Annual Report & Accounts 2014/2015

Scottish Canals

British Waterways Annual Report & Accounts 2014/2015

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.

The Annual Report which is required to be 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 will be published separately.

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Directors' Report

Directors
The following directors have held office since 1 April 2014:

Non-executive directors	
Andrew Thin	(Chairman)
Duncan Sutherland	(resigned 3 December 2014)
Tanya Castell	
Geoff Aitkenhead	(Vice Chair)
Martin Latimer	
Executive directors	
Steve Dunlop	(Chief Executive Officer)
David Lamont	
Katie Hughes	
Richard Millar	
Claire Lithgow	

Statement of Directors' responsibilities
The directors are responsible for preparing the Directors' Report, Strategic Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The accounts are prepared in accordance with International Financial Reporting Standards as determined by the Direction by the Scottish Ministers. Under company law the directors must not approve financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the organisation and of the surplus or deficit of the organisation for that period. In preparing these financial statements, the directors 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 directors are responsible for keeping adequate accounting records that are sufficient to show and explain the organisation's transactions and disclose with reasonable accuracy at any time the financial position of the organisation and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for taking reasonable steps to safeguard the assets of the organisation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Future developments and employees
Details of the future development of the organisation and its employees are detailed within the Strategic Report.

Statement of disclosure to auditors
So far as the directors are aware, there is no relevant audit information of which the organisation's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the organisation's auditors are aware of that information.

On behalf of the Board

N Christie
Secretary to the Board
25 June 2015

Strategic Report

Principal activities and review of the business
The principal activities of Scottish Canals were the provision of canal moorings and licences, rental of land and property, retail services, tourism and regeneration.

Scottish Canals, the operating name of the British Waterways Board, has operated as a standalone public body in Scotland since July 2012. British Waterways Board was established by the Transport Act 1962 and is responsible to Transport Scotland, an agency of the Scottish Government.

Scottish Canals operate and manage 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. Scottish Canals receives grant-in-aid funding from the Scottish Government and makes a valuable contribution to the delivery of Scottish Government's strategic objectives.

Scottish Canals work with partners across the public, private and third sectors, to raise awareness of the contribution that the in-land 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 surpluses for reinvestment in the canals.

Scottish Canals has a clear vision of 'Safeguarding our heritage, building our future'. This is detailed further within its Corporate Plan and underpins the aims and objectives of its annual business plans.

Principal risks and uncertainties
There are a number of risks and uncertainties that can impact on the performance and reputation of Scottish Canals and Scottish Canals' approach to risk management, to mitigate these, is set out within the Corporate Governance Statement.

The directors consider the effective management of the health, safety and wellbeing of its employees, contractors and customers to be the principal risk to Scottish Canals. There is a robust regime in place to mitigate the potential impact of this risk.

The Caledonian and Crinan canals are classified by statute as commercial waterways (available for the commercial carriage of freight) and the Forth & Clyde and Union Canals are classified as cruising waterways (principally available for cruising, fishing and other recreational purposes). Whilst these canals are navigable and spot dredging is undertaken to remove any significant build-up of silt, under the current dredging programme, the directors believe that there is a risk that they may not meet the navigation parameters of these statutory classifications and, accordingly, they consider this a risk in terms of statutory and regulatory compliance.

The directors consider the effective management of medium-term working capital requirements to be the principal financial risk to Scottish Canals. They believe that there are currently sufficient measures in place to manage this risk.

The effective management of the canal assets has been identified as a key risk by the directors of Scottish Canals. The washing away of Cullochy Weir on the Caledonian Canal in March 2015, following the combination of heavy rain and once in 200 year climatic factors, required significant reinstatement works. A resilience strategy, underpinned by the emerging asset management plan, will be formulated by the directors to mitigate future risks in relation to asset management.

The principal uncertainty that the directors believe Scottish Canals currently faces continues to be in relation to the levels of future revenue and capital Grant-in-aid funding from Scottish Government. Whilst the directors recognise that funding has been provided for Scottish Canals' activities equivalent to current levels over recent previous years, the directors' uncertainty relates to the process by which resources are approved by Parliament for future years in line with the overall level of resources available to Scottish Government.

Analysis of development and performance
On 31 March 2015, Scottish Canals completed its second full financial year since becoming a stand-alone public body and, as well as being highly successful, the past 12 months also marked a major transition phase for the organisation.

In this financial year, Scottish Canals focused on the delivery of its vision of ‘Safeguarding our heritage, building our future’, which sets out the organisation’s ambitions to improve the lives of the people who live, work and do business along Scotland’s canals. With a focus on growth and sustainability, Scottish Canals rolled out its plans to stimulate demand for a range of water and land-based activities, both on and along the canals, whilst continuing to develop innovative products and services which people choose to buy and which generate income that can be reinvested into preserving the canals for future generations to enjoy.

One of the key highlights of 2014/15 was Home, the international launch of the Kelpies at Helix Park, a 350-hectare area of land between Falkirk and Grangemouth which has been transformed into a lagoon, wetland, event space, new canal extension and 27 kilometres of paths. The Kelpies were officially unveiled to the world during a two day event which attracted over 12,000 visitors, achieved world-wide recognition and showcased Scottish Canals as an exemplar of collaborative working to drive forward regeneration and stimulate economic activity as the organisation continues to contribute to Scotland’s economic, social and environmental prosperity.

