included in these accounts. Scottish Canals owns 50 % of this investment.

Treasury management

Cash balances are only invested in money market deposits on a daily basis. Cash balances at year end are shown below. Scottish Canals does not have any borrowings as our Framework document determines that borrowings cannot be used to increase spending power.

Bank accounts	2012/13 £m	2011/12 £m
Trading	0.9	-
Commercial investment	0.8	1.9
	1.7	**1.9**

The Group balance sheet

Summary Statement of Financial Position	2012/13 £m	2011/12 £m
Non-current assets held for sale	-	5.5
Total non-current assets	28.5	643.4
Total current assets	9.8	96.9
Total current liabilities	(6.9)	(76.9)
Total non - current liabilities	(0.8)	(217.3)
Net assets	**30.6**	**451.6**
Reserves	1.5	22.2
Retained earnings	29.1	429.4
Total equity	**30.6**	**451.6**

The balance sheet as at 31 March 2013 shows a reserve position of £30.6m (£28.0m 2011/12). The comparative figures for 2011/12 are for British Waterways including England, Wales and Scotland.

Pensions

a) Defined benefit pension scheme

Scottish Canals participates in the British Waterways Pension Fund, a funded defined benefit scheme that was open to all staff that commenced employment with BW before 1 April 2011. Following the British Waterways Board (Transfer of Functions) Order 2012 Canal & River Trust became the Principal Employer, but Scottish Canals remains a participating employer in the fund. Scottish Canals will continue to contribute the service contribution rate and those members of Scottish Canals staff who wish to remain members of the Fund and accrue pension benefits under the scheme will continue to contribute a percentage of pensionable salary following actuarial valuation of the Fund. Scottish Canals has been relieved indefinitely from any obligation to make deficit repair contributions for Scottish Canals' share of the deficit on the BW Pension Fund shown in an Actuary's interim valuation of the BW Pension Fund as at Completion. Scottish Canals shall be liable to make a fair share and proportionate contribution, as determined by the Scheme Actuary from time to time, towards any deficit that exceeds the valuation deficit as at Completion, between one triennial valuation and the next, commencing from the valuation due to be carried out as at 31 March 2013.

Further information on the defined benefit pension arrangements is set out in Note 19.

b) Defined contribution pension plan

Scottish Canals participates in a defined contribution pension plan for employees that commenced employment after 31 March 2011. Scottish Canals pays contributions to Standard Life who administers the pension insurance plan. Scottish Canals has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

c) Other employee benefits

Post-employment benefits other than pensions are re-assessed annually at the reporting date by independent qualified actuaries using discount rates consistent with those required for pension liabilities under IAS19.

Corporate Governance

Members of the Board of Scottish Canals as at 31 March 2013

On behalf of the Scottish Ministers, the Minister for Housing and Transport, Keith Brown MSP formalised appointments for the Chair and Members to the Board of Scottish Canals as follows:

Dr Jon Hargreaves CBE

Non - Executive Chair

Jon was appointed as Chair of the Board of Scottish Canals on 2 July 2012 having represented Scottish interests on the British Waterways Board in recent years. He brings with him over 35 years' experience of the water industry, most recently as Chief Executive of Scottish Water. He is also a non-executive of Baltic Centre for Contemporary Arts, Gateshead, and The Port of Tyne. Jon is Chair of the Remuneration Committee.

Geoff Aitkenhead

Non - Executive Vice Chair

Geoff, a chartered engineer, was appointed as a non-executive member of the Board of Scottish Canals on 2 July 2012. He has been Asset Management Director of Scottish Water for ten years and his strengths lie in risk management, procurement and health and safety. He is a graduate of Newcastle University, a member of the Chartered Institute of Water and Environmental Management and a Fellow of the Institution of Civil Engineers. Geoff is President of WaterAid (Scotland) and Chairman of Scottish Water Solutions. Geoff is a member of the Audit & Risk Committee and the Remuneration Committee.

Duncan Sutherland

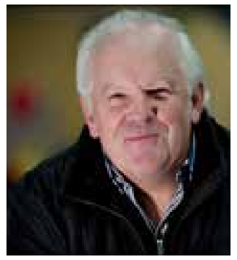
Non - Executive

Duncan has been a Scottish Government appointed British Waterways Board member for the past six years, having been reappointed for a further three-year term in September 2012. He is also currently Chairman of Sigma Inpartnership Limited and a director of HS2 Limited. He brings considerable strengths and experience in property development and regeneration to the Board having achieved many city centre projects including Coventry Canal Basin. Duncan is Chair of the Property and Commercial Committee and a member of the Remuneration Committee.

Tanya Castell

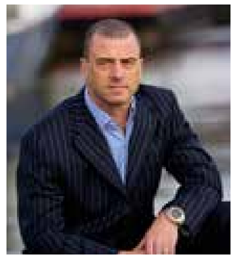
Non - Executive

In addition to being appointed as a non-executive member of the Board of Scottish Canals on 2 July 2012, Tanya is a non-executive director of Newedge UK Financial Limited (a major global multi-asset brokerage firm) and Multrees Investor Services. She is also chair of Soirbheas, a community charity in the Highlands. Tanya has over 25 years' experience in financial services, during which time she developed extensive risk and regulatory expertise. Tanya is Chair of the Audit & Risk Committee and a member of the Remuneration Committee and Property and Commercial Committee..



Martin Latimer
Non - Executive

Martin Latimer joined the Board of Scottish Canals on 2 July 2012 and brings with him over 30 years' experience of Scottish marine leisure and leisure and waterfront development. He is Managing Director of Blue Sea Marinas Limited and Senior Partner of Blue Sea Consulting LLP and is currently involved in a number of waterfront regeneration projects including James Watt Dock Marina, in Greenock. Martin is Vice- Chairman of British Marine Federation Scotland and is on the Cross Party Group on Recreational Boating and Marine Tourism in Holyrood. He is a member of the Property Committee, Audit and Risk Committee and the Remuneration Committee.



Steve Dunlop
Chief Executive and Board Member

Steve joined British Waterways in 2006 as Director Scotland and was appointed as Chief Executive of Scottish Canals and a Board member on 2 July 2012. Formerly, he was Director of Regeneration for Newcastle City Council and, prior to that, held a Directorship at Falkirk Council. Steve has particular expertise in regeneration and community development and is a director of a range of joint venture property companies looking after Scottish Canals' interests.

The Board movements since 1 April 2012

Tony Hales CBE	Non-Executive Chairman	Resigned 1 July 2012
John Bridgeman	Non-Executive Vice Chairman	Resigned 1 July 2012
John Bywater	Non-Executive Director	Resigned 1 July 2012
Rodney Green	Non-Executive Director	Resigned 30 April 2012
Dr Jon Hargreaves CBE	Appointed Non-Executive Chairman	2 July 2012
Nigel Hugill	Non-Executive Director	Resigned 1 July 2012
Pommy Sarwal	Non-Executive Director	Resigned 31 March 2012
Duncan Sutherland	Non-Executive Director	Re-appointed 25 September 2012
Tanya Castell	Non-Executive Director	Appointed 2 July 2012
Geoff Aitkenhead	Non-Executive Director	Appointed 2 July 2012
Martin Latimer	Non-Executive Director	Appointed 2 July 2012
Steve Dunlop	Chief Executive	Appointed 2 July 2012

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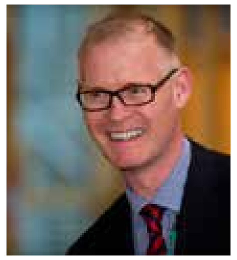
Executive Members at 31 March 2013



David Lamont
Director of Change and Innovation

David has a range of technical, commercial and business experience across the public and private sectors, having worked as a project and operations manager with large civil engineering and manufacturing organisations on capital programmes and operational maintenance plans. Before joining Scottish Canals, David was Head of Planning & Logistics with Weir Pumps Limited.

Katie Hughes
Director of Estates

Katie graduated from Oxford Brookes University after studying for BSc (hons) degree in Estate Management. In 1994, she joined BAA Lynton as a graduate surveyor working mainly on development projects in London and Heathrow Airport. After 5 years she went to work for Gazeley, the global leading developer of distribution space. She was the youngest ever director of the company and led the team that launched Gazeleys Magna Park project throughout Europe including France, Germany, Italy and Spain. Katie moved to Australia where she was a Fund Manager for a development fund owned by DBRREEF and then a global fund manager for Allco. She returned to the UK in 2008 where she joined British Waterways in Scotland as the Head of Property.

Debs Hurst
Director of Finance

Debs, a chartered management accountant, joined British Waterways in 2002 and became Financial Controller for Scotland and Core Waterway England and Wales in 2008. She project managed the separation of the Scottish business from British Waterways England & Wales and was appointed Director of Finance for Scottish Canals on 2 July 2012. Prior to British Waterways, Debs worked in various public and private sector organisations as Head of Finance.

Executive Director movements since 1 April 2012

Robin Evans	Chief Executive Officer	Resigned 1 July 2012
Steve Dunlop	Appointed Chief Executive	2 July 2012
Nigel Johnson	Corporate Services Director	Resigned 1 July 2012
Stuart Mills	Property Director	Resigned 1 July 2012
Vince Moran	Operations Director	Resigned 1 July 2012
Philip Ridal	Finance Director	Resigned 1 July 2012
Simon Salem	Marketing Director	Resigned 1 July 2012
Jim Stirling OBE	Technical Director	Resigned 30 June 2012
David Lamont	Director of Change & Innovation	Appointed 2 July 2012
Katie Hughes	Director of Estates	Appointed 2 July 2012
Debs Hurst	Director of Finance	Appointed 2 July 2012 and resigned 27 June 2013

Scottish Canals Annual Report & Accounts 2012/13

Board Members Report

The Board members present their annual report together with the audited financial statements for the year ended 31 March 2013.

Principal activities

Legislation to transfer the assets and liabilities and operations in respect of BW in England & Wales to the Canal & River Trust, a new charity formed to care for the waterways under BW's control in England & Wales, came into force on 2 July 2012. The Scottish Government decided that canals would remain in the public sector in Scotland. BW, operating as Scottish Canals, continues to operate in Scotland and continues to receive grant-in-aid funding from the Scottish Government. For further details see The British Waterways Board (Transfer of Functions) Order 2012.

Scottish Canals cares for five canals in Scotland: the Forth & Clyde, Union and Monkland Canals in the Lowlands, the Crinan Canal in Argyll, and the Caledonian Canal in the Highlands, delivering a valuable contribution to the Scottish Government's strategic objectives essential to enhancing the quality of life in Scotland.

Scottish Canals works with a broad range of public, private and third sector partners to deliver enhancements and raise awareness of the contribution the waterways make to Scotland's economic and social prosperity as well as to stimulate economic regeneration in key locations throughout the network and to generate income for reinvestment in the waterways that benefit the millions who visit and care for the waterways every year.

Business review

A detailed review of Scottish Canals' performance during the year and expected future developments is contained in the Business Review section on pages 7 to 11.

Results

The audited accounts for the year ended 31 March 2013 are shown on pages 30 to 88.

Board members

The Board members who served during the year are shown on page 18. Their terms of engagement are summarised in the Directors' Remuneration Report on pages 26 to 28.

A Register of Interests is maintained by the Secretary to the Board and is open for inspection at Scottish Canal's head office during normal office hours.

Fixed assets

Details of movements in fixed assets during the year, including the revaluation of investment properties, are set out in notes 9 and 10 to the accounts.

Charitable and political contributions

Scottish Canals has not made any political contributions; however, we support the Scottish Waterways Trust, a charity which raises funds to connect individuals and communities with the built, natural and cultural heritage of Scotland's Canals.

Payment policy

Scottish Canals has agreed payment terms with its suppliers at the outset of a transaction and our policy is to comply with these terms subject to satisfactory performance and timely presentation of an accurate invoice. In addition we aspire to meet the Scottish Government policy target of payment within 10 working days of invoice and we concentrate on ensuring small suppliers are paid within this timescale subject to cash availability. At the end of the financial year the amount owed to trade suppliers was £4.8m.

Equal opportunities

Scottish Canals is committed to equality of opportunity and has policies and procedures in place to ensure continuous improvement and fully recognises its legal responsibilities, particularly in respect of race relations, age, sex and disability discrimination.

Employees

Scottish Canals places considerable value on engagement with its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting business performance. This is achieved through a process of regular team meetings allowing the two-way flow of information between management and employees and employee newsletters.

Scottish Canals has common terms and conditions of employment and single table bargaining with employee representatives through a National Forum for all employees. All employees are covered by an annual performance and development review process. The personal development of our people in their work is supported and underpinned by our reward strategy that links pay to job and skills growth and to individual performance.

Scottish Canals is committed to continually improving its performance in relation to Health and Safety. Our Health and Safety policy, supported by our strategy and action plan to put our policy into practice on a day-to-day basis. The policy is reviewed annually by the Board. Through an extensive safety awareness campaign, safety briefings and ongoing training, awareness of health and safety is being encouraged and increased among employees. We also recognise the importance of our health and safety commitments, not only to our employees, but also to our contractors, volunteers and visitors.

Audit

Audit Scotland has been appointed as the external auditors for Scottish Canals, for the year ended 31 March 2013 in accordance with Section 24(2) of the Transport Act 1962. However, Grant Thornton UK LLP as the previous external auditors of BW had also undertaken audit work in respect of the completion accounts at 30 June 2012 for British Waterways and the extraction of England & Wales assets to the Canal & River Trust.

At the time the report is approved, so far as each of the Board members is aware, there is no relevant audit information of which Scottish Canals' auditor is unaware, and each Board member has taken all the steps that ought to have been taken as a Board member in order to be made aware of any relevant audit information and to establish that Scottish Canals' auditor is aware of that information.

By order of the Board

N Christie
Secretary to the Board

Corporate Governance Statement

As Accountable Officer and Chief Executive with effect from 2 July 2012, I have responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Scottish Canals' policies, aims and objectives whilst safeguarding public funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me.

As Accountable Officer I have specific responsibility to:

— ensure the propriety and regularity of Scottish Canals' finances and that there are sound and effective arrangements for internal control and risk management;

— ensure that the resources of Scottish Canals are used economically, efficiently and effectively and that appropriate arrangements are in place to secure Best Value;

— ensure compliance with relevant guidance issued by Scottish Ministers, in particular the Scottish Public Finance Manual (SPFM);

— sign the annual accounts and associated governance statements;

— ensure that the Executive Directors have completed satisfactory assurance statements.

In addition I have a statutory duty to obtain written authority from the Chair of the Board before taking any action which he considers would be inconsistent with the proper performance of the Accountable Officer functions.