Scotland’s canals now welcome over 22 million visits per year from cyclists, walkers, kayakers and boaters – many of whom travel to Scotland’s canals from Northern Europe and beyond. To support these visits, towpath improvement works were a significant focus for Scottish Canals in 2014/15. Through the leverage of third party funding over £3.5m of repairs across the towpath network were undertaken this year, to maintain the assets and ensure accessibility.

One of Scottish Canals’ greatest assets is the true flexibility of the waterways and how much they offer as unique venues and outdoor spaces that everyone can enjoy in many different ways; from traditional activities like boating and fishing to running, canoeing and cycling. The uniqueness of the canals was highlighted when one of the toughest swimming races in the UK took place on the Forth & Clyde Canal in March 2015. More than 80 elite athletes took on the challenge of the world’s first uphill swimming course in an event which Scottish Canals delivered in partnership with Red Bull, the Neptune Steps challenge. The event was the first of its kind to take place on the inland waterways and more than 1,700 people turned out on the day to spectate and engage with Scottish Canals.

During 2014/15, Scottish Canals continued to build its holiday cottage and barge portfolio and the launch of the Dutch barge, the John Hume, saw the return of tall-masted ships to the Glasgow branch of the Forth & Clyde Canal, for the first time in more than a century.

Through Scottish Canals’ commitment to generating income that can be reinvested back into the canal network, the organisation continues to protect the scheduled ancient monuments entrusted to its care.

Key performance indicators
Scottish Canals employs a comprehensive suite of key performance indicators (KPIs) across all areas of the organisation that help to measure and manage performance in the delivery of individual, operational, commercial and corporate goals.

Scottish Canals believe that key performance indicators are a useful tool to drive improvements in the key measures that are important to the organisation and also to help identify process issues that need to be addressed. As the organisation continues to grow and evolve, it remains committed to publishing those KPIs which are directly relevant to stakeholders on the corporate website whilst using the internal measures to drive continuous improvement and Best Value in processes, performance and operational delivery.

Throughout the course of the year, the Board and executive management team focused on revenue, operating expenditure and the targeted surplus for reinvestment as the primary financial KPIs. The % occupancy rates, portfolio performance yield and value of the share in joint ventures were the key performance measures for the estates and commercial activities of the organisation, whilst in terms of corporate reputation, there was close monitoring of media reach, online, customer and staff engagement to evaluate performance. KPI reporting is undertaken formally on a monthly basis by the executive management team and quarterly to the Board.

As at the financial year end, the full suite of operational KPIs, as reported to the Board, comprised 39 measures. Of these, 28 were classed as green, 4 as amber and the remaining 7 as red when applying a "RAG" status. The 7 red have not had a significant detrimental impact on performance and indeed as the internal reporting system has matured over the course of the year the executive management team is of the opinion that the baseline against which each of these has been set needs to be reviewed.

Operationally, maintaining average asset condition grade at "C" standard marked the achievement of a critical KPI; Scottish Canals also reduced its carbon emissions in 2014/15, down 40 tonnes year on year; and 4 new surface water connections were added to the canal network (compared to the target of 5) during the year.

Strategically, Scottish Canals has reviewed its approach to asset management and developed a system to prioritise and programme investment. The results of this will be published during 2015. Scottish Canals has worked with partners on the feasibility study and business case for the North Glasgow Integrated Water Management Programme. The development of the environmental strategy was undertaken and the strategy will be approved by the Board and rolled out during the course of the next financial year.

These operational and strategic targets were as detailed in the 2014/15 business plan, which is published on the Scottish Canals corporate website, www.scottishcanals.co.uk.

The current health and safety related suite of KPIs monitors RIDDOR, (incidents requiring reporting under injuries, diseases and dangerous occurrences regulations) lost time injury and near misses and has proven to be a useful tool as Scottish Canals continue to invest in protecting the health, safety and wellbeing of staff, customers and partners.

Environmental matters

Scottish Canals' environment is the physical world, common to everybody - including air, water, land, flora and fauna. Scottish Canals' principles address the whole of the environment and its interaction directly or through its business activities with it.

The canals are part of a working, living waterway network, used for navigation and general recreation and Scottish Canals is committed to integrating the needs of those who visit and use the network with the actions needed to conserve canalside wildlife and habitats.

While complying with legislation and regulation, Scottish Canals aim to continually improve performance and consistently achieve good practice – with the aim to be the acknowledged expert in achieving the most sustainable integration of the competing needs and uses of the waterways. Where judgments have to be made between competing resources and conflicting activities, Scottish Canals will take the long term and strategic view. In doing so it is presumed that this will favour the conservation of the environment.

At Scottish Canals, there is careful management of environmental impact, including reducing the use of non-renewable resources, minimising waste, conserving water resources, promoting biodiversity and the prevention of pollution. There is a commitment to the efficient and beneficial use of land resource, with conservation and enhancement of the unique waterway landscape and character.

Scottish Canals' policies, procedures and systems are under regular review to ensure that environmental practices and performance reflect any changes in business circumstances, relevant legal requirement and customer expectation. Scottish Canals use the principles of environmental management systems and measure environmental performance through objectives and targets including those within Corporate Social Responsibility Lead Indicators. Following the publication of the new Environmental Strategy in 2015, Scottish Canals will publicly report on progress on these Lead Indicators, ensuring that environmental performance is verifiable and auditable.