Compliance

Throughout the financial year and up to the date of approval of the Annual Report and Accounts, Scottish Canals developed its arrangements in line with the draft Financial Memorandum by the Scottish Ministers. From July 2012 and as a newly formed public body in Scotland, a new Financial Framework was required and this was agreed in June 2013. In addition Scottish Canals continues to update its policies and procedures to reflect the requirements of the Scottish Public Finance Manual and the relevant sections of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010.

Code of Conduct

Scottish Canals has in place a Code of Conduct for Board Members, as approved by Scottish Ministers. In compliance with the Ethical Standards in Public Life, etc. (Scotland) Act 2000, Scottish Canals' Code of Conduct for Board Members, together with the Board Members' Register of Interests, is published on our website and available for inspection at the head office during normal office hours.

The Members of the Board

The Chair, Vice Chair and Board of Scottish Canals comprise five non-executive Board Members and the Chief Executive (see Members' biographies on pages 17 to 18) with effect from 2 July 2012 to the end of the financial year.

The role of the Board is to provide leadership, direction, support and guidance to ensure Scottish Canals delivers and is committed to delivering its functions effectively and efficiently and in accordance with the aims, policies and priorities of Scottish Ministers.

The Board has agreed a policy of requiring matters to be reported to the Board unless within the powers delegated by the Board. Reporting to the Board are the Executive Directors who have responsibility for the management of Scottish Canals, and the Board Committees detailed below.

With effect from 2 July 2012, the Board of Scottish Canals met monthly to the end of the financial year to review Scottish Canals' operational and financial performance, business strategy and risk management.

Remuneration Committee

The Remuneration Committee, which is chaired by Jon Hargreaves, comprises all the non-executive members.

The Committee determines the policy for the remuneration of the Chief Executive and the executive directors of Scottish Canals and approves the ongoing appropriateness of the remuneration policy and practices of Scottish Canals with access to external independent advice as it sees fit, taking into account directions from the Scottish Government and in line with the Scottish public sector pay policy.

Name	Board		Audit & Risk Committee		Remuneration Committee		Property & Commercial Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Jon Hargreaves	9	9	-	-	1	1	-	-
Geoff Aitkenhead	9	7	2	2	1	1	-	-
Tanya Castell	9	9	2	2	1	1	5	5
Steve Dunlop	9	9	-	-	-	-	-	-
Martin Latimer	9	8	2	2	1	0	5	5
Duncan Sutherland	9	8	-	-	1	1	5	5

Audit and Risk Committee

The Audit and Risk Committee, chaired by a non-executive member with a financial services background and extensive risk and regulatory expertise, Tanya Castell, comprises two other non-executive members: Geoff Aitkenhead and Martin Latimer.

The Committee reviews the financial reports of Scottish Canals and considers the results of the Auditors' examination and review of the financial statements. It meets with management and with internal and external auditors to review the effectiveness of internal controls and business risk management. BDO LLP UK was appointed internal auditors for Scottish Canals from 1 March 2013. The Committee adheres to the requirements of the Audit Committee Handbook.

Property and Commercial Committee

The Property and Commercial Committee, chaired by a non-executive member with a property development and regeneration background, Duncan Sutherland, comprises two other non-executive Members: Martin Latimer and Tanya Castell. The Committee provides a non-executive strategic oversight of the property and commercial business of Scottish Canals including advice, recommendations and reports to the Board on acquisition, disposal, development and management strategies.

Framework Document

Scottish Canals operates within the accountability and governance framework set by Scottish Ministers to contribute to the Scottish Government's primary purpose of increasing sustainable economic growth. In addition Scottish Canals is required to comply with the Scottish Public Finance Manual (SPFM) which sets out the relevant statutory, parliamentary and administrative requirements unless amended by the Framework Document.

Risk Management

The SPFM requires all public bodies to maintain a risk management system which complies with its guidelines.

For effective continuity in the business, following separation, Scottish Canals has continued to operate under the well-established British Waterways approach to risk management. During the year Scottish Canals has reviewed and adapted this for its business needs. The risk management process is designed to consistently identify and prioritise the risks detrimental to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and create an action plan to manage the impact should they be realised or mitigated as appropriate. Each risk has a designated owner and actions are taken to improve or hold the position.

The principal risks to Scottish Canals during 2012/13 were:

Health & Safety – Scottish Canals is responsible for maintaining a large number of physical assets. There is a potential for injury to people or damage to property arising from the operation or failure of the infrastructure, particularly given that the canals are over 250 years old.

This has been mitigated by training and updating the Board, Executive and managers on Health and Safety legislation and individuals' responsibilities. Additionally a new Health and Safety Policy, Strategy and Action Plan was developed and approved by the Board.

People – Scottish Canals' people are critical to its success and the risk is that the business does not collectively have the skills and experience, particularly with an ageing workforce and certain key man roles, to deliver its strategy.

This has been mitigated by succession planning for all levels of staff throughout the organisation.

Business infrastructure – following the separation of Scottish Canals from BW in England & Wales, the organisation no longer had applicable systems and processes tailored to the size of the business. This highlighted a potential risk that the business could not be effectively managed and that there were inappropriate internal controls.

This has been mitigated by the introduction of new information technology for Finance, Infrastructure Asset Management and Human Resources. The implementation of these new systems from source to operation was six months and it is a credit to all staff in these areas that they were implemented effectively to complete the day to day transactional processing, enable management reporting and support decision making. An ongoing task is the development of new procedures manuals to complement the new systems.

Corporate governance – another impact of the structural change was the need to ensure that the governance framework was appropriate and complete for the new organisation; the risk being that without clear policies and procedures, the internal business controls could be inadequate.

This has been mitigated by applying the original British Waterways policies, processes and procedures and initiating an eighteen month programme to review every policy, procedure, process document, guidance note and standing order from BW. This is a resource intensive process to create a suite of documents for operational management for all areas of the business suitable for the size of Scottish Canals. The progress of the programme is reported to the Audit & Risk Committee on an ongoing basis.

Assurance – with the restructuring of the organisation, the old in-house internal audit team no longer existed in Scotland, so there was a risk that weaknesses in the control framework might not be identified in a timely manner.

This has been mitigated by the appointment of a new internal audit team. Due to the size of the organisation Scottish Canals tendered this work and appointed BDO UK LLP as internal auditor. From 1 March 2013, BDO is establishing a programme of internal audit review, initially for one year.

Review of effectiveness of internal control

It is to be expected that it can take time for a new organisation to embed new controls and procedures in the first year of operation especially with new systems, new ways of working and the retirement of key personnel. The internal control framework places reliance on:

— An organisational structure which clearly defines lines of authority and accountability.

— Financial and non-financial authority limits governing delegation of authority by the Board.

— Regular review by the Board and management of service and financial performance compared to plan.

— Development of procedure manuals for staff instruction and guidance and an eighteen month compliance programme including a self-assessment process.

— Project approval, monitoring and control processes specifically developed for capital expenditure.

— Investigation of material incidents to ensure lessons are learnt and recommended actions are tracked to ensure control improvements are made.

— A review of controls by Audit Scotland in January 2013 which highlighted areas for improvement in debtors control, segregation of duties in Human Resources and payroll processing and the expansion of the fixed asset identification and tagging.

The Board is committed to achieving high standards from its people. A code of conduct and ethics statement, which includes a whistleblowing procedure, is supported by high safety, customer care and recruitment standards, an appraisal process and a policy of unlocking the potential of staff.

Information and communication

For this first year, an annual budget was prepared and approved by the Board alongside corporate targets. Monthly operational reports and financial summaries together with regular forecasts are produced for review by the Board.

Scottish Canals maintains an ongoing dialogue at all levels within Scottish Government. The Chief Executive and Finance Director meet Scottish Government officials quarterly, the Chair and Chief Executive meet with officials from the Scottish Government to discuss a range of business issues twice per year and the Board meets the Minister annually to review key business results and future plans.

Board and Committee Performance

Formal annual evaluation processes are in place for all non-executive Board members including the Chair in accordance with the Code of Practice for Public Appointments in Scotland. Induction and ongoing training is provided for non-executive Board members.

Independence of Auditors

The Auditor General for Scotland is responsible to the Scottish Parliament for the audit of the financial statements of Scottish Canals. Audit Scotland has been appointed by the Auditor General for Scotland as the external auditors for Scottish Canals for the period 2012/13 to 2015/16 in accordance with Section 24(2) of the Transport Act 1962. However, Grant Thornton UK LLP, as the previous external auditors of BW, had also undertaken audit work in respect of the completion accounts at 30 June 2012 for British Waterways and the extraction of England & Wales assets to the Canal & River Trust.

Going Concern

Scottish Canals receives grant-in-aid from the Scottish Government to assist it in meeting its statutory obligations. It is anticipated that funding will continue at levels sufficient to enable Scottish Canals to continue in operational existence for the foreseeable future. A high level three-year plan was submitted to the Board in February 2013 and a new Corporate Plan for the next five to ten years is in preparation. The accounts are therefore prepared on a going concern basis.

Public Services Reform (Scotland) Act 2010

Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010 impose duties on the Scottish Government and listed public bodies to publish information on expenditure and certain other matters as soon as is reasonably practicable after the end of each financial year.

In accordance with the Public Services Reform (Scotland) Act 2010, Scottish Canals will publish the full information as required by the act on the Scottish Canals website (www.scottishcanals.co.uk) following the approval of the Annual Report and Accounts 2012/13. The report for this financial year will be available from July 2013.

Conclusion

As Accountable Officer I can confirm that I am fully content with the effectiveness of Scottish Canals' existing arrangements to ensure appropriate standards of corporate governance and effective risk management. I can also confirm that there were no significant control weaknesses or identified lapses in data security during the year ended 31 March 2013. In addition I have received written assurance from the previous Chief Executive that there were no significant control weaknesses for the period 1 April 2012 to 1 July 2012.

Steve Dunlop
Accountable Officer (Chief Executive)

Directors' Remuneration Report
Not audited

The BW Board prior to 1 July 2012
The terms of Board members' appointments were determined by the Secretary of State for Environment, Food and Rural Affairs and Scottish Ministers for the Scottish appointees including Board members' emoluments.

The Scottish Canals Board from 2 July 2012
The terms of Board members' appointments are determined by Scottish Ministers. They are for a fixed term of three years for the non-executive Board members, with the option for this to be extended by a further three year term. The contracts are terminable upon notice not exceeding six months. Board members emoluments are determined by Scottish Ministers. The Scottish Ministers agreed that the Chief Executive should be appointed to the Board initially for a twelve month period from 2 July 2012 but with scope for extending this by mutual agreement.

Details of Board members' fees are shown in the table on page 27.

Reporting to the Board but not Board members are Executive Directors who have responsibility for management and for the development of the business strategy and policies subject to approval and general oversight by the Board.

The Remuneration Committee
The Board of Scottish Canals has established a Remuneration Committee responsible for determining and reviewing the terms of employment and remuneration for executive directors in line with the Scottish public sector pay policy. The remuneration principles established for this senior group of employees provides the framework for remuneration policy within the business.

Remuneration policy
The Remuneration Committee's policy is to ensure that Scottish Canals' remuneration policy and remuneration packages are sufficient, taking account of Scottish Canals' financial position and the wider remuneration context in the business, to attract, retain and motivate a high quality team of Executive Directors to deliver the business strategy.

Basic Salary
Basic salaries are normally reviewed annually on 1 July and increases are determined by reference to comparative information and taking into account each Executive Director's contribution during the year.

Performance related pay
A discretionary feature of the Executive Directors' remuneration package is performance related pay which may be awarded annually by reference to corporate and personal performance during the year. Such payments are normally made on 1 July of the financial year following that in respect of which they were awarded. No payments were made for the financial year ending 31 March 2013 in accordance with the Scottish Government policy on public sector pay in Scotland.

Other benefits
The Executive Directors are entitled to a company car (or an allowance in lieu of a company car) and health insurance.

Pensions
All Executive Directors participate in the Waterways Pension Fund which provides a pension on a defined benefit basis based on gross salary less an amount equal to the Lower Earnings Limit for National insurance.

Notice period
Notice periods for Executive Directors are in accordance with their current terms and conditions and are required to give three months' notice.

External appointments for Executive Directors
The Board recognises that Executive Directors may be invited to become Non-executive Directors of other companies unconnected with Scottish Canals' activities and such appointments can broaden their knowledge and experience to the benefit of Scottish Canals. On the basis that it does not impact upon their executive duties, Directors are generally allowed to accept one such appointment and retain any resulting fee. In addition, Executive Directors may also serve as a Non-executive Director of joint venture companies. In such circumstances fees are not payable to Executive Directors as activities of this nature are part of the normal responsibilities of the Directors.

Summary of Directors' Remuneration 2012/13
Audited

The information provided below in respect of BW Board members complies with the provision of section 412 of the Companies Act 2006, as required by the Accounts Direction of Scottish Ministers.

	Date of expiry of current term	Contracted time (in days) commitment during the year	Total inc. salary, taxable benefits and bonus £	Taxable benefits £	2011/12 Total £
Tony Hales, Chairman	01/07/2012	up to 76	-	-	-
John Bridgeman, Vice Chairman	01/07/2012	up to 42	5,421	-	21,684
John Bywater	01/07/2012	up to 42	3,758	-	15,030
Rodney Green	30/04/2012	up to 42	1,378	-	16,113
Nigel Hugill	01/07/2012	up to 42	4,133	-	16,530
Pommy Sarwal (to 31/03/12)	-	up to 42	-	-	15,030
Maggie Carver (to 31/05/11)	-	up to 42	-	-	2,588
Eric Prescott (to 31/05/11)	-	up to 42	-	-	2,505
Jon Hargreaves	31/03/2014	up to 42	17,530	-	17,197
Duncan Sutherland *	25/09/2015	up to 20	7,304	-	16,030
Tanya Castell **	01/07/2015	up to 20	4,832	-	-
Geoff Aitkenhead **	01/07/2015	up to 20	2,904	-	-
Martin Lattimer **	01/07/2015	up to 20	5,590	-	-
Steve Dunlop ***	01/07/2015		143,231	9,737	155,929
Debs Hurst			68,722	3,209	-
Katie Hughes			76,672	7,610	-
David Lamont			73,320	6,945	-
			414,795	**27,501**	**278,636**

Tony Hales waived his £13,500 fee for the period 1 April 2012 to 1 July 2012 (2011/12 £54,000) and the money saved was, at his request, added to the support given to The Waterways Trust but ring-fenced to a specific community project.

* Duncan Sutherland's term finished on 24 September 2012 but was reappointed by Scottish Ministers from 25 September 2012.

** These Board members were appointed from 2 July 2012 however the fees are for the total year from 1 April 2012 as these members acted as a shadow Board during transition 1 April -1 July 2012.