Scottish Canals is fully committed to promoting best practices amongst employees, contractors, suppliers, customers and partners and seek suppliers, contractors and partners with standards consistent with its own.

Employees

Scottish Canals places considerable value on engagement with its employees and has continued the 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 as a public sector body, complies with Scottish Government guidelines issued by the Pay Policy Unit and in 2014/15 agreed a two year pay deal with its employees.

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 Scottish Canals' staff in their work is supported and is underpinned by a reward strategy that links pay to jobs and skills. The up-skilling programme, developed in consultation with the Trades Unions, has provided a means to reward the lowest paid staff who undertake additional training and development. To date, over 130 staff have participated in this programme and developed additional skills in areas from sign language and training delivery to more operationally focused skills including plant and machinery and technical training such as stone masonry.

As at 31 March 2015, the workforce of Scottish Canals was comprised as follows:

	Total	Board*	Executive Directors	Senior Managers
Female	59	1	2	2
Male	223	3	3	5
	282	4	5	7

*excl Chief Executive Officer

Scottish Canals is committed to continually improving its performance in relation to health, safety and wellbeing, supported by a strategy and action plan to put the 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 continues to be encouraged and increased among employees and partners. Scottish Canals also recognise the importance of health and safety commitments, not only to employees, but also to contractors, volunteers and visitors.

Equality & diversity

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

Working with partners, Scottish Canals look to open up employment, training and development opportunities for all members of the communities through which the canals pass.

Results

The results for the year are set out on pages 19 to 48**.**

Scottish Canals recorded total comprehensive income for the year of £562,000 (2014: £7,000) and a surplus for the year of £472,000 (2014: deficit of £153,000). This surplus will be reinvested to help safeguard the future of the canals.

Grant-In-Aid (GIA) funding received from Scottish Government was £10 million (2014: £10 million), split as £8.3 million of revenue GIA and £1.7 million of capital GIA. This revenue GIA amounts to 43% of the total recorded revenue (2014: 54%).

In all, 2014/15 has been a productive year that not only showcased the breadth and scale of Scottish Canals' activity coupled with the innovation, enthusiasm and skills of the team, but also demonstrated sound business management and a commitment to continuous improvement. This has ensured that Scottish Canals is well-placed to deliver its ambitious plans for the future as it continues to contribute to the achievements of the Scottish Government.

Future developments

Scottish Canals has committed to a quality management system approach to its policies, procedures and processes to ensure that it is operating robust business systems, is achieving excellent value for money and is focused on delivery. The organisation has sound project management in place and a detailed analysis of inputs, outputs and longer term outcomes which are tracked via independent research. These are measured through a comprehensive set of KPIs which will continue to evolve and be reviewed by the Scottish Canals' Board on a regular basis.

Through partnership working and as clearly demonstrated through the commitment to the communities through which the canals flow, the aims and ambitions of Scottish Canals for the future will be underpinned by three strategic principles – growing public value, increasing sustainable income and empowering and motivating people.

Scottish Canals has delivered an excellent full year performance which is testament to the rigorous cost control measures now in place, the focus on the maximisation of income streams and a prudent approach to spending in particular over the last quarter, which will allow the Board and executive management team to make well informed spending decisions with regards to the surplus for reinvestment in to the new financial year.

The future development and performance of Scottish Canals will be largely determined by the success of commercial ventures, the ability to continue to invest in the future of the canal assets, and the continued support of its shareholder, Scottish Government.

Policy and practice on payment of creditors

Scottish Canals aims to pay all matured and properly authorised invoices relating to transactions with suppliers in accordance with contractual terms and conditions. With reference to the Scottish Public Finance Manual, Scottish Canals' Board of Directors have agreed that the Scottish Government guideline target of paying Creditors within 10 working days is not currently feasible given the pressures on working capital. Creditor days amounted to 43 (45 in the previous financial year). When discounting the negotiated preferential payment terms on a regeneration project the underlying creditor days for the year amounted to 21.

N Christie
Secretary to the Board
25 June 2015

Corporate Governance Statement

The Board has a collective 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.

As Accountable Officer and Chief Executive Officer, I am personally responsible for the duties specifically assigned to me including:

- ensuring the propriety and regularity of Scottish Canals' finances and that there are sound and effective arrangements for internal control and risk management;
- ensuring that the resources of Scottish Canals are used economically, efficiently and effectively and that appropriate arrangements are in place to secure Best Value;
- ensuring compliance with relevant guidance issued by the Scottish Ministers, in particular the Scottish Public Finance Manual (SPFM);
- signing the annual accounts and associated governance statements;
- ensuring 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.

Governance Framework

Throughout the financial year Scottish Canals operated under an organisational structure with clearly defined lines of authority and accountability and further developed this structure by implementing ***Scottish Canals Corporate and Operational Governance Framework*** to provide:

- assurance to the Scottish Government that Scottish Canals has in place an effective governance system, accountable to Scottish Ministers.
- transparency of the roles and responsibilities of the Board, Audit & Risk Committee and executive team to demonstrate a shared governance agenda across Scottish Canals to contribute to the achievement of the Scottish Government's Economic Strategy and National Performance Framework.
- assurance that the Board is focussed on ensuring effective strategic leadership.
- assurance that there is a fully empowered executive management team within Scottish Canals, able to maximise productivity within a robust strategic framework.

As at the year end the Board comprised four non-executive members, including the Chair and the Vice Chair, Duncan Sutherland having stepped down as a non-executive Board member with effect from 3 December 2014, and the Chief Executive Officer. It held eight Board meetings during the financial year to review Scottish Canals' operational and financial performance compared to plan, business strategy and risk management as well as high level of scrutiny of health and safety issues.

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

Reporting to the Board are the executive directors who have responsibility for the management of Scottish Canals, and the Audit & Risk Committee which scrutinises certain areas of activity in greater depth and makes recommendations to the Board as detailed below. With the adoption of Scottish Canals Corporate and Operational Governance Framework the non-executive strategic oversight of the property and commercial business of Scottish Canals, previously undertaken by the Property & Commercial Committee, and the matters previously considered by the Remuneration Committee, became matters for consideration by the Board.

Audit & Risk Committee
The Audit & Risk Committee, chaired by Tanya Castell, a non-executive member with financial services background and extensive risk and regulatory expertise, comprises one other non-executive member: Geoff Aitkenhead, Martin Latimer having stepped down as a Committee member with effect from 19 September 2014. David Watt was appointed as an independent non-executive Committee member with effect from 19 September 2014 bringing a wealth of public sector and audit experience and expertise. Since his appointment he has attended all Committee meetings held in the financial year.

The Committee reviews the financial report of Scottish Canals and considers the results of the Auditor's opinion and review of the financial controls. It meets with management and with internal and external auditors to review the effectiveness of internal controls and business risk management. The Committee adheres to the requirements of the Scottish Government's Audit Committee Handbook.

Board and Committee
Attendance by members at the Board and the Audit & Risk Committee for the financial year to 31 March 2015 is shown in the table below.

Name	Board		Audit & Risk Committee	
	Held	Attended	Held	Attended
Andrew Thin	8	8	-	-
Geoff Aitkenhead	8	7	4	2
Tanya Castell	8	8	4	4
Steve Dunlop*	8	8	-	-
Martin Latimer**	8	7	4	2
Duncan Sutherland***	8	3	-	-

*Chief Executive Officer
** Stepped down as a member of the Audit & Risk Committee with effect from 19 September 2014
***Stepped down as a non-executive Board member with effect from 3 December 2014

Board and Committee performance
Formal annual evaluation processes are in place for all non-executive Board members including the Chair. Induction and ongoing training is provided for non-executive Board members.

Compliance
Throughout the financial year and up to the date of approval of the Annual Report and Accounts, Scottish Canals complied with the Framework Document, the accountability and governance framework, including delegated financial authority limits, issued by Scottish Ministers in June 2013 (as amended by an addendum issued in January 2015) to contribute to the Scottish Government's primary purpose of increasing sustainable economic growth. In addition, Scottish Canals complied with the Scottish Public Finance Manual (SPFM) which sets out the relevant statutory, parliamentary and administrative requirements, unless amended by the Framework Document.

Code of Conduct
Scottish Canals has in place a Code of Conduct for Board members, as approved by the Scottish Ministers. In compliance with the Ethical Standards in Public Life, etc. (Scotland) Act 2000, Scottish Canals' Code of Conduct for Board members is published on our website, together with the Board members' Register of Interests.

http://www.scottishcanals.co.uk/media/3810664/register%20of%20interests%20-%201st%20april%202015.pdf

Risk and Internal Control

Internal control framework
As at 31 March 2015, a programme to review every policy, procedure, process document, guidance note and standing order, as overseen by the Audit & Risk Committee, was completed. This has resulted in a suite of documents for operational management for all areas of the business and suitable for the size of Scottish Canals which were in place up to the date of approval of the Annual Report and Accounts. A Quality Management System to address document development, revision, compliance monitoring and internal audit methods and requirements going forward is being established.

Approach to risk management
The SPFM requires all public bodies to maintain a risk management system which complies with its guidelines. Scottish Canals has a risk management strategy, policy, process and assurance framework including risk appetite statements in accordance with good practice. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve Scottish Canals' aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The risk management system includes processes for the identification, evaluation and mitigation of risk. Review and reporting of risk is undertaken at corporate, director, departmental and project level. Each identified risk has a designated owner and actions are taken to manage the risk accordingly. As new or changed risks emerge they are identified, evaluated, reviewed for alignment with the business plan and escalated to the appropriate level. When escalated to the executive team, risks are added to the Corporate Risk Register together with an action plan to mitigate. All corporate level risks are actively managed, reviewed and updated by the executive team on a monthly basis and reported to the Audit & Risk Committee and the Board on a quarterly basis.

Internal Audit
Scottish Canals employs the services of independent auditors, BDO, to report on the adequacy and effectiveness of Scottish Canals' system of internal control together with recommendations for improvement. The work of the internal auditors is informed by an analysis of the risk to which Scottish Canals is exposed. An Internal Audit Plan is agreed with the executive team and the Audit & Risk Committee. During the financial year, BDO undertook Internal Audits in the following areas in accordance with the Internal Audit Plan 2014/15: IT Security; Workforce Planning; Financial Controls and Procedures; Procurement and Contract Management and Social Media. The recommendations and progress on management action undertaken has been regularly reviewed by the Audit & Risk Committee during the year.

Based on the reviews undertaken during the period, and in the context of materiality, BDO has provided the following annual statement of assurance:

- The risk management activities and controls in the areas examined by BDO were found to be suitably designed to achieve the specific risk management, control and governance arrangements.
- Based on BDO's verification reviews and sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved by the end of the period under review.