*** Steve Dunlop is a member of the Board and the Chief Executive.

Bonus payments paid in 2012/13 relating to performance in 2011/12 are included for D Hurst £3,750, K Hughes £4,250 and D Lamont £3,850

Accrued pension

	Accrued pension at 31 Mar 2013 £pa	Accrued lump sum at 31 Mar 2013 £	Increase in accrued pension during the year £pa	Increase in accrued lump sum during the year £	Transfer value of accrued benefits 2012/13 £	Transfer value of accrued benefits 2012/13 £	Increase in transfer value over year net of Directors' contributions £
Steve Dunlop	12,346	-	2,994	-	202,416	137,899	55,872
Debs Hurst	12,557	-	1,746	-	188,414	146,179	36,909
David Lamont	2,689	-	1,295	-	35,348	16,546	13,496
Katie Hughes	3,469	-	1,365	-	31,977	17,176	9,196

Signed on behalf of the Board

N Christie
Secretary to the Board

Statement of Board Members' Responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the Auditors' Report on page 29, is made with a view to distinguishing the respective responsibilities of the Members and of the auditors in relation to the financial statements.

The Members are required to prepare financial statements for each financial year which reflect Companies Act requirements and give a true and fair view of the state of affairs of Scottish Canals and of its income and expenditure for that period. In preparing those financial statements, the Members are required to:

—select suitable accounting policies and then apply them consistently;

—make judgements and estimates that are reasonable and prudent;

—state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

—prepare the financial statements on a going concern basis unless it is inappropriate to do so.

The Members are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of Scottish Canals and to enable them to ensure that the financial statements comply with statute and any financial reporting requirements. They are also responsible for taking reasonable steps to safeguard the assets of the business and to prevent and detect fraud and other irregularities.

Independent Auditor's Report

to the Board Members of Scottish Canals, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Scottish Canals and its group for the year ended 31 March 2013 under the Transport Act 1962. The financial statements comprise the group and company Statements of Comprehensive Income, Statements of Financial Position, Statements of Cash Flows, Statements of Changes in Equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board Members and auditor

As explained more fully in the Statement of Members' Responsibilities, the Board Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and are also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board Members; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

— give a true and fair view in accordance with the Transport Act 1962 and directions made thereunder by the Scottish Ministers of the state of affairs of the group and of the company as at 31 March 2013 and of the deficit of the group and the company for the year then ended;

— have been properly prepared in accordance with IFRSs as adopted by the European Union; and

— have been prepared in accordance with the requirements of the Transport Act 1962 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In my opinion:

— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Transport Act 1962 and directions made thereunder by the Scottish Ministers; and

— the information given in the Board Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

— adequate accounting records have not been kept; or

— the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records; or

— I have not received all the information and explanations I require for my audit; or

— the Corporate Governance Statement does not comply with the UK Corporate Governance Code.

I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA
Assistant Director

Audit Scotland
4th Floor, South Suite, The Athenaeum Building
8 Nelson Mandela Place, Glasgow G2 1BT

3 July 2013

Scottish Canals Annual Report & Accounts 2012/13

Group Statement of Comprehensive Income (£m)

for the year to 31 March 2013	Note	2012/13	2011/12
Revenue	2	7.0	122.8
Government grant	3	11.4	57.7
Total revenue		**18.4**	**108.5**
Government return on capital employed subsidy		-	26.8
		18.4	**207.3**
Operating expenditure	4	(19.0)	(172.6)
Government return on capital employed charge		-	(26.8)
		(19.0)	**(199.4)**
Operating (deficit)/surplus		(0.6)	7.9
Share of profits and losses of joint ventures		-	(0.3)
Profit on sale of investment properties		-	1.7
Gain on revaluation of investment properties		0.5	62.7
Gain on disposal of joint ventures		-	7.9
Profit on sale of assets held for sale		-	0.4
(Deficit)/surplus before finance and taxation charges		**(0.1)**	**80.3**
Finance income	6	0.4	2.1
Finance costs	6	-	(5.1)
Surplus before taxation		**0.3**	**77.3**
Taxation credit/(charge)	7	0.4	(3.9)
Surplus for continuing operations after taxation		**0.7**	**73.4**
Loss arising on transfer of England & Wales operations to Canal & River Trust	8	(433.3)	-
(Deficit)/surplus for the year		**(432.6)**	**73.4**
Transfer to capital reserves		(0.5)	(59.8)
(Deficit)/surplus transferred (from)/to reserves		**(433.1)**	**13.6**

Legislation to transfer the assets, liabilities and operations in respect of England & Wales to the Canal & River Trust, a registered charity, has been passed by Parliament and the transfer took place on 2 July 2012. The operations in Scotland remain in BW, trading as Scottish Canals, funded by the financial resources made available from the Scottish Government. Further details of the effect of this transfer on the accounts of Scottish Canals are shown in note 8 to these accounts.

Group Statement of Other Comprehensive Income (£m)

	2012/13	2011/12
(Deficit)/surplus for the year	(432.6)	73.4
Actuarial loss on defined benefit pension plan	(9.0)	(26.8)
Effect of limit on recognisable surplus on defined benefit pension plan	(0.6)	-
Deferred tax associated with (loss) / gain on pension liability	(4.0)	5.4
DEFRA contribution to defined benefit pension plan	25.0	-
Total comprehensive (deficit) / surplus for the year	**(421.2)**	**52.0**

Company Statement of Comprehensive Income (£m)

for the year to 31 March 2013	2012/13	2011/12
Revenue	7.1	115.6
Government grant	11.4	57.7
Total revenue	**18.5**	**173.3**
Government return on capital employed subsidy	-	26.8
	18.5	**200.1**
Operating expenditure	(19.0)	(172.5)
Government return on capital employed charge	-	(26.8)
	(19.0)	**(199.3)**
Operating (deficit)/surplus	(0.5)	0.8
Share of profits of joint ventures	-	9.6
Profit on sale of investment properties	-	1.2
Gain on revaluation of investment properties	0.5	63.4
Profit on sale of assets held for sale	-	0.4
Surplus before finance and taxation charges	**-**	**75.4**
Finance income	0.4	2.1
Finance costs	-	(5.1)
Surplus for continuing operations before taxation	**0.4**	**72.4**

Taxation credit/(charge)		0.4	(3.5)
Surplus after taxation		**0.8**	**68.9**
Loss arising on transfer of England & Wales operations to Canal & River Trust		(438.9)	-
(Deficit)/surplus for the year		(438.1)	68.9
Transfer to capital reserves		(0.5)	(60.2)
(Deficit)/surplus transferred (from)/to reserves		**(438.6)**	**8.7**

Legislation to transfer the assets, liabilities and operations in respect of England & Wales to the Canal & River Trust, a registered charity, has been passed by Parliament and the transfer took place on 2 July 2012. The operations in Scotland remain in BW, trading as Scottish Canals, funded by the financial resources made available from the Scottish Government.

Company Statement of Other Comprehensive Income (£m)

		2012/13	2011/12
(Deficit)/surplus for the year		(438.1)	68.9
Actuarial loss on defined benefit pension plan		(9.0)	(26.8)
Effect of limit on recognisable deficit on defined benefit pension plan		(0.6)	-
Deferred tax associated with (loss)/ gain on pension liability		(3.8)	5.4
DEFRA contribution to defined benefit pension plan		25.0	-
Total comprehensive (deficit)/ surplus for the year		(426.5)	47.5

Group Statement of Financial Position (£m)

as at 31 March 2013	Note	2012/13	2011/12
Non-current assets			
Property, plant and equipment	9	6.8	75.5
Investment property	10	13.1	462.6
Intangible assets	11	-	2.5
Investments:			
in joint ventures and associates	12	2.7	33.8
Loan notes	14	-	39.8
Trade and other receivables	14	5.8	9.5
Deferred tax assets	7	0.1	19.7
Total non-current assets		**28.5**	**643.4**
Current assets			
Inventories	13	0.1	1.4
Loan notes	14	-	8.2
Trade and other receivables	14	8.0	32.6
Current tax receivable		-	0.7
Cash and cash equivalents	15	1.7	54.0
Total current assets		9.8	96.9
Non-current assets held for sale	10	-	5.5
Total assets		**38.3**	**745.8**
Current liabilities			
Trade and other payables	16	6.8	67.3
Provisions for liabilities	17	0.1	9.6
Total current liabilities		**6.9**	**76.9**
Non-current liabilities			
Other Payables	16	-	60.4
Deferred tax liabilities	7	0.1	70.5
Employee retirement benefits	19	-	82.2
Deferred capital grant	20	0.7	4.2
Total non-current liabilities		**0.8**	**217.3**
Total liabilities		**7.7**	**294.2**
Net assets		**30.6**	**451.6**
Capital and reserves			
Reserves		1.5	22.2
Retained earnings		29.1	429.4
Total equity		**30.6**	**451.6**

The accounts were authorised for issue on 3 July 2013

Dr Jon Hargreaves (Chairman)

Steve Dunlop (Chief Executive)

Scottish Canals Annual Report & Accounts 2012/13

Company Statement of Financial Position (£m)

as at 31 March 2013	Note	2012/13	2011/12
Non-current assets			
Property, plant and equipment	9	6.8	57.5
Investment property	10	13.1	473.3
Investments:			
in subsidiaries	12	-	11.5
in joint ventures and associates	12	2.4	38.1
Loan notes	14	-	39.8
Trade and other receivables	14	5.8	9.4
Deferred tax assets	7	0.1	19.7
Total non-current assets		28.2	649.3
Current assets			
Inventories	13	0.1	1.0
Loan notes	14	-	8.2
Trade and other receivables	14	8.0	29.3
Current tax receivable		-	1.2
Cash and cash equivalents	15	1.7	48.6
Total current assets		**9.8**	**88.3**
Non-current assets held for sale	10	-	5.5
Total assets		**38.0**	**743.1**
Current liabilities			
Trade and other payables	16	6.8	62.4
Provisions for liabilities	17	0.1	6.6
Total current liabilities		6.9	69.0
Non-current liabilities			
Other Payables	16	-	60.1
Deferred tax liabilities	7	0.1	70.8
Employee retirement benefits	19	-	82.2
Deferred capital grant	20	0.7	4.2
Total non-current liabilities		**0.8**	**217.3**
Total liabilities		**7.7**	**286.3**
Net assets		**30.3**	**456.8**
Capital and reserves			
Reserves		1.5	22.2
Retained earnings		28.8	434.6
Total equity		**30.3**	**456.8**

Scottish Canals Annual Report & Accounts 2012/13

Group Statement of Cash Flows (£m)

for the year to 31 March 2013	2012/13	2012/13	2011/12	2011/12
Surplus before taxation		0.3		77.3
Items not involving the flow of cash:				
Net finance (income)/cost	(0.4)		3.0	
Loss from joint ventures	0.1		0.3	
Gain on disposal of investment property	-		(1.7)	
Gain on revaluation of investment property	(0.5)		(62.7)	
Gain on disposal of joint venture	-		(7.9)	
Depreciation	0.4		5.3	
Amortisation of intangible assets	-		0.2	
Difference between pension charge and cash contributions	(0.3)		(4.7)	
Profit on sale of property, plant and equipment and non-current assets held for sale	-		(3.2)	
Release of deferred capital grant	-		(0.6)	
		(0.7)		(72.0)
Operating (deficit) / surplus before movements in working capital		**(0.4)**		**5.3**
Movements in working capital				
Increase in inventories	(0.1)		(0.1)	
(Increase)/decrease in receivables	(3.1)		19.6	
Increase/(decrease) in payables	4.2		(7.6)	
		1.0		11.9
Increase/(decrease) in provisions		0.1		(3.3)
Cash generated from operations		0.7		13.9
Interest paid	-		(2.3)	
Interest received	0.4		2.1	
Net cash flows from operating activities (discontinued operations)	3.9		-	
		4.3	-	(0.2)
Net cash flows from operating activities		**5.0**		**13.7**
Cash flows from investing activities				
Payments to acquire property, plant and equipment	(0.4)		(7.7)	
Payments to acquire investment property	(0.3)		(31.2)	
Proceeds from disposal of property, plant and equipment	-		3.4	
Proceeds from disposal of investment property and non-current assets held for sale	-		11.3	
Net proceeds from sale of joint venture investment	-		4.4	
Corporation tax reclaimed	-		8.7	
Net investments in associates and joint ventures	(2.4)		0.4	
Dividends from joint ventures	-		2.0	
Payments to acquire trade or business	-		(2.6)	
Net cash flows from investing activities (discontinued operations)	(1.7)		-	
Net cash flows from investing activities		**(4.8)**		**(11.3)**
Cash flows from financing activities				
Capital contribution from DEFRA	-		5.2	
Repayments of loans to National Loans Fund	-		(5.2)	
Deferred consideration from CRT	1.8		-	
Transfer of cash balances to CRT	(54.3)		-	
Net cash flows from financing activities		**(52.5)**		**-**
Net (decrease)/increase in cash and cash equivalents		**(52.3)**		**2.4**
Cash and cash equivalents at 1 April		54.0		51.6
Cash and cash equivalents at 31 March		**1.7**		**54.0**

Scottish Canals Annual Report & Accounts 2012/13

Company Statement of Cash Flows (£m)

for the year to 31 March 2013	2012/13	2012/13	2011/12	2011/12
Surplus before taxation		0.4		62.8
Items not involving the flow of cash:				
Net finance (income)/cost	(0.4)		3.0	
Gain on disposal of investment property	-		(1.2)	
Gain on revaluation of investment property	(0.5)		(63.4)	
Impairment of joint venture and subsidiary investments	-		6.5	
Depreciation	0.4		4.7	
Difference between pension charge and cash contributions	(0.3)		(4.7)	
Profit on sale of property, plant and equipment and non-current assets held for sale	-		(3.2)	
Release of deferred capital grant	-		(0.6)	
		(0.8)		(58.9)
Operating (deficit) / surplus before movements in working capital		**(0.4)**		**3.9**
Movements in working capital				
Increase in inventories	(0.1)		(0.2)	
(Increase)/decrease in receivables	(3.1)		19.6	
Increase/(decrease) in payables	4.2		(14.6)	
		1.0		4.8
Increase/(decrease) in provisions		0.1		(2.5)
Cash generated from operations		0.7		6.2
Interest paid	-		(2.3)	
Interest received	0.4		2.1	
Net cash flows from operating activities (discontinued operations)	1.6		-	
		2.0		(0.2)
Net cash flows from operating activities		**2.7**		**6.0**
Cash flows from investing activities				
Payments to acquire property, plant and equipment	(0.4)		(6.9)	
Payments to acquire investment property	(0.3)		(31.4)	
Proceeds from disposal of property, plant and equipment	-		3.4	
Proceeds from disposal of investment property and non-current assets held for sale	-		11.3	
Net proceeds from sale of joint venture investment	-		4.4	
Corporation tax reclaimed	-		8.6	
Net investments in associates and joint ventures	(2.4)		(2.0)	
Dividends from subsidiaries and joint ventures	-		9.7	
Net cash flows from investing activities (discontinued operations)	(1.1)		-	
Net cash flows from investing activities		**(4.2)**		**(2.9)**
Cash flows from financing activities				
Capital contribution from DEFRA	-		5.2	
Repayments of loans to National Loans Fund	-		(5.2)	
Deferred consideration from CRT	1.8		-	
Transfer of cash balances to CRT	(47.2)		-	
Net cash flows from financing activities		**(45.4)**		-
Net (decrease)/increase in cash and cash equivalents		**(46.9)**		**3.1**
Cash and cash equivalents at 1 April		48.6		45.5
Cash and cash equivalents at 31 March		**1.7**		**48.6**