Following the receipt of each internal audit report and recommendations, management have acted swiftly to address any weaknesses identified.

With a clearly demonstrated commitment to mitigate any weaknesses found and to build a robust control environment, we believe that the organisation becomes both stronger and more effective in the delivery of its key outputs.

External Audit

The Auditor General for Scotland is responsible to the Scottish Parliament for securing the audit of the financial statements of Scottish Canals. Audit Scotland was appointed by the Auditor General for Scotland as the external auditor for Scottish Canals for the year ended 31 March 2015 in accordance with Section 24(2) of the Transport Act 1962.

Data losses

There were no reported incidents of unauthorised exposure or loss of data during the financial year.

Public Services Reform (Scotland) Act 2010

In accordance with the Public Services Reform (Scotland) Act 2010, Scottish Canals will publish the information on expenditure and certain other matters as required on the Scottish Canals website (www.scottishcanals.co.uk) following the publication of the Annual Report and Accounts 2014/15 in July 2015.

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.

Steve Dunlop
Accountable Officer (Chief Executive Officer)
25 June 2015

Directors’ Remuneration Report (Unaudited)

The terms of Board members’ appointments are determined by Scottish Ministers and for the non-executive members they are for a fixed term of three years. These contracts are terminable by the members upon serving three months written notice. The emoluments of Board members are determined by the Scottish Ministers.

The executive directors report to the Board but are not Board members. They have the responsibility for the management of the organisation and the development of the business strategy and policies, subject to approval and general oversight by the Board.

Remuneration policy
The Board’s remit is to ensure that the remuneration policy and packages offered by Scottish Canals are sufficient, taking into account Scottish Canals’ financial position and the wider remuneration context across the organisation as it aims to attract, retain and motivate a high quality team of executive directors who are capable of delivering the strategic goals of the organisation.

Pay and benefits
Basic salaries are normally reviewed annually (on 1 July) and increases are determined by reference to comparative information, taking in to account the executive director’s contribution to the organisation during the preceding year. A discretionary feature of the 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 awarded on 1 July of the year following that in respect of which they were awarded. No payments were made for the financial year ending 31 March 2015, in accordance with the Scottish Government policy on public sector pay in Scotland. Executive directors are entitled to a company car, or an allowance in lieu of this, and medical insurance.

Pensions
Executive directors who satisfied the eligibility criterion 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. This scheme is now closed to new members. Those who did not meet the criterion for this scheme are eligible to join a defined contribution scheme – this flexible retirement plan is provided by Standard Life.

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 that such appointments can broaden their knowledge and experience to the benefit of Scottish Canals. Providing that it does not impact on their executive duties, directors are generally allowed to have one such appointment and retain any resulting fees. In addition, executive directors may also serve as a non-executive director of joint venture companies. In these circumstances, fees are not generally payable to executive directors as activities of this nature are part of their normal Scottish Canals responsibilities.

Directors' Remuneration Report (Audited)

The information provided below in respect of Scottish Canals' 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 term	**Contracted time (days) commitment during the year**	**Gross salary 2015 £**	Gross salary 2014 £	**Taxable benefits 2015 £**	Taxable benefits 2014 £	**2015 Total (excl pension) £**	2014 Total (excl pension) £
Jon Hargreaves	31/03/14	-	-	17,530	-	-	-	17,530
Andrew Thin	31/03/17	up to 42	14,070	-	-	-	14,070	-
Duncan Sutherland[1]	25/09/15	up to 20	3,600	3,120	-	-	3,600	3,120
Tanya Castell	01/07/15	up to 20	4,800	5,740	-	-	4,800	5,740
Geoff Aitkenhead[2]	01/07/15	up to 20	5,440	2,088	-	-	5,440	2,088
Martin Latimer	01/07/15	up to 20	4,800	5,582	-	-	4,800	5,582
Steve Dunlop[3]	-	-	134,829	133,825	12,645	10,073	147,474	143,898
Katie Hughes	-	-	86,494	85,850	8,622	9,301	95,116	95,151
David Lamont	-	-	83,441	82,820	10,192	7,434	93,633	90,254
Debs Hurst[4]	-	-	-	23,739	-	225	-	23,964
Claire Lithgow[5]	-	-	82,424	40,905	8,716	2,881	91,140	43,786
Richard Millar[6]	-	-	69,014	34,250	10,292	3,596	79,306	37,846
Total			**488,912**	435,449	**50,467**	33,510	**539,379**	468,959

[1]Duncan Sutherland resigned 03/12/14
[2]Geoff Aitkenhead received £640 in lieu of time incurred in February 2014 and March 2014
[3]Steve Dunlop is a member of the Board and the Chief Executive Officer
[4]Debs Hurst resigned 27/06/13
[5]Claire Lithgow joined the organisation and was appointed an executive director on 01/10/13
[6]Richard Millar was appointed an executive director on 01/10/13

Non-executive Directors, excluding the Chair, are remunerated at a daily rate of £240. The Chair is remunerated at a daily rate of £335. Non-executive Directors' contracts of engagement run from July to June, out-with the financial year (April to March).

Comparison of Chief Executive Officer remuneration to employee remuneration

	Percentage change in salary from prior year	**Percentage change in benefits from prior year**
Chief Executive Officer	1%	26%
All employees	1%	21%

The Chief Executive Officer received £12,645 (2014: £10,073) of taxable benefits during the year.

Accrued pension

			Accrued total pension(pa) as at 31 March		Value of pensions input amount during year to 31 March	
	Normal Retirement Age	**Normal Retirement Date**	**2015 £**	**2014 £**	**2015 £**	**2014 £**
Steve Dunlop	61.5	06/02/23	18,636	15,440	45,761	47,474
Debs Hurst[1]	63	22/04/25	-	12,410	-	-
David Lamont	63	03/10/26	5,387	3,979	20,059	19,208
Katie Hughes	63	11/06/36	6,271	4,806	20,519	19,605
Richard Millar	63	18/11/35	16,457	14,645	23,486	10,944

[1]Debs Hurst became a preserved member of the Fund on 22 June 2013. The pension amount as at 31 March 2014 is the accrued pension on the date the member ceased pension accrual.

The value of pensions input amounts shown above relates to final salary benefits in the Waterways Pension Fund, a defined benefit scheme, only.

Pension payments made in respect of defined contributions schemes are as follows

	2015 £	**2014 £**
Claire Lithgow	11,539	5,727

N Christie
Secretary to the Board
25 June 2015

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 for the year ended 31 March 2015 under the Transport Act 1962. The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity for the Year 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 Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities in the Directors' Report, the Directors 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, 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 organisation as at 31 March 2015 and of the surplus of the organisation 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 Directors' Report and Strategic 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 guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

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

26 June 2015

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR TO 31 MARCH 2015

	Note	2015 £000	2014 £000
Revenue	2	**10,260**	7,583
Government grant	3	**8,889**	8,800
Total revenue		**19,149**	16,383
Operating expenditure	4	**(19,609)**	(18,107)
Pension deficit – service cost		**(90)**	(190)
Operating deficit		**(550)**	(1,914)
Share of profits on investments		**570**	272
Gain on revaluation of investment properties		**230**	1,073
Surplus/(deficit) before finance and taxation charges		**250**	(569)
Finance income	6	**222**	386
Pension surplus – interest income		**-**	30
Surplus/(deficit) before taxation		**472**	(153)
Taxation	7	**-**	-
Surplus/(deficit) for continuing operations after taxation		**472**	(153)
Statement of other comprehensive income			
Surplus/(deficit) for the year		**472**	(153)
Pension re-measurements		**90**	160
Total comprehensive income for the year		**562**	7

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2015

	Note	2015 £000	2014 £000 as restated
Non-current assets			
Property, plant and equipment	**8**	**42,667**	38,122
Investment property	**9**	**15,898**	15,934
Investments	**10**	**3,713**	3,143
Trade and other receivables	**12**	**372**	2,180
Deferred tax assets	**7**	**99**	99
Total non-current assets		**62,749**	59,478
Current assets			
Inventories	**11**	**87**	86
Trade and other receivables	**12**	**7,374**	7,888
Cash and cash equivalents		**2,871**	3,629
Total current assets		**10,332**	11,603
Total assets		**73,081**	71,081
Current liabilities			
Trade and other payables	**13**	**4,715**	9,543
Provisions for liabilities	**14**	**30**	67
Total current liabilities		**4,745**	9,610
Non-current liabilities			
Deferred tax liabilities	**7**	**99**	99
Deferred capital income	**17**	**16,952**	12,304
Total non-current liabilities		**17,051**	12,403
Total liabilities		**21,796**	22,013
Net assets		**51,285**	49,068
Capital and reserves			
Reserves		**1,549**	1,549
Donated assets reserve		**19,804**	18,149
Retained earnings		**29,932**	29,370
Total equity		**51,285**	49,068

Approved and authorised for issue by the Board.

Andrew Thin (Chairman)
25 June 2015

Steve Dunlop (Chief Executive Officer)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2015

	2015 £000	2015 £000	2014 £000	2014 £000
Surplus/(deficit) before taxation		**472**		(153)
Items not involving the flow of cash:				
Finance income	**(222)**		(416)	
Share of profits	**(570)**		(272)	
Gain on revaluation of investment property	**(230)**		(1,073)	
Depreciation	**899**		367	
Difference between pension charge and cash contributions	**90**		190	
Profit on sale of non-current assets	**(233)**		(11)	
		(266)		(1,215)
Operating surplus/(deficit) before movements in working capital		**206**		(1,368)
Movements in working capital				
(Increase)/decrease in inventories	**(1)**		63	
Decrease in receivables	**56**		78	
(Release)/movement of capital income	**(228)**		24	
(Decrease)/increase in payables	**(3,365)**		1,685	
Decrease in provisions	**(37)**		(33)	
		(3,575)		1,817
Movement in cash from operations		**(3,369)**		449
Interest received		**222**		431
Net cash flows from operating activities		**(3,147)**		880
Cash flows from investing activities				
Payments to acquire property, plant and equipment	**(3,946)**		(6,280)	
Payments to acquire investment property	**(754)**		(1,622)	
Proceeds from disposal of non-current assets	**374**		38	
Net investments in associates and joint ventures	**-**		(160)	
Net cash flows from investing activities		**(4,326)**		(8,024)
Cash flows from financing activities				
Deferred consideration from CRT	**3,658**		3,658	
Capital income received	**3,057**		5,365	
Net cash flows from financing activities		**6,715**		9,023
Net (decrease)/increase in cash and cash equivalents		**(758)**		1,879
Cash and cash equivalents at 1 April		**3,629**		1,750
Cash and cash equivalents at 31 March		**2,871**		3,629

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR

	Retained earnings						
	Realised capital reserve	Investment property revaluation reserve	Revenue reserve	Total retained earnings	Capital contribution	Donated assets reserve	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2013 as restated	9,811	5,849	13,703	29,363	1,549	-	30,912
Deficit for the year after tax	-	-	(153)	(153)	-	-	(153)
Pension re-measurements	-	-	160	160	-	-	160
Donated assets received in year	-	-	-	-	-	18,149	18,149
Net transfer between reserves:							
Property revaluation movement	-	1,073	(1,073)	-	-	-	-
Balance at 31 March 2014 as restated	9,811	6,922	12,637	29,370	1,549	18,149	49,068

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 British Waterways to repay National Loans Fund loans.