Scottish Canals Annual Report & Accounts 2012/13

Group Statement of Changes in Equity for the Period

	Retained earnings				Reserves			
	Realised capital reserve £m	Investment property revaluation reserve £m	Revenue reserve £m	**Total retained earnings £m**	Unrealised capital reserve £m	Capital contribution £m	**Total reserves £m**	**Totals £m**
Balance at 1 April 2011	236.3	190.0	(48.9)	**377.4**	4.1	12.9	**17.0**	**394.4**
Surplus for the year			73.4					
Pension actuarial loss			(21.4)					
Total comprehensive surplus for the year	-	-	52.0	**52.0**	-	-	**-**	**52.0**
Net transfer between reserves shown on income statement:								
Property revaluation movement	-	54.9	(54.9)	**-**	-	-	**-**	**-**
Profits on sale of property	4.9	-	(4.9)	**-**	-	-	**-**	**-**
Net transfer	4.9	54.9	(59.8)	**-**	-	-	**-**	**-**
Other transfers between reserves:								
Cash transfer to revenue reserve	(5.0)	-	5.0	**-**	-	-	**-**	**-**
Realisation of prior years' property revaluation	6.3	(6.3)	-	**-**	-	-	**-**	**-**
Receipt from DEFRA	-	-	-	**-**	-	5.2	**5.2**	**5.2**
Balance at 31 March 2012	242.5	238.6	(51.7)	**429.4**	4.1	18.1	**22.2**	**451.6**
Balance at 1 April 2012	242.5	238.6	(51.7)	**429.4**	4.1	18.1	**22.2**	**451.6**
Surplus for the year			0.7		-	-	**-**	**0.7**
Actuarial loss on defined benefit pension plan			(9.0)		-	-	**-**	**(9.0)**
Effect of limit on recognisable deficit on defined benefit pension plan			(0.6)		-	-	**-**	**(0.6)**
Deferred tax associated with movements on pension liability			(3.8)		-	-	**-**	**(3.8)**
DEFRA contribution to defined benefit pension plan			25.0		-	-	**-**	**25.0**
(Loss)/surplus arising on transfer of England and Wales operations to Canal & River Trust	(234.1)	(232.5)	54.0		(4.1)	(16.6)	**(20.7)**	**(433.3)**
Total comprehensive (deficit)/surplus for the year	(234.1)	(232.5)	66.3	**(400.3)**	(4.1)	(16.6)	**(20.7)**	**(421.0)**
Net transfer between reserves:								
Property revaluation movement	-	0.6	(0.6)	**-**	-	-	**-**	**-**
Profits on sale of property	0.5	-	(0.5)	**-**	-	-	**-**	**-**
Realisation of prior years' property revaluation	0.9	(0.9)	-	**-**	-	-	**-**	**-**
Balance at 31 March 2013	9.8	5.8	13.5	**29.1**	-	1.5	**1.5**	**30.6**

Note: All changes in equity above are net of tax.

Company Statement of Changes in Equity for the Period

	Retained earnings				Reserves			
	Realised capital reserve £m	Investment property revaluation reserve £m	Revenue reserve £m	**Total retained earnings £m**	Unrealised capital reserve £m	Capital contribution £m	**Total reserves £m**	**Totals £m**
Balance at 1 April 2011	245.8	179.1	(37.9)	**387.0**	4.1	12.9	**17.0**	**404.0**
Surplus for the year			59.3					
Pension actuarial loss			(21.4)					
Total comprehensive surplus for the year	-	-	37.9	**37.9**	-	-	**-**	**37.9**
Transfers between reserves								
Property revaluation movement	-	55.6	(55.6)	**-**	-	-	**-**	**-**
Profits on sale of property	4.6	-	(4.6)	**-**	-	-	**-**	**-**
Dividends received from joint ventures and subsidiaries	-	-	9.7	**9.7**	-	-	**-**	**9.7**
Cash transfer to revenue reserve	(5.0)		5.0	**-**	-	-	**-**	**-**
Realisation of prior years' property revaluation	5.8	(5.8)	-	**-**	-	-	**-**	**-**
Receipt from DEFRA	-	-	-	**-**	-	5.2	**5.2**	**5.2**
Balance at 31 March 2012	251.2	228.9	(45.5)	**434.6**	4.1	18.1	**22.2**	**456.8**
Balance at 1 April 2012	251.2	228.9	(45.5)	**434.6**	4.1	18.1	**22.2**	**456.8**
Surplus for the year			0.8		-	-	**-**	**0.8**
Actuarial loss on defined benefit pension plan			(9.0)		-	-	**-**	**(9.0)**
Effect of limit on recognisable deficit on defined benefit pension plan			(0.6)		-	-	**-**	**(0.6)**
Deferred tax associated with loss on pension liability			(3.8)		-	-	**-**	**(3.8)**
DEFRA contribution to defined benefit pension plan			25.0		-	-	**-**	**25.0**
Loss arising on transfer of England and Wales operations to Canal & River Trust	(242.8)	(222.8)	47.4		(4.1)	(16.6)	**(20.7)**	**(438.9)**
Total comprehensive surplus/(deficit) for the year	(242.8)	(222.8)	59.8	**(405.8)**	(4.1)	(16.6)	**(20.7)**	**(426.5)**
Net transfer between reserves:								
Property revaluation movement	-	0.6	(0.6)	**-**	-	-	**-**	**-**
Profits on sale of property	0.5	-	(0.5)	**-**	-	-	**-**	**-**
Realisation of prior years' property revaluation	0.9	(0.9)	-	**-**	-	-	**-**	**-**
Balance at 31 March 2013	9.8	5.8	13.2	**28.8**	-	1.5	**1.5**	**30.3**

The realised capital reserve includes the value of profits arising from the sale of property and other property rights and the realisation of property revaluation gains of previous years, net of corporation tax. The investment property revaluation reserve includes unrealised gains on investment property, net of deferred tax. The unrealised capital reserve includes the excess of the fair value of assets acquired on acquisition of a business over the fair value of the consideration paid. Capital contributions in 2011/12 were from DEFRA to enable BW to repay National Loans Fund loans.

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Notes relating to the accounts

Accounting policies

Basis of preparation

On 14 October 2010 the UK Government announced its intention to form a new charity to care for the waterways under British Waterways' (BW) control in England & Wales. Following a public consultation on the plans legislation has been enacted to transfer the assets and liabilities and operations in respect of England & Wales to the Canal & River Trust on 2 July 2012. The Scottish Government decided that canals would remain in the public sector in Scotland. British Waterways will therefore continue to operate in Scotland, trading as Scottish Canals, and will continue to receive grant-in-aid funding from the Scottish Government. Further details of this transaction are provided in note 8 to these accounts.

Scottish Canals has sufficient financial resources together with long-term contracts with a number of customers and suppliers across different industries. As a consequence, the directors believe that Scottish Canals is well placed to manage its business risks successfully despite the current pressures on government grant and the uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that Scottish Canals has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

A summary of the principal accounting policies is set out below.

Basis of accounting

Under Section 24(1) (b) of the Transport Act 1962, Scottish Canals is required to prepare an annual Statement of Accounts in such form and containing such particulars as the Scottish Ministers, from time to time direct. A copy of the Accounts Direction, at present in force, is set out on page 89.

Accounting convention

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as adopted by the European Union (EU), with the following exception, required by the Accounts Direction issued by the Scottish Ministers:

The movement from retained profits to capital reserves is presented at the foot of the Income Statement. Non-operational items to be transferred to capital reserves include the value of profits arising from the sale of property and other property rights, the realisation of property revaluation gains, net of corporation tax and unrealised revaluation gains net of deferred tax.

Transfers are made from capital reserves in respect of non-operational unrealised property revaluation losses and permanent losses arising from investments in property joint ventures. A fully compliant IFRS Income Statement would present Profit after Tax as the final figure, the extra two lines presented by Scottish Canals are required by the Accounts Direction to show the non-operating element of the results transferred to the capital reserve and the on-going operational business being transferred to the income statement reserve.

The following issued IFRSs and interpretations as modified by the Accounts Direction were in issue but have not been adopted by the group in these financial statements:

— IFRS 9 Financial Instruments (effective for annual accounting periods beginning on or after 1 January 2015)

— IFRS 10 Consolidated Financial Statements (effective for annual accounting periods beginning on or after 1 January 2013)

— IFRS 11 Joint arrangements (effective for annual accounting periods beginning on or after 1 January 2013)

— IFRS 12 Disclosure of interests in other entities (effective for annual accounting periods beginning on or after 1 January 2013)

— IFRS 13 Fair Value Measurement (effective for annual accounting periods beginning on or after 1 January 2013)

— IAS 19 Employment Benefits (Revised June 2011) (effective for annual accounting periods beginning on or after 1 January 2013)

— IAS 27 (Revised), Separate Financial Statements (effective for annual accounting periods beginning on or after 1 January 2013)

— IAS 28 (Revised), Investments in Associates and Joint Ventures (effective for annual accounting periods beginning on or after 1 January 2013)

— Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (effective for annual accounting periods beginning on or after 1 July 2012)

BW anticipates that the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Scottish Canals and all entities controlled by Scottish Canals for the year ended 31 March 2013.

Subsidiaries are entities controlled by Scottish Canals. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of all group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions of subsidiaries are dealt with by the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the group accounting policies.

Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of the fair value of consideration transferred over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Business combinations completed prior to the date of transition to IFRS as modified by the accounts direction

The group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 April 2006 being the date of transition. Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS as modified by the Accounts Direction, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS as modified by the Accounts Direction, unless IFRS as modified by the Accounts Direction requires fair value measurement.

Interests in joint ventures and associates

The group has a number of contractual arrangements with other parties that represent joint ventures. These joint ventures are established through an interest in a company, partnership or other entity (a jointly controlled entity). The group recognises its interest in the entity's assets and liabilities using the equity method of accounting in accordance with the option in IAS 31 (Interests in Joint Ventures). The Notes to the Accounts disclose the names of joint ventures, the nature of the business and details of the shares held by Scottish Canals. The group's interest in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting.

Transactions eliminated

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates (and jointly controlled entities) are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates and joint ventures are eliminated against the investment in the associate or joint venture.

Investment in subsidiaries, associates and joint ventures in Scottish Canals' accounts

Non-current asset investments are stated at cost, less any provision for impairment.

Intangible assets

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the group.

Intangible assets are amortised over the expected life of the assets and the amortisation is charged to operating expenditure in the income statement.

Impairment

The carrying values of Scottish Canals' assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its net selling price and its value in use. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Intangible assets are tested for impairment if there are indicators of impairment and any impairment is charged to the income statement.

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Property, plant and equipment

a) Operational property

Waterways, reservoirs and towing paths were written off in the capital reconstruction on 1 January 1969 resulting from the Transport Act 1968.

Land, buildings, and structures capitalised are:

i) Purchases of land and the construction and major improvement of buildings.

ii) Additional assets and improvements to existing assets of Scottish Canals.

All other expenditure on improvements, repairs and renewals is charged to the income statement as it arises.

b) Property, plant and equipment

All expenditure on additions, improvements and replacements is capitalised.

Property, plant and equipment are stated at cost, net of depreciation and any provision for permanent diminution in value. Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value (if any), of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	40 years
Leasehold land and buildings	Over the term of the lease
Maintenance craft and floating plant	Between 10 and 25 years
Other plant and machinery	Between 5 and 10 years
Vehicles	5 years

Non-current assets classified as held for sale

Assets held for sale include assets that the group intends and expects to sell within one year from the date of classification as held for sale. The asset must be available for immediate sale in its present condition and its sale must be highly probable, have the appropriate level of authorisation by management and be at a price that is reasonable in relation to its current fair value.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Any impairment from this classification is charged to the income statement. Assets classified as held for sale are not subject to depreciation or amortisation.

Investment properties

Investment properties are classified as being held for long-term investment to earn rental income or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs, and thereafter are stated at fair value, which reflects market conditions at the balance sheet date. Our investment property portfolio includes land and buildings which are mature investments let at open market rents and also those which have potential for capital appreciation driven through wider regeneration activity and the planning process.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by end of owner-occupation, commencement of owner-occupation or where the asset meets the criteria for classification as held for sale i.e. immediately available for sale in its present condition, a programme for sale has been initiated and it is highly probable that a sale will occur within one year.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised on disposal or when the investment property is permanently withdrawn from Scottish Canals and no more future economic benefits are expected.

Gains or losses arising from the retirement or disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the period of retirement or disposal. Profit or loss on retirement or disposal is calculated with reference to the opening (preceding year end) book asset value.

Leased property, plant and equipment

a) Group as a lessee

All leases in are leases where substantially all the risks and rewards incidental to legal ownership of the asset have not been transferred by the lessor and are therefore classified as operating leases. Rentals payable are charged in the income statement on a straight line basis over the lease term.

b) Group as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and rewards incidental to legal ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

c) Grant of long lease over investment property

Scottish Canals has a statutory responsibility to maintain an interest in the future use of any land that is disposed of having issue onto or bordering the waterways. In situations where such disposals occur, the substance of the transaction is that the Group effectively disposes of its interest, but retains a reversionary interest, and reflects the resultant profit/loss at the point of the disposal.

Grants of long leasehold interests in land that transfer substantially all the risks and rewards of ownership are accounted as a sale of a finance lease with the proceeds and profit recognised on completion.

Inventories

Inventories are stated at the lower of cost or net realisable value on a first in first out basis.

Revenue

The Group recognises revenue on an accruals basis when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. Revenue is measured by reference to the fair value of consideration received or receivable by the group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of the risk incidental to ownership to the customer.

Group revenue comprises revenue of Scottish Canals and any subsidiary undertakings and excludes VAT and discounts.

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the Group and its business partners are reviewed to determine each party's respective role in the transaction.

Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgment. This may involve estimating the fair value of consideration before it is received. When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense.

a) Sale of goods

Revenues from the sale of goods are recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and costs incurred or to be incurred can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group.

i) Property sales. Revenue is generally recognised when title passes on completion of sales.

ii) Water sales. Sales of water supplied from our waterway network under a water sales agreement allow access to a continuous supply of water over the period contracted. These are invoiced in arrears and revenue is accrued on a straight line basis on the assumption that water is used at a constant rate.

(iii) Retail sales. Sales of goods from our waterway visitor centres and are recognised on a point of sales basis.

(iv) Other sales of goods. These include equipment for boaters such as lock and sanitary station keys, information booklets and other waterway related items. These are recognised either on a point of sales basis or an accruals basis depending on the type of revenue.

b) Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date. Stage of completion is measured by reference to the assessment of a suitably qualified expert as to the progress of the contracted work. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

i) Property rents. Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property and are therefore recognised on the same, straight-line basis. Incentives are provided to customers in various forms such as rent free periods or funding towards property fit-out costs and are usually offered on signing a new contract. Where such incentives are provided the fair value of the incentive is deferred and recognised in line with this accounting policy.

ii) Boat licences and mooring permits. These are invoiced in advance and revenue is recognised on an accruals basis over the term of the licence or permit.

iii) Wayleaves and easements. This is income received from third parties in return for access to Scottish Canals' land, for example underground pipes. These agreements are for fixed time periods, revenue is recognised on a straight line basis over the term of the agreement.

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iv) Maintenance agreements. This is income received from third parties (such as a local authority) to maintain an area of the waterway network. The revenue is recognised on a straight line basis over the term of the agreement reflecting the assumption that maintenance is performed at a constant rate over the term of the agreement.

v) Other income from third parties. This is income towards restoring and improving the waterways network. Revenue is recognised in proportion to the staged completion of the work being funded.

vi) Other income from services. These are recognised either at the time of provision of the service or on an accruals basis depending on the type of revenue.

c) Interest income
Revenue is recognised as interest accrues using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

d) Dividends
Revenue is recognised when the Group's right to receive payment is established.

Government grants

Government grants of a revenue nature are credited to the income statement when the conditions for the receipt of the grant have been complied with and there is a reasonable assurance that the grant will be received.

In previous years a proportion of the grant-in-aid received from governments has been allocated by BW for the purchase of plant, equipment and vehicles used for waterway operation and maintenance. The grant concerned is treated as deferred capital grant and released to the income statement over the expected useful lives of the assets concerned.

Return on capital employed

The British Waterways Board (Transfer of Functions) Order 2012, to transfer the assets, liabilities and operations in respect of England & Wales to the Canal & River Trust became effective on 2 July 2012. Before this point, DEFRA levied a return on capital employed dividend on BW in accordance with HM Treasury Consolidated Budgeting Guidance. The charge represented the notional cost to the taxpayer of having resources tied-up in public sector assets. The rate of return used up to 2 July 2012 was 7.1% (2010/11:7.1%) to represent the weighted average cost of capital in line with guidance from HM Treasury.

BW was targeted to break-even on revenue account therefore it did not earn sufficient profit to cover the cost of the return on capital employed dividend. The HM Treasury guidance required DEFRA to pay a subsidy to BW so that it can make the payment.

The Scottish Government does not impose a return on capital employed on Scottish Canals. As a result no further charges or subsidies will be reflected after 2 July 2012.

Taxation

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is provided on the full difference between the original cost of investment properties and their carrying amounts at the reporting date taking into account deductions and allowances which would apply if the properties concerned were to be sold.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited directly in equity or in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recognised in equity or other comprehensive income accordingly.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current and deferred tax assets against current and deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

a) Defined benefit pension scheme
Scottish Canals participates in the British Waterways Pension Fund, a funded defined benefit scheme that was open to all staff that commenced employment with BW before 1 April 2011. Following the British Waterways Board (Transfer of Functions) Order 2012, BW ceased to be the Principal Employer, but Scottish Canals remains a participating employer in the fund. Scottish Canals will continue to contribute the service contribution rate and those members of Scottish Canals' staff who wish to remain members of the Fund and accrue pension benefits under the scheme will continue to contribute a percentage of pensionable salary as determined by the Fund Actuary from time to time following actuarial valuation of the Fund. Scottish Canals has been relieved indefinitely from any obligation to make deficit repair contributions for the Scottish Canals share of the deficit on the BW Pension Fund shown in an Actuary's interim valuation of the BW Pension Fund as at Completion. Scottish Canals shall be liable to make a fair share and proportionate contribution, as determined by the Scheme Actuary from time to time, towards any deficit that exceeds the valuation deficit as at Completion, between one triennial valuation and the next, commencing from the valuation due to be carried out as at 31 March 2013.

In accordance with IAS 19 Employee Benefits, the service cost of pension provision relating to the period, together with the cost of any change in benefits relating to past service, is charged to the income statement. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the group's long-term expected return on assets (based on the market value of the scheme assets at the start of the period) are also included in the income statement. The finance income and charges included in the income statement for the pension scheme are calculated by assuming an estimated rate of return on the assets held by the scheme.

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet. Any difference between the expected return on assets and that actually achieved is recognised in the statement of comprehensive income along with differences which arise from experience or assumption changes in the period in which they occur.

Further information on the defined benefit pension arrangements is set out in Note 19 to the accounts.

b) Defined contribution pension plan
Scottish Canals participates in a defined contribution pension plan for employees that commenced employment after 31 March 2011. Scottish Canals pays contributions to Standard Life who administers the pension insurance plan. Scottish Canals has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

c) Other employee benefits
Post-employment benefits other than pensions are re-assessed annually at the reporting date by independent qualified actuaries using discount rates consistent with those required for pension liabilities under IAS19.

Finance costs

Finance costs of debt are recognised in the income statement over the term of such loans at a constant rate on the carrying amount.

Equity

Scottish Canals' status is a Public Corporation and has neither share capital or share premium within its equity. The equity of the company comprises a number of individual reserves, the nature and purpose of each of which is outlined in the Statement of changes in equity.

Deferred income - Dowries

BW received cash dowries to take on the asset maintenance and operational obligations of other public sector organisations. Each dowry is accounted for as deferred income and released to the income statement as revenue in line with the net operating expenditure in accordance with IAS18 Revenue. All dowries have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012.

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Financial instruments

Scottish Canals has interests in a number of property development joint ventures that are stand-alone businesses and are independently funded with external bank debt without recourse to Scottish Canals. Interest rate swaps and other derivative instruments are used by the joint ventures. The joint venture makes an assessment as to whether the interest payments on borrowings should be hedged having regard to the quantum of the debt, the period over which the borrowings are planned to be outstanding and the sensitivity of the project to changes in interest rates.

Financial instruments are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial assets and liabilities as a result of firm commitments are only recognised when one of the parties has performed under the contract.

a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

b) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are loans and receivables initially recognised at fair value and subsequently at amortised cost using the effective interest method. This represents the invoiced amounts, less adjustments for estimated revenue deductions such as rebates and cash discounts. Doubtful trade receivables provisions are established based upon the difference between the recognised value and the present value of estimated future cashflows with the estimated loss recognised in the income statement. When a trade receivable becomes uncollectible, it is written off against the doubtful trade receivables provisions.

c) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are initially recognised at fair value which represent the invoiced amounts, less adjustment for estimated revenue deductions and subsequently measured at amortised cost.

d) Deferred consideration

Where BW entered into a significant sale of assets or rights with deferred consideration terms, the fair value amount receivable is recognised in the income statement at the point of legal completion.

e) Borrowings

BW's borrowings were from the National Loans Fund; these were at a fixed rate of interest until the repayment date. BW also has borrowings from Port of London Properties. These were recognised initially at fair value net of transaction costs and subsequently at amortised cost under the effective interest method. All borrowings have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012.

Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the estimated value of the expenditures expected to be required to settle the obligation at the end of the relevant period.

Critical accounting estimates

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

a) Investment property valuations

The Group uses the valuation performed by its external valuers as the fair value of its investment properties as at 31 March. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. The directors review the valuations in the light of current market conditions each year. A summary of the results of this process is given in note 10 to these accounts.

b) Unagreed rent reviews

Where the rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon an estimation of the revised annual rent. The estimate is derived from knowledge of market rents for comparable properties.

c) Deferred tax

In calculating the deferred tax on the difference between the original cost of investment properties and their carrying amounts at the reporting date (see taxation policy above), the tax base cost has been calculated using historical external valuation data.

d) Accounting for dowries

BW received cash dowries from public bodies in respect of obligations to maintain assets and these amounts are held as deferred income. The Board regularly assessed whether the amount held was sufficient to meet the estimated future maintenance requirements of the individual assets to ensure an onerous contract does not exist. All dowries have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012.

e) Post-retirement benefits

The determination of the pension cost and defined benefit obligation of the group's defined benefit pension scheme depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. See note 19 for further details.

Judgements made in the process of applying accounting policies

The Group's significant accounting policies are stated above. Not all of these significant accounting policies require management to make difficult, subjective or complex judgements. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity and judgement involved in their application and their impact on the consolidated financial statements.

a) Revenue recognition

Scottish Canals often receives payments for right of access to its water space and surrounding areas which are classed as either revenue receipts or lease premiums accounted for in accordance with IAS 17, depending upon the circumstances of the particular agreement. For example, a contract that does not place any obligation to provide services to the third party in respect of the income received would be accounted as revenue on receipt, whereas a contract that is for a fixed period of time over which Scottish Canals will provide services is a lease premium accounted over the period of the lease. Judgement is often exercised in reviewing such contracts to ensure that the correct accounting is applied.

b) Investment properties

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by end of owner-occupation, commencement of owner-occupation or where the asset meets the criteria for classification as a non-current asset held for sale in accordance with IFRS 5 i.e. immediately available for sale in its present condition, a programme for sale has been initiated and it is highly probable that a sale will occur within one year. Judgement is required in assessing the evidence of owner-occupation.

c) Disposal of long leaseholds

Scottish Canals has preferred to grant long leasehold interests over its freeholds rather than make outright freehold sales in order to create covenanted obligations over waterside land use. Each grant of a long leasehold interest in land has been reviewed to ensure that substantially all the risks and rewards of ownership are transferred to the purchaser to enable the disposal to be classified as a disposal under a finance lease.

d) Non-current assets held for sale

Significant judgement has been required in assessing whether non-current assets qualify for treatment as a non-current asset held for sale. Judgement is required in determining the fair value less costs to sell, which has been evaluated based on our progress against the plan to sell non-current assets at the balance sheet date. Non-current assets are held at the fair value less costs to sell.

e) Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the counterparty and the status of any disputed amounts.

f) Joint ventures

Significant judgement has been required in assessing the carrying values of Scottish Canals' investments in joint ventures. Judgement is required in determining the fair value which has been evaluated based on recent accounts, access to joint venture board papers and discussions with our partners.

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Notes relating to the accounts

Revenue

Revenue disclosed in the income statement as analysed in accordance with IAS 18:

Operating revenue (£m)		2012/13	2011/12
Sale of goods			
Water sales		1.3	4.7
Retail sales		1.5	4.5
Rendering services			
Property rents		0.8	33.5
Wayleaves and easements		0.4	24.6
Moorings		0.4	10.7
Boat licences		0.6	17.8
Funding from third parties towards restoration		-	0.7
Funding from third parties towards waterway maintenance and repair		1.5	18.8
Other income from services		0.5	7.5
		7.0	**122.8**

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Notes relating to the accounts

Grants receivable from Central Government

Operating revenue (£m)		2012/13	2011/12
Grant receivable			
Grant received in year		-	50.5
Accrued grant at 1 April		-	(4.6)
Accrued grant at 31 March		-	0.5
		-	46.4
Deferred capital grant released to income statement		-	0.8
		-	47.2
Grant receivable from the Scottish Government			
Grant received in year		11.4	10.5
Total revenue grant accrued during the year		11.4	57.7
Grant receivable from the Scottish Government comprises:			
Grant in aid		10.0	10.5
Shovel ready projects		1.4	-
Release of capital grant		-	-
		11.4	10.5

There is £0.7m of deferred capital grant for assets purchased on the balance sheet. This is released to the profit and loss over the life of the assets and in 2012/13 was £22k.

4 Notes relating to the accounts Expenditure

(a) Operating expenditure in the year is analysed as follows (£m)	2012/13	2011/12
Major infrastructure works	1.7	23.9
Core waterway	9.0	69.5
Regeneration	3.4	15.8
Restoration	1.3	1.7
Other operating charges	3.6	61.7
Operating expenditure	**19.0**	**172.6**
Operating expenditure includes:		
Depreciation of property, plant and equipment	0.4	5.3
Profit on sale of operational non-current assets	-	(2.8)
Rents on leased properties*	0.3	2.2
Board members' emoluments **	0.2	0.1

* The above lease expenditure includes rents paid on a contingent basis but these are not deemed to be significant.
**Details of Board members' emoluments are disclosed in the Directors Remuneration Report on pages 26 to 28. Emoluments disclosed above exclude Executive Directors.

(b) Auditors' remuneration (£000)	2012/13	2011/12
Fees payable to the Company's auditor for the audit of the financial statements	20.0	142.4
Fees payable to the Company's auditor and its associates for other services	-	20.0
Audit of the financial statements of the Company's subsidiaries	-	17.8
	20.0	180.2

5 Notes relating to the accounts Staff costs

(a) The average number of persons (excluding Board Members) employed during the year was:	2012/13 Number	2011/12 Number
Total employed	247	1,750
Full-time equivalent	218	1,705

Scottish Canals employs seasonal staff during the period April – October each year.

(b) Total employment costs (excluding Board Members' emoluments stated in the Remuneration Report) were: (£m)	2012/13	2011/12
Wages and salaries	6.3	46.3
Social security costs	0.5	4.0
Defined benefit pension contributions	0.2	6.7
Defined contribution pension contributions (see below)	-	0.1
Total employment costs	**7.0**	**57.1**

Wages and salaries include £0.2m for holiday accrual. The defined pension contributions in 2012/13 was £17k.

6 Notes relating to the accounts
Net financing costs

Finance costs (£m)	2012/13	2011/12
Interest payable on loans	-	0.2
Interest on loans from DEFRA under Section 19 of the Transport Act 1962	-	1.9
Unwinding of discount on dowry liabilities	-	2.2
Net financing charge on pension fund assets and liabilities	-	0.8
Total finance cost	**-**	**5.1**
Finance income		
Bank interest receivable	0.4	0.5
Other interest receivable	-	1.6
Total finance income	**0.4**	**2.1**

7 Notes relating to the accounts
Taxation

Tax (£m)	2012/13	2011/12
Current tax	-	(0.5)
Deferred tax	(0.4)	4.4
	(0.4)	3.9

Corporation tax is calculated at 24 % (2012: 26 %) of the estimated assessable profits for the period.