	Retained earnings						
	Realised capital reserve	Investment property revaluation reserve	Revenue reserve	**Total retained earnings**	Capital contribution	Donated assets reserve	**Total**
	£000	£000	£000	**£000**	£000	£000	**£000**
Balance at 1 April 2014 as restated	9,811	6,922	12,637	**29,370**	1,549	18,149	**49,068**
Surplus for the year after tax	-	-	472	**472**	-	-	**472**
Pension re-measurements	-	-	90	**90**	-	-	**90**
Donated assets received in year	-	-	-	**-**	-	1,655	**1,655**
Net transfer between reserves:							
Gain on revaluation	-	230	(230)	**-**	-	-	**-**
Realisation of property revaluation	-	(120)	120	**-**	-	-	**-**
Balance at 31 March 2015	**9,811**	**7,032**	**13,089**	**29,932**	**1,549**	**19,804**	**51,285**

NOTES RELATING TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of preparation and accounting convention
The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU). 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 pages 49 to 50.

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

Effective for annual accounting periods beginning on or after 1 January 2016

- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Annual Improvements to IFRSs 2012-2014 Cycle – various standards
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)

Effective for annual accounting periods beginning on or after 31 December 2017

- IFRS 15 Revenue from Contracts with Customers

Effective for annual accounting periods beginning on or after 31 December 2018

- IFRS 9 Financial Instruments

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

The Directors consider no consolidation is required on the basis of materiality.

Interests in joint ventures and associates
The organisation 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). IFRS 11 and IAS 28 require a joint venturer to recognise an investment and to account for that investment using the equity method. 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 organisation's interest in its associates and joint ventures, being those entities over which it has significant influence, are accounted for using the equity method of accounting.

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

Prior year adjustment
Investments were incorrectly stated in the financial statements for the year to 31 March 2014. The investment in Edinburgh Quay Limited was recorded at cost but under IAS 28, the equity method should have been applied. The comparative figures have been restated to rectify this by increasing investments by £311,000. The net effect on prior year retained earnings is an increase amounting to £311,000.

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.

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.

Expenditure on 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
Public artworks	Between 60 and 100 years
Waterways, reservoirs and towpaths	Between 15 and 120 years
Leasehold land and buildings	Over the term of the lease
Maintenance craft and floating plant	Between 5 and 25 years
Other plant and machinery	Between 5 and 10 years
Vehicles	5 years

Where relevant, asset lives are determined on the basis of component parts, as set out within the contractor's specification documents.

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. The 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. No depreciation is charged on investment properties. Investment properties are valued by independent, professionally certified valuers.

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
Organisation as a lessee

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

Organisation 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 organisation 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.

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 organisation 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 organisation 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 organisation. Revenue is measured by reference to the fair value of consideration received or receivable by the organisation 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.

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the organisation 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 judgement. 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 organisation 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 organisation.

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 are recognised on a point of sale 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 sale basis or an accruals basis depending on revenue class.

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 and revenue is recognised on a straight line basis over the term of the agreement.
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. Improvements are capitalised should significant and directly attributable revenue be receivable following the maintenance.
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 organisation'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. Grants received are split between capital and revenue, with capital amounts deferred and released to the income statement over the expected useful lives of the assets concerned. Grants received attributable to investment properties are deducted from the asset carrying value.

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 organisation'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 organisation 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 organisation 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 British Waterways before 1 April 2011. Following the British Waterways Board (Transfer of Functions) Order 2012, British Waterways 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 British Waterways Pension Fund shown in an Actuary's interim valuation of the British Waterways 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 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 organisation'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 16 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 IAS 19.

Equity

Scottish Canals, as a public body, has neither share capital or share premium within its equity. The equity of the organisation comprises a number of individual reserves, the nature and purpose of each of which is outlined in the Statement of Changes in Equity.

Financial instruments

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 British Waterways 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.

Provisions
A provision is recognised in the balance sheet when the organisation 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 expenditure expected to be required to settle the obligation at the end of the relevant period.

Critical accounting estimates
The preparation of financial statements requires the organisation 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 organisation 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 valuations are reviewed in the light of current market conditions each year. A summary of the results of this process is given in Note 9 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) Post-retirement benefits

The determination of the pension cost and defined benefit obligation of the organisation’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 16 for further details.

Judgements made in the process of applying accounting policies

The organisation’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 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 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) Trade receivables

The organisation 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.

e) Joint ventures

A measured 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.