The total (credit)/charge for the year can be reconciled to the profit per the income statement as follows: (£m)	2012/13	2011/12
Surplus for the financial year before tax	0.3	77.3
Tax at the UK corporate tax rate of 24 %	0.1	20.1
Tax effect of expenses that are not deductible in determining taxable profits	-	0.3
Current tax over provided in previous years	-	(0.5)
Deferred tax (over)/under provided in previous years	(0.4)	0.8
Tax effects of share of results of associates and joint ventures	-	(0.1)
Investment property differences between accounts and tax basis	(0.1)	(7.7)
Effect of tax rate change in deferred tax balances	-	(5.9)
Losses not recognised	0.1	(1.1)
Disposal / impairment of investment	(0.1)	(2.0)
Total tax (credit)/charge	**(0.4)**	**3.9**
Tax expensed to equity		
Defined benefit pension credit in respect of actuarial losses	-	(5.4)

Deferred Tax

The following are the major deferred tax liabilities/(assets) recognised by the Group and movements thereon in the current period.

Deferred tax at 31 March 2013 is calculated at 23% (2012: 24%). The 2012 Budget introduced a reduction in the main rate of corporation tax to 23% from 1 April 2013. This rate was substantially enacted in July 2012 and as such the deferred tax recorded at the balance sheet date has been recalculated at 23%.

In the 2012 Budget the Government also announced that the main rate of corporation tax would be further reduced to 22% with effect from 1 April 2014. However, as this future rate reduction had not been substantially enacted at the balance sheet date, it has not been reflected in these financial statements.

In the 2013 Budget the Government announced that the main rate of corporation tax would reduce further to 20% from 1 April 2015. Again, however, as this future rate has still to be enacted at the balance sheet date, it has not been reflected in these financial statements.

Group (£m)	Accelerated tax depreciation	Revaluation of land and buildings	Retirement benefit obligations	Tax losses	Other short term differences	Total
At 31 March 2012	4.1	65.0	(19.7)	-	1.4	50.8
Charge to income	-	-	4.0	-	-	4.0
At 2 July 2012	4.1	65.0	(15.7)	-	1.4	54.8
Transfer to CRT	(3.6)	(65.0)	15.7	-	(1.4)	(54.3)
Residual balance in Scottish Canals	0.5	-	-	-	-	0.5
Charge to income	(0.4)	-	-	(0.1)	-	(0.5)
At 31 March 2013	0.1	-	-	(0.1)	-	-

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

Group deferred tax balances (£m)		2012/13	2011/12
Deferred tax liabilities		0.1	70.5
Deferred tax assets		(0.1)	(19.7)
		-	50.8

At the balance sheet date, the Group has unrecognised tax losses carried forward of £1.6m.

Company (£m)	Accelerated tax depreciation	Revaluation of land and buildings	Retirement benefit obligations	Tax losses	Other short term differences	Total
At 31 March 2012	3.8	65.0	(19.7)	-	2.0	51.1
Charge to equity	-	-	4.0	-	-	4.0
At 2 July 2012	3.8	65.0	(15.7)	-	2.0	55.1
Transfer to CRT	(3.4)	(65.0)	15.7	-	(2.0)	(54.7)
Residual balance in Scottish Canals	0.4	-	-	-	-	0.4
Charge to income	(0.3)	-	-	(0.1)	-	(0.4)
At 31 March 2013	0.1	-	-	(0.1)	-	-

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

Company deferred tax balances (£m)		2012/13	2011/12
Deferred tax liabilities		0.1	70.8
Deferred tax assets		(0.1)	(19.7)
		-	51.1

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8 Notes relating to the accounts

Results from discontinued operations

On 14 October 2010 the government announced its intention to form a new charity to care for the waterways under BW's control in England & Wales. The British Waterways Board (Transfer of Functions) Order 2012, to transfer the assets, liabilities and operations in respect of England & Wales to the Canal & River Trust became effective on 2 July 2012 and the transfer took place leaving the Scottish Canals' assets and liabilities in the British Waterways Board entity now reporting wholly to the Scottish Government.

A Memorandum of Understanding for Financial Separation was agreed between the Scottish Government and DEFRA on 26 September 2011. The agreement is expressed as a separation of the Scottish assets and liabilities from the England & Wales net assets and refers to the BW Scotland balance sheet prepared under the Transparency agreement of 2008. The Memorandum of Understanding identifies the changes to that agreement for the purpose of separation.

The agreement has defined that the BW Scotland assets comprise all the property, equipment, vessels, waterways, structures and fixtures that are physically and geographically located in Scotland together with the BW Scotland commercial capital bank account. Other Scottish assets included on the BW Scotland balance sheet comprise all debtors, prepayments, and deferred expenditure that relate to the Scottish activities and assets. Similarly the BW Scotland balance sheet included liabilities for all creditors, accruals, deferred income and provisions that relate to the Scottish activities and assets.

Under the Transparency agreement the Scottish balance sheet had included a notional asset of £10m (yielding a fixed return of 7% pa) representing a stake in the BW national joint ventures. In addition, the BW Scotland balance sheet and accounts had not included any liability for its share of the BW Pension Fund valuation deficit, which at 31 March 2010 was £65m, nor had the BW Scotland balance sheet included any corporation tax, PAYE, National Insurance or VAT items, which had been held centrally within BW.

Cash receipts and payments relating to capital sales and purchases and capitalised additions to non-operational capital assets were funded through the BW Scotland commercial capital bank account. Prior to the transfer, all cash payments and receipts on revenue account were funded through the BW trading bank account, which was centralised and an integral part of the Shared Services Centre function in Leeds.

As at 31 March 2011 the BW Scotland balance showed a net asset position of £26.5m prepared under the Transparency agreement terms summarised above.

The agreed terms were that the notional asset of £10m above will be removed and further assets and liabilities will be added and removed from the BW Scotland balance sheet such that the net assets as shown in the completion accounts (prepared at the date of transfer) equalled £30m (the Agreed Net Assets) but as adjusted for various items noted in the Memorandum. Based on values at 31 March 2012 BW Scotland received a commitment from the Canal & River Trust to pay £10.975m to Scottish Canals in six equal instalments commencing six months after completion and at six monthly intervals thereafter until the third anniversary of completion. Interest shall accrue at the rate of 5% per annum (calculated on a semi-annual basis) on the balancing amount or any part thereof that is not paid to Scottish Canals from completion until the date when paid.

In addition Scottish Canals will be relieved indefinitely from any obligation to make deficit repair contributions for the Scottish Canals share of the deficit on the BW Pension Fund shown in an Actuary's interim valuation of the BW Pension Fund as at Completion. Scottish Canals shall be liable to make a fair share and proportionate contribution, as determined by the Scheme Actuary from time to time, towards any deficit that exceeds the valuation deficit as at Completion, between one triennial valuation and the next, commencing from the valuation due to be carried out as at 31 March 2013.

(£m)	Period 1 April to 1 July 2012	2011/12
Revenue	27.3	115.4
Government grant	5.9	47.2
Government return on capital employed subsidy	7.7	26.8
Total revenue	40.9	189.4
Expenditure	(33.2)	(153.8)
Government return on capital employed charge	(7.7)	(26.8)
	(40.9)	180.6
Operating surplus	-	8.8
Share of operating profits and losses of joint ventures	0.1	(1.0)
Profit on sale of investment properties	0.2	1.7
Revaluation of investment properties	0.1	62.6
Gain on disposal of joint venture	-	7.9
Profit on sale of assets held for sale	-	0.4
Surplus before finance and taxation charges	0.4	80.4
Finance income	1.2	2.1
Finance charges	(0.6)	(5.1)
Surplus before taxation	1.0	77.4
Taxation*	(0.4)	(3.9)
Surplus of discontinued operation after taxation	0.6	73.5

*Taxation reported for 2011/12 is for total BW Group including Scotland and cannot be apportioned. The amount attributable to Scotland is deemed to be nil or negligible.

Effect of disposal on the financial position of the Group	£m
Property, plant and equipment	(68.7)
Investment property	(454.6)
Intangible assets	(2.5)
Investments in joint ventures	(32.1)
Non-current trade and other receivables	(49.1)
Deferred tax asset	(15.7)
Total non-current assets	(622.7)
Inventories	(1.6)
Trade and other receivables	(38.7)
Current tax assets	(0.6)
Cash and cash equivalents	(54.3)
Non-current assets held for re-sale	(2.4)
Current trade and other payables	67.0
Provisions for liabilities	9.5
Non-current other payables	60.6
Deferred tax liabilities	70.1
Employee retirement benefits	65.5
Deferred capital grant	3.3
Net assets and liabilities	(444.3)
Consideration received	11.0
Net cash outflow	(433.3)

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Notes relating to the accounts

Property, plant and equipment

Group (£m)	Operational freehold land, buildings and structures	Operational long leasehold land and buildings	Craft, vehicles, plant and equipment	Assets under construction	Total
Costs					
At 1 April 2011	51.0	5.9	71.8	-	128.7
Transfers	(1.1)	(0.8)	1.2	-	(0.7)
Additions	2.9	0.5	5.7	-	9.1
Disposals	(0.1)	-	(2.0)	-	(2.1)
At 31 March 2012	52.7	5.6	76.7	-	135.0
Depreciation					
At 1 April 2011	15.9	1.0	40.4	-	57.3
Transfers	(1.0)	(0.6)	-	-	(1.6)
Provision for year	0.9	0.2	4.2	-	5.3
Disposals	-	-	(1.5)	-	(1.5)
At 31 March 2012	15.8	0.6	43.1	-	59.5
Net book value					
At 31 March 2012	36.9	5.0	33.6	-	75.5

Group (£m)	Operational freehold land, buildings and structures	Operational long leasehold land and buildings	Craft, vehicles, plant and equipment	Assets under construction	Total
Costs					
At 1 April 2012	52.7	5.6	76.7	-	135.0
Additions	0.1	-	0.2	0.1	0.4
Discontinued operations - movements	(0.3)	0.8	0.5	-	1.0
Discontinued operations - disposal	(46.1)	(6.4)	(71.6)	-	(124.1)
At 31 March 2013	6.4	-	5.8	0.1	12.3
Depreciation					
At 1 April 2012	15.8	0.6	43.1	-	59.5
Discontinued operations - movements	0.2	0.6	-	-	0.8
Discontinued operations - disposal	(14.2)	(1.2)	(39.8)	-	(55.2)
Provision for year	0.1	-	0.3	-	0.4
At 31 March 2013	1.9	-	3.6	-	5.5
Net book value					
At 31 March 2013	4.5	-	2.2	0.1	6.8

Company (£m)	Operational freehold land, buildings and structures	Operational long leasehold land and buildings	Craft, vehicles, plant and equipment	Assets under construction	Total
Costs					
At 1 April 2011	41.5	1.1	67.3	-	109.9
Transfers	(1.1)	(0.7)	1.1	-	(0.7)
Additions	1.2	-	5.4	-	6.6
Disposals	(0.1)	-	(2.0)	-	(2.1)
At 31 March 2012	41.5	0.4	71.8	-	113.7
Depreciation					
At 1 April 2011	14.5	0.6	39.5	-	54.6
Transfers	(1.0)	(0.6)	-	-	(1.6)
Provision for year	0.7	0.1	3.9	-	4.7
Disposals	-	-	(1.5)	-	(1.5)
At 31 March 2012	14.2	0.1	41.9	-	56.2
Net book value					
At 31 March 2012	27.3	0.3	29.9	-	57.5

Company (£m)	Operational freehold land, buildings and structures	Operational long leasehold land and buildings	Craft, vehicles, plant and equipment	Assets under construction	Total
Costs					
At 1 April 2012	41.5	0.4	71.8	-	113.7
Additions	0.1	-	0.2	0.1	0.4
Discontinued operations - movements	(0.3)	0.6	0.5	-	0.8
Discontinued operations - disposal	(34.9)	(1.0)	(66.7)	-	(102.6)
At 31 March 2013	6.4	-	5.8	0.1	12.3
Depreciation					
At 1 April 2012	14.2	0.1	41.9	-	56.2
Discontinued operations - movements	0.3	0.5	-	-	0.8
Discontinued operations - disposal	(12.7)	(0.6)	(38.6)	-	(51.9)
Provision for year	0.1	-	0.3	-	0.4
At 31 March 2013	1.9	-	3.6	-	5.5
Net book value					
At 31 March 2013	4.5	-	2.2	0.1	6.8

10 Notes relating to the accounts

Investment Property

Group (£m)	Freehold land, buildings and structures	Long leasehold land and buildings	Total
Valuation			
At 1 April 2011	372.8	7.3	380.1
Transfers	(4.0)	-	(4.0)
Additions	21.9	9.3	31.2
Disposals	(7.4)	-	(7.4)
Revaluation	63.2	(0.5)	62.7
At 31 March 2012	446.5	16.1	462.6
At 1 April 2012	446.5	16.1	462.6
Discontinued operations - movements	2.9	1.4	4.3
Discontinued operations - disposal	(437.1)	(17.5)	(454.6)
Additions	0.3	-	0.3
Revaluation	0.5	-	0.5
At 31 March 2013	13.1	-	13.1

Company (£m)	Freehold land, buildings and structures	Long leasehold land and buildings	Total
Valuation			
At 1 April 2011	382.9	7.0	389.9
Transfers	(4.0)	-	(4.0)
Additions	22.1	9.3	31.4
Disposals	(7.4)	-	(7.4)
Revaluation	63.9	(0.5)	63.4
At 31 March 2012	457.5	15.8	473.3
At 1 April 2012	457.5	15.8	473.3
Additions	0.3	-	0.3
Discontinued operations - movements	2.9	1.4	4.3
Discontinued operations - disposal	(448.1)	(17.2)	(465.3)
Revaluation	0.5	-	0.5
At 31 March 2013	13.1	-	13.1

In the income statement, the group has recognised £0.1m (2012: £29.0m) of rental income from investment properties and direct operating expenses of £nil (2012: £7.2m).

The net book value of investment properties at 31 March comprises:

Investment properties (£m)	Group		Company	
	2012/13	2011/12	2012/13	2011/12
Historic cost	7.3	189.4	7.3	198.3
Revaluation surpluses	5.8	273.2	5.8	275.0
	13.1	462.6	13.1	473.3

Investment properties were valued as at 31 March 2013 and as at 31 March 2012 on the basis of market value, by reference to recent market evidence of transactions for similar properties in accordance with the requirements of the International Valuation Standards and IFRS. The valuations are based on the information as to the title and tenure of each property and the leases and agreements granted as provided by BW. In the year ended 31 March 2013 all professional valuations for investment properties were performed by Gerald Eve LLP.

Non-current assets held for sale

(£m)	Group and Company	
	2012/13	2011/12
At 1 April	5.5	3.5
Discontinued operations - movements	(3.1)	-
Discontinued operations - disposals	(2.4)	-
Transfers from investment property	-	4.5
Transfers to investment property	-	(1.4)
Disposals	-	(1.1)
At 31 March	-	5.5

Non-current assets held for sale are all properties previously held for investment, valued at the lower of carrying amount and fair value less costs to sell. All non-current assets held for sale were in England and Wales and have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012. These assets were authorised and available for immediate sale in their present condition and their sale is highly probable (i.e. the sale is expected to occur within 12 months). The expected sales were at a price that is reasonable in relation to their current fair value.

Fair value gains and losses, less costs to sell, in respect of assets classified as held for sale was £nil (2012: £0.8m).

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Notes relating to the accounts

Intangibles

Group (£m)	2012/13	2011/12
Costs		
At 1 April	3.1	2.1
Additions	-	1.0
Discontinued operations	(3.1)	-
At 31 March	-	3.1
Amortisation		
At 1 April	0.6	0.4
Provision for the year	-	0.2
Discontinued operations	(0.6)	-
At 31 March	-	0.6
Net book value		
At 31 March	-	2.5

Intangible assets of £1.0m in 2011/12, £0.6m in 2010/11, £0.7m in 2007/08 and £0.8m in 2006/07 arose on the acquisition of inland waterway marina businesses. The Marina assets have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012.

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Notes relating to the accounts

Investments

Subsidiaries

Company (£m)	2012/13	2011/12
Investments in subsidiaries – Shares at cost less amounts written off		
At 1 April	11.5	13.8
Additions	0.4	2.4
Shares redeemed	-	(4.7)
Discontinued operations	(11.9)	-
At 31 March	-	11.5

Subsidiary undertakings

BW's subsidiary undertakings have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012.

Joint ventures

Company (£m)	2012/13	2011/12
Investments in joint ventures – Shares or partnership interest at cost less amounts written off		
At 1 April	38.1	92.7
Additions	2.4	-
Disposal of shares and partnership interests	-	(54.2)
Net movements in loans to joint ventures	-	(0.4)
Discontinued operations – movements in year	(1.3)	-
Discontinued operations	(36.8)	-
At 31 March	2.4	38.1

Joint ventures

Group (£m)	2012/13	2011/12
Investments in joint ventures		
At 1 April	33.8	79.9
Additions	2.4	-
Loans made	-	1.3
Loans repaid	-	(1.7)
Share of revenue losses	-	(0.3)
Dividends paid	-	(2.0)
Disposal of shares and partnership interests	-	(43.8)
Consolidation adjustment	-	0.4
Discontinued operations – movements in year	(1.4)	-
Discontinued operations	(32.1)	-
At 31 March	2.7	33.8

Group

The Group's share of assets and liabilities of joint ventures, which are included in the consolidated financial statements, are as follows:

Totals (£m)	2012/13	2011/12
Investments in joint ventures		
Current assets	0.5	35.4
Share of gross assets	0.5	35.4
Current liabilities	(0.2)	(1.2)
Non-current liabilities	-	(0.4)
Share of gross liabilities	(0.2)	(1.6)
Share of net assets	0.3	33.8

The group's share of income from joint ventures was £nil (2012: £21.8m) and share of operating expenses were £nil (2012: £18.2m).

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Investments in joint ventures and associated undertakings

The following information relates to those joint ventures and associated undertakings of the Group at the year-end whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group. All joint ventures and associated undertakings of the Group are unlisted and are registered and operate in the United Kingdom.

	Accounting period end date used in these accounts	Equity interest held %	Main activity
Joint ventures			
Edinburgh Quay Limited	31 December 2012	49 %	Property development

Scottish Canals invested in a new joint venture in 2012/13. In partnership with Igloo Regeneration Partnership (an Aviva Fund) Scottish Canals created Bigg Regeneration Limited Partnership. Its purpose was to purchase an industrial park extending to 247k sq. ft. on a 7.4 acre site in Port Dundas with the aim to raise rental income in future periods. The investment in Big Regeneration Limited Partnership is shown at cost in the Company and Group Balance Sheets in 2012/13. The first set of financial statements will be produced for the period ending 31 December 2013, after which the investment will be accounted for on the equity basis in the Group Balance Sheet.

13 Notes relating to the accounts
Inventories

Inventories (£m)	Group		Company	
	2012/13	2011/12	2012/13	2011/12
Raw materials	-	0.5	-	0.5
Work in progress	-	0.3	-	0.3
Finished goods and goods for resale	0.1	0.6	0.1	0.2
	0.1	1.4	0.1	1.0

14 Notes relating to the accounts
Trade and other receivables

(a) Current (£m)	Group		Company	
	2012/13	**2011/12**	**2012/13**	**2011/12**
Trade receivables	1.5	25.2	1.5	21.8
Less: Provision for impairment of trade receivables	(0.1)	(2.8)	(0.1)	(2.8)
Amounts owed from Group undertakings	-	-	-	0.8
Prepayments and accrued income	2.0	8.7	2.0	8.0
Deferred consideration agreements	3.7	0.1	3.7	0.1
Value added tax	0.9	1.0	0.9	1.0
Accrued grant-in-aid	-	0.4	-	0.4
	8.0	32.6	8.0	29.3

(b) Loan notes

Issued in part consideration for BW's interest in the Wood Wharf Joint Venture entities, loan notes amounting to £48.0m were subscribed from CWG (Wood Wharf) Holdings Limited on 18 January 2012 and are guaranteed by Canary Wharf Group PLC. These assets have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012.

(c) Non-current (£m)	Group		Company	
	2012/13	**2011/12**	**2012/13**	**2011/12**
Trade receivables	-	0.1	-	-
Deferred consideration agreements	5.8	9.4	5.8	9.4
	5.8	9.5	5.8	9.4

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The following trade receivables balances are past due but not impaired:

(£m)	31-60 days	61-90 days	Over 90days
Trade receivables	0.1	-	0.4

Included in the trade receivables balances past due but not impaired are nil (2012:10) individual debtors with material balances totalling £nil (2012: £1.8m).

Credit risk in respect of receivables is limited, due to the Group's customer base being large and diverse. Our historical experience of collecting receivables, supported by the level of defaults, is that the credit risk is low across all trade receivables. We do not consider fair values to be significantly different from their carrying values. Balances are considered for impairment on an individual basis and by reference to the extent they become overdue. The maximum credit risk exposure at the reporting date is £15.5m (2012: £144.1m), being the sum of cash and cash equivalents and trade and other receivables. The fair values are not materially different to carrying values.

15 Notes relating to the accounts
Cash and cash equivalents

(£m)	Group		Company	
	2012/13	**2011/12**	**2012/13**	**2011/12**
Cash at bank and in hand	1.7	54.0	1.7	48.6
Cash and cash equivalents in the statement of cash flows	1.7	54.0	1.7	48.6

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Notes relating to the accounts

Trade and other payables

(a) Current (£m)	Group		Company	
	2012/13	2011/12	2012/13	2011/12
Trade payables	4.8	14.1	4.8	12.9
Taxation and social security	0.2	1.4	0.2	1.4
Accruals	1.0	10.7	1.0	10.1
Deferred income	0.6	38.0	0.6	35.2
Other payables	0.2	3.1	0.2	2.8
	6.8	67.3	6.8	62.4

(b) Non-current (£m)	Group		Company	
	2012/13	2011/12	2012/13	2011/12
Deferred income	-	46.6	-	46.3
Other payables	-	13.8	-	13.8
	-	60.4	-	60.1

(c) Deferred income - dowries

Deferred income arose from the receipt of cash dowries received in respect of obligations to maintain assets acquired from other public bodies. These liabilities have transferred to the Canal & River Trust under the British Waterways Board (Transfer of Functions) Order 2012 which became effective on 2 July 2012.

Balance at 1 April (£m)	2012/13	2011/12
Current	2.9	2.4
Non-current	45.8	46.6
	48.7	49.0
Unwinding of discounting	-	2.2
	48.7	51.2
Release to income statement	-	(2.5)
Discontinued operations	(48.7)	-
Balance at 31 March	-	48.7
Balance at 31 March analysed as follows:		
Current	-	2.9
Non-current	-	45.8
	-	48.7

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Notes relating to the accounts

Provisions

Group 2012/13 (£m)	At 1 April	Discontinued operations - movements	Discontinued operations - disposal	Charged	At 31 March
Personal injury claims	1.3	-	(1.3)	0.1	0.1
Third party contractual claims	0.4	(0.1)	(0.3)	-	-
Redundant property	1.3	(0.1)	(1.2)	-	-
Canal infrastructure works	0.2	0.2	(0.4)	-	-
Maintenance obligations	1.8	-	(1.8)	-	-
BW Reinsurance	2.9	0.3	(3.2)	-	-
Other provisions	1.7	(0.4)	(1.3)	-	-
	9.6	(0.1)	(9.5)	0.1	0.1

Company 2012/13 (£m)	At 1 April	Discontinued operations - movements	Discontinued operations - disposal	Charged	At 31 March
Personal injury claims	1.3	-	(1.3)	0.1	0.1
Third party contractual claims	0.4	(0.1)	(0.3)	-	-
Redundant property	1.3	(0.1)	(1.2)	-	-
Canal infrastructure works	0.2	0.2	(0.4)	-	-
Maintenance obligations	1.8	-	(1.8)	-	-
Other provisions	1.6	(0.3)	(1.3)	-	-
	6.6	(0.3)	(6.3)	0.1	0.1

Scottish Canals holds all provisions as current, as they will be settled once the claim has been assessed. Unless stated below, it is anticipated that provisions will be settled within one year. Provisions are recognised when the conditions of IAS 37 have been met.

Personal injury claims

The provision relates to individuals who have suffered a personal injury whilst on or using Scottish Canals property, and represents BW's best estimate of the legal fees and compensation that could be incurred.

Third party and contractual claims

The provision relates to contracts Scottish Canals has entered into with third parties, and represents the additional costs to Scottish Canals that could be incurred upon completion of the contract. A provision balance of £9,869 is held at 31 March 2013 in respect of other third party claims.

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Notes relating to the accounts

Operating leases

Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties, motor vehicles and items of machinery. Future minimum rentals payable under non-cancellable operating leases are as follows:

Leasehold properties

(£m)	Group		Company	
	2012/13	2011/12	2012/13	2011/12
Not later than one year	-	0.7	-	0.6
After one year but not more than five years	-	1.5	-	1.2
After five years	-	18.6	-	6.3
	-	20.8	-	8.1

Leasehold plant and equipment

(£m)	Group		Company	
	2012/13	2011/12	2012/13	2011/12
Not later than one year	0.3	1.6	0.3	1.6
After one year but not more than five years	0.6	2.3	0.6	2.2
After five years	6.2	-	6.2	-
	7.1	3.9	7.1	3.8

Operating lease agreements where the Group is lessor

The Group leases out a section of the canals and track bed of the Forth & Clyde and Union under an operating lease. The future aggregate minimum rentals receivable under the non-cancellable operating lease are as follows:

(£m)	Group		Company	
	2012/13	2011/12	2012/13	2011/12
Not later than one year	0.1	23.6	0.1	24.3
After one year but not more than five years	0.5	89.7	0.5	91.8
After five years	6.1	2,496.4	6.1	2,528.1
	6.7	2,609.7	6.7	2,644.2

The above table includes rents received on a contingent basis but these are not deemed to be individually significant.

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19 Notes relating to the accounts

Pension and other post-retirement benefits

(£m)	Group and Company	
	31 March 2013	31 March 2012
(a) Pension liability	-	82.0
(c) Other post-retirement benefits	-	0.2
Employee benefits	-	82.2

(a) Pension Liability – defined benefit pension

On the transfer date, Scottish Canals ceased to be the Principal Employer but remains a participating employer in the pension fund formally known as the British Waterways Pension Fund and now known as the Waterways Pension Fund.

The last formal triennial valuation of the Scheme using the projected unit method was carried out as at 31 March 2010. The market value of the Scheme's assets (excluding members' additional voluntary contributions) at 31 March 2010 amounted to £274.9m and the value placed upon the benefits that had accrued to members, after allowing for the effect of future increases in their earnings on benefits earned prior to 1 April 2011 and for revaluation on benefits earned on and after 1 April 2011, was £340.5m. The Scheme was therefore £65.6m in deficit and 81 % funded on an on-going basis.

Scottish Canals continues to contribute the service contribution rate. The employer contribution rate was reviewed by the Scheme actuary as part of the valuation, and additional contributions are being paid to eliminate the deficit of £65.6m as at 31 March 2010 over a period of 20 years from 1 April 2011. The amounts of employer contributions agreed for the three-year period from 1 April 2011 are 14 % of members' pensionable earnings plus the additional contributions of £4.78m each year increasing by 2.75 % each 1 April. The employee contribution rate remains at 7 % of pensionable earnings from 1 April 2011. Employer contributions to the scheme in 2012/13 are estimated at £11.0m.

The next full actuarial valuation will be carried out at 31 March 2013 and the valuation report will be issued by the end of June 2014.

The valuation of the Scheme used for IAS19 disclosures has been based on the most recent actuarial valuation of the scheme at 31 March 2010 and updated to 31 March 2013 by Barnett Waddingham LLP, professionally qualified actuaries. The key assumptions used are as follows:

	31 March 2013	31 March 2012
Discount rate	4.60 %	4.60 %
Expected return on scheme assets	5.70 %	5.70 %
Rate of increase in salaries	3.00 %	3.00 %
Rate of increase for majority of pensions in payment and deferred pensions	2.60 %	2.25 %
Rate of CPI inflation	2.60 %	2.25 %
Tax free cash	Members are assumed to take 18 % of their pension as tax free cash	Members are assumed to take 18 % of their pension as tax free cash
Non-pensioner and pensioner mortality	105 % male, 110 % female of S1PXA CMI_2009 [1.25 %]	105 % male, 110 % female of S1PXA CMI_2009 [1.25 %]
Using the adopted mortality tables, the future life expectancy at age 63 is as follows:		
Male currently aged 43	25.6	25.5
Female currently aged 43	27.5	27.4
Male currently aged 63	23.7	23.6
Female currently aged 63	25.5	25.4

Amounts recognised in the income statement (£m)

	2012/13	2011/12
Current service cost	(0.6)	(6.7)
Interest cost	(1.2)	(18.9)
Expected return on assets	1.2	18.1
Past service costs	-	(0.1)
Discontinued operations	63.5	-
Total recognised in the income statement	62.9	(7.6)

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Amounts recognised in the Statement of Comprehensive Income and Expenditure (SOCIE) (£m)

	2012/13	2011/12
Actuarial (loss)/gain on assets	(5.2)	5.9
Actuarial loss on liabilities	(3.8)	(32.7)
Effect of limit on recognisable surplus on defined benefit pension plan	(0.6)	-
DEFRA contribution to defined benefit pension plan	25.0	-
Total gain/(loss) recognised in SOCIE before adjustment for tax	15.4	(26.8)

Amounts recognised in the balance sheet (£m)

	2012/13	2011/12
Fair value of assets	3.3	308.3
Assets not recognised due to limit on recognisable surplus	(0.6)	-
Present value of funded obligations	(2.7)	(390.3)
Deficit prior to adjustment for tax	-	(82.0)
Balance sheet asset/(liability)	-	(82.0)

The major categories of assets as a % of total assets are as follows:

		31 March 2013
		%
Equities		50.4
Index linked gilts		17.8
Corporate bonds		22.0
Property		7.7
Cash		2.1
Total		100.00

The expected return on assets is a weighted average of the assumed long-term returns for the various asset classes. Equity and property returns are developed based on the selection of an appropriate risk premium above the risk free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the Fund's holdings of these instruments.

The actual return on the Fund's assets over the year to the Review Date was a gain of £610,000.

Changes in scheme assets

(£m)	Scottish Canals	Discontinued Operations	Total	Total
	2012/13	2012/13	2012/13	2011/12
At 1 April	-	308.3	308.3	287.9
Expected return on scheme assets	1.2	4.6	5.8	18.1
Employer contributions	0.9	2.8	3.7	11.4
Member contributions	-	0.1	0.1	0.2
Benefits paid	(1.2)	(4.1)	(5.3)	(15.2)
Actuarial gain/(loss) on assets	2.4	(7.6)	(5.2)	5.9
DEFRA contribution	-	25.0	25.0	-
Change due to settlement of curtailments	-	(329.1)	(329.1)	-
At 31 March	3.3	-	3.3	308.3

Changes in scheme liabilities

(£m)	Scottish Canals	Discontinued Operations	Total	Total
	2012/13	2012/13	2012/13	2011/12
At 1 April	-	(390.3)	(390.3)	(346.9)
Current service cost	(0.6)	(1.9)	(2.5)	(6.7)
Current service costs funded by member contributions	-	(0.1)	(0.1)	(0.2)
Interest cost	(1.2)	(4.4)	(5.6)	(18.9)
Past service cost	-	(0.1)	(0.1)	(0.1)
Benefits paid and expenses	1.2	4.1	5.3	15.2
Actuarial loss	(2.1)	(1.7)	(3.8)	(32.7)
Change due to settlement of curtailments	-	394.4	394.4	-
At 31 March	(2.7)	-	(2.7)	(390.3)

Amounts for the current and previous four periods are as follows:

Year to 31 March (£m)	2013	2012	2011	2010	2009
Present value of defined benefit obligation	(2.7)	(390.3)	(346.9)	(373.6)	(299.2)
Fair value of scheme assets	3.3	308.3	287.9	278.1	226.2
Surplus/(deficit)	0.6	(82.0)	(59.0)	(95.5)	(73.0)
Experience (losses)/gains on Fund liabilities	(0.4)	(0.7)	16.2	(60.4)	16.3
Changes in assumptions used to value Fund liabilities	(3.3)	(32.0)	23.9	-	-
Experience adjustments on Fund assets	(5.2)	5.9	(1.5)	41.0	(54.1)

(b) Defined contribution pension plan

Scottish Canals operates a defined contribution pension plan with Standard Life for employees that commenced employment after 31 March 2011. The defined contribution plan is a pension plan under which Scottish Canals pays fixed contributions to Standard Life. Scottish Canals has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The amount of employer contributions is disclosed in note 5 on page 53. There were no material amounts owing or prepaid at 31 March 2013.

(c) Other post-retirement benefits

Under the terms of the 1962 Transport Act, employees transferring from the British Transport Commission to successor bodies were entitled to retain their reduced cost travel benefits. Successor bodies, including BW, were made responsible for procuring the benefits on their behalf.

The provision to cover the present value of the future cost of these benefits was transferred to the Canal & River Trust on 2 July 2012.

Movement in provision during the year

(£m)	2012/13	2011/12
Deficit in the scheme at 1 April	(0.21)	(0.19)
Expenses recognised in income statement	-	(0.01)
Contributions	-	0.02
Actuarial loss recognised in SOCIE	-	(0.03)
Discontinued operations	0.21	-
Provision at 31 March	-	(0.21)

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20 Notes relating to the accounts
Deferred capital grant

Group and Company (£m)	2012/13	2011/12
Balance at 1 April		
Government grants	3.0	3.8
Other grants	1.2	1.0
	4.2	4.8
Grant received during the year		
Other grants	-	0.2
Released to income statement		
Government grants	-	(0.8)
Discontinued operations		
Movements in year	(0.2)	-
Disposals	(3.3)	-
Balance at 31 March	0.7	4.2
Comprise:		
Government grants	0.7	3.0
Other grants	-	1.2
	0.7	4.2

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21 Notes relating to the accounts
Financial instruments

Details of Scottish Canals' statutory and financial framework are set out on pages 42 and 43. Scottish Canals is a public corporation and is not exposed to the same degree of financial risk faced by other business entities due to relatively low levels of debt. The treasury annually renews guarantees of bank overdraft facilities.

Scottish Canals has limited powers to invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities rather than being held to change by the risks facing Scottish Canals in undertaking its activities. Scottish Canals is not exposed to risks from currency fluctuations as business is conducted solely in Sterling.

Liquidity risk

Liquidity risk is defined as the risk that the Group could not be able to settle or meet its obligations on time or at a reasonable price. Liquidity and funding risks, related processes and policies are overseen by management. Scottish Canals manages its liquidity risk on a consolidated basis based on business needs, tax, capital or regulatory considerations. Management monitors the Group's net liquidity position through rolling forecasts on the basis of expected cash flows. The Group's cash and cash equivalents are held with major regulated financial institutions.

Scottish Canals maintains short term liquidity by judicious management of its cash deposits. Scottish Canals is not exposed to significant liquidity risk due to on going government funding and the ability to release cash as necessary from investment properties.

Interest rate risk

The main risk arising from Scottish Canals' financial instruments is interest rate risk. All financial instruments are subject to the prevailing UK floating rate of interest.

The vast majority of the financial assets held by Scottish Canals are cash equivalents (note 15) and Trade and other receivables (note 14), and the fair value is not materially different to carrying amount. Scottish Canals disposed of the Whisky Bond property in 2010/11. The agreed sale price is payable seven years after the sale date with the agreed sale price rising by RPI each year. This asset has been stated at fair value, with changes in value year on year being accounted for through the Income Statement.

The financial liabilities held by Scottish Canals are trade and other payables (note 16), and the fair value of these liabilities is not materially different from carrying values.

Credit risk

The credit risk in cash and cash equivalents is limited because the treasury investment policy has been defined as being restricted to counterparties that are specific UK registered banks which have Standard & Poor's long term ratings of at least A, with limits for deposit duration and amount for each bank. These policies are continually monitored and updated for the prevailing market conditions. The Group has no significant concentration of credit risk from its customers as exposure is spread over a large number of entities.

Capital Management

Scottish Canals is not permitted to receive long term borrowings.

Group financial assets and liabilities

2011/12 (£m)	Note	Floating interest rate	Fixed interest rate < 1 year	Fixed interest rate 2 – 5 years	Fixed interest rate > 5 years	Non interest bearing	Total
Financial assets – loans and receivables							
Trade and other receivables	14	-	8.2	48.8	-	24.4	81.4
Cash and cash equivalents	15	31.3	22.7	-	-	-	54.0
Total financial assets		31.3	30.9	48.8	-	24.4	135.4
Financial liabilities at amortised cost							
POLP* - loan (1 % + BoE base rate)	16	12.9	-	-	-	-	12.9
Trade and other payables	16	-	-	-	-	14.1	14.1
Total financial liabilities		12.9	-	-	-	14.1	27.0

* Port of London Properties Limited

2012/13 (£m)	Note	Floating interest rate	Fixed interest rate < 1 year	Fixed interest rate 2 – 5 years	Fixed interest rate > 5 years	Non interest bearing	Total
Financial assets – loans and receivables							
Trade and other receivables	14	-	3.7	5.5	-	4.3	13.5
Asset at fair value*	14	0.3	-	-	-	-	0.3
Cash and cash equivalents	15	1.7	-	-	-	-	1.7
Total financial assets		2.0	3.7	5.5	-	4.3	15.5
Financial liabilities at amortised cost							
Trade and other payables	16	-	-	-	-	6.8	6.8
Total financial liabilities		-	-	-	-	6.8	6.8

* This asset reflects the fair value of the income attributable to the Whisky Bond property which was disposed of in 2010/11

Company financial assets and liabilities

2011/12 (£m)	Note	Floating interest rate	Fixed interest rate < 1 year	Fixed interest rate 2 – 5 years	Fixed interest rate > 5 years	Non interest bearing	Total
Financial assets – loans and receivables							
Trade and other receivables	14	-	8.2	48.8	-	21.7	78.7
Cash and cash equivalents	15	28.6	20.0	-	-	-	48.6
Total financial assets		28.6	28.2	48.8	-	21.7	127.3
Financial liabilities at amortised cost							
POLP - loan (1 % + BoE base rate)	16	12.9	-	-	-	-	12.9
Trade and other payables	16	-	-	-	-	12.9	12.9
Total financial liabilities		12.9	-	-	-	12.9	25.8

2012/13 (£m)	Note	Floating interest rate	Fixed interest rate < 1 year	Fixed interest rate 2 – 5 years	Fixed interest rate > 5 years	Non interest bearing	Total
Financial assets – loans and receivables							
Trade and other receivables	14	-	3.7	5.5	-	4.3	13.5
Asset at fair value through P&L	14	0.3	-	-	-	-	0.3
Cash and cash equivalents	15	1.7	-	-	-	-	1.7
Total financial assets		2.0	3.7	5.5	-	4.3	15.5
Financial liabilities at amortised cost							
Trade and other payables	16	-	-	-	-	6.8	6.8
Total financial liabilities		-	-	-	-	6.8	6.8

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22 Notes relating to the accounts
Related party transactions

Scottish Canals has been funded in the year by DEFRA (a UK Government Department) and the Scottish Government. Prior to 02 July 2012 the BW Board was appointed by the Secretary of State for Environment, Food and Rural Affairs and, in respect of two members, by the Scottish Government. After 02 July 2012 all Scottish Canals Board members have been appointed by Scottish Ministers. During the year, Scottish Canals has had various transactions with these organisations and with other entities for which they would be regarded as the parent.

During the year the group and Scottish Canals has not entered into transactions with further related parties, other than joint ventures. There were no direct transactions with directors of Scottish Canals. Transactions entered into, and trading balances outstanding at 31 March with other related parties, are as follows:

Group and company 2012/13 (£m)	Services rendered to related party	Purchases from related party	Amounts owed (to)/ by related party
Related party			
Millennium Link Trust	0.1	0.1	-
Scottish Waterways Trust	0.1	-	-
The Waterways Trust	0.2	-	-

Group 2011/12 (£m)	Services rendered to related party	Purchases from related party	Amounts owed (to)/ by related party
Related party			
Entities sponsored by DEFRA	0.8	2.8	0.1
Joint ventures	1.5	2.5	(0.8)

Company 2011/12 (£m)	Services rendered to related party	Purchases from related party	Amounts owed (to)/ by related party
Related party			
Entities sponsored by DEFRA	0.8	2.8	0.1
Joint ventures	3.0	5.0	(1.6)
Subsidiaries	2.7	-	0.8

Dividends received from joint ventures and subsidiaries were £0.2m (2012: £9.7m).

Amounts owed to/by related parties include provisions and impairments of £nil (2012: £nil) in the group and £nil (2012: £12.6m) in the company.

Services rendered in the year includes bad debt provisions of £nil (2012: £nil) in the group and £nil (2012: £nil) in the company.

Scottish Canals' policy is to appoint Directors and senior members of staff to the Board of all group undertakings and other key partners to ensure that Scottish Canals' interests are properly represented.

Geoff Aitkenhead is an executive director of Scottish Water and the total of transactions with Scottish Water Group in 2012/13 was £69,000.

Compensation of key management personnel

Key management personnel are considered to be the non-executive board members and the executive directors. Details of their remuneration are disclosed in the Directors Remuneration Report on pages 26 to 28. In addition to the amounts shown in this report, Scottish Canals has paid £38,069 (2012: £162,000) employers national insurance contributions and £42,456 (2012: £275,000) employer pension contributions.

23 Notes relating to the accounts
Capital commitments

Scottish Canals does not have any capital commitments as at 31 March 2013.

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British Waterways Board
Direction by the Scottish Ministers

1. The Scottish Ministers, in accordance with section 24 of the Transport Act 1962 hereby give the following direction.

2. The statement of accounts for the financial year ended 31 March 2013 shall be prepared by The British Waterways Board, operating as Scottish Canals, in conjunction with Trustees on the Canal & River Trust and shall comprise:

(a) a Board Members' report;

(b) and for each of the Group (British Waterways and its subsidiaries) and for the Company (British Waterways Board) a:

— Statement of Comprehensive Income for the period;

— Statement of Financial Position;

— Statement of Changes in Equity for the period;

— Statement of Cash Flows.

(c) The annual accounts shall include notes to the accounts providing full information regarding the transfer of assets and liabilities to the Canal & River Trust, by virtue of the British Waterways Board (Transfer of Functions) Order 2012 and The British Waterways Transfer Scheme 2012 incorporating the Memorandum of Understanding for Financial Separation by the Disaggregation Oversight Committee dated 26 September 2011.

3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, cash flows for the financial year, and of the state of affairs as at the end of the financial year. Subject to the foregoing requirements, without limiting the information given, and subject to clarification of the application of the accounting and disclosure requirements of the Companies Act as given in Schedule 1 to this Direction, the annual accounts shall also, where applicable, comply with:

— International Financial Reporting Standards (IFRS) as adopted by the European Union;

— the accounting and disclosure requirements of companies legislation currently in force;

— the accounts disclosure requirements of the Financial Services Authority listing rules section 9.8; and

— any additional disclosure or accounting requirements that HM Treasury may issue from time to time in respect of public corporations' accounts.

4. The Statement of Financial Position shall be prepared under the historical cost convention modified by revaluation of investment properties.

5. The annual accounts shall include the information set out in schedule 2 to this Direction.

6. This Direction shall be reproduced as an appendix to the statement of accounts.

John Nicholls
A Senior Civil Servant in the Scottish Government, Transport Scotland.

Director of Aviation, Maritime, Freight and Canals.

On behalf of the Scottish Ministers

Dated 1 February 2013

Schedule 1

In the income statement, the profits and losses on non-operation property shall be transferred to capital reserves.

Schedule 2

The board members' report shall

— Contain the information which the Companies Act 2006 requires to be disclosed in the directors' report;

— Include a brief history of British Waterways including the statutory transfer of activities in England and Wales to the Canal and River Trust.

The annual accounts shall disclose

— the turnover and other operating income and costs analysed between British Waterways' subsidiary companies and British Waterways' share of joint ventures and associates;

— rents receivable for the year analysed as rents from investment property and rents from other property;

— interests during the year in other transport undertakings and other trade investments;

— government grants received during the year reconciled to income from grant shown in the Statement of Comprehensive Income;

— Information about British Waterways' borrowing powers including (if relevant) details of any loans at the year end, including details of maturity dates and interest rates;

— A Directors' Remuneration Report.