2 REVENUE

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

Operating revenue	2015	2014
	£000	£000
Sale of goods		
Water and utility sales	**1,326**	1,433
Retail sales	**2,381**	1,539
Rendering services		
Property rents	**917**	702
Wayleaves and easements	**110**	108
Moorings	**511**	430
Boat licences	**439**	447
Funding from third parties towards waterway maintenance and repair	**3,467**	2,029
Other income from services	**1,109**	895
	10,260	7,583

3 GRANTS RECEIVABLE FROM CENTRAL GOVERNMENT

Grants receivable	2015	2014
	£000	£000
Grants receivable from the Scottish Government comprises:		
Grant in aid	**10,000**	10,000
Shovel ready projects	**-**	4,165
Future Transport Fund	**834**	-
Re-instatement and improvement project	**1,000**	-
Deferral of Capital Grant in aid	**(1,700)**	(1,200)
Deferral of Capital shovel ready projects	**-**	(4,165)
Deferral of Capital Future Transport Fund	**(245)**	-
Deferral of Capital re-instatement and improvement project	**(1,000)**	-
	8,889	8,800

4 EXPENDITURE

Operating expenditure in the year is analysed as follows:	2015 £000	2014 £000
Major infrastructure works	**1,575**	1,802
Core waterway	**6,985**	9,187
Regeneration	**4,299**	2,512
Other operating charges	**6,750**	4,606
Operating expenditure	**19,609**	18,107

Operating expenditure includes:	2015 £000	2014 £000
Depreciation of property, plant and equipment	**899**	367
Profit on sale of non-current assets	**(233)**	(11)
Operating lease expenses	**895**	727
Directors' remuneration	**661**	675
Fees payable to the organisation's auditor for the audit of the financial statements	**32**	32

5 STAFF COSTS

(a) The average number of persons employed during the year was:

	2015 Number	2014 Number
Total employed	**291**	276
Full-time equivalent	**258**	241

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

(b) Total employment costs

	2015 £000	2014 £000
Wages and salaries	**7,175**	6,789
Social security costs	**611**	508
Defined benefit pension contributions	**437**	430
Defined contribution pension contributions	**94**	54
Total employment costs	**8,317**	7,781

Included within total employment costs is £254,000 (2014: £224,000) accrued for annual leave entitlement at 31 March 2015.

6 FINANCE INCOME

Finance income	2015 £000	2014 £000
Bank interest receivable	**14**	10
Other interest receivable	**208**	376
Total finance income	**222**	386

7 TAXATION

Tax	2015 £000	2014 £000
Current tax	**-**	-
Deferred tax	**-**	-
	-	-

Corporation tax is calculated at 21% (2014: 23%) of the assessable profits for the year.

The total charge for the year can be reconciled to the surplus per the income statement as follows:

	2015 £000	2014 £000
Surplus/(deficit) for the financial year before tax	**472**	(153)
Tax at the UK corporate tax rate of 21% (2014: 23%)	**99**	(35)
Tax effect of expenses that are not deductible in determining taxable profits	**19**	43
Investment property differences between accounts and tax basis	**(48)**	(247)
Effect of tax rate change in deferred tax balances	**-**	28
Losses and timing differences not recognised	**(70)**	176
Tax effect of prior year adjustment	**-**	35
Total tax	**-**	-

Deferred Tax

	Accelerated tax depreciation £000	Tax losses £000	Other short term differences £000	**Total £000**
At 31 March 2014	99	(97)	(2)	-
Charge to income	-	-	-	**-**
At 31 March 2015	**99**	**(97)**	**(2)**	**-**

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:

	2015 £000	2014 £000
Deferred tax liabilities	**99**	99
Deferred tax assets	**(99)**	(99)
	-	-

At the balance sheet date, the organisation has unrecognised tax losses carried forward of £1,093,000 (2014: £1,107,000).

8 PROPERTY, PLANT AND EQUIPMENT

	Operational freehold land, buildings and structures	Craft, vehicles, plant and equipment	Public artworks	Assets under construction	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2013 as restated	6,174	5,995	-	6,768	18,937
Additions	15,261	146	4,938	4,948	25,293
Transfer	4,403	(2,020)	1,109	(4,693)	(1,201)
Disposal	-	(62)	-	-	(62)
At 31 March 2014	25,838	4,059	6,047	7,023	42,967
Depreciation					
At 1 April 2013 as restated	1,812	3,649	-	-	5,461
Transfer	-	(948)	-	-	(948)
On disposal	-	(35)	-	-	(35)
Charge for year	127	240	-	-	367
At 31 March 2014	1,939	2,906	-	-	4,845
Net book value					
At 31 March 2014	23,899	1,153	6,047	7,023	38,122

	Operational freehold land, buildings and structures	Craft, vehicles, plant and equipment	Public artworks	Assets under construction	**Total**
	£000	£000	£000	£000	**£000**
Cost					
At 1 April 2014	25,838	4,059	6,047	7,023	**42,967**
Additions	2,151	253	57	2,179	**4,640**
Transfer	8,334	394	-	(7,923)	**805**
Disposal	-	(649)	-	-	**(649)**
At 31 March 2015	**36,323**	**4,057**	**6,104**	**1,279**	**47,763**
Depreciation					
At 1 April 2014	1,939	2,906	-	-	**4,845**
On disposal	-	(648)	-	-	**(648)**
Charge for year	629	209	61	-	**899**
At 31 March 2015	**2,568**	**2,467**	**61**	**-**	**5,096**
Net book value					
At 31 March 2015	**33,755**	**1,590**	**6,043**	**1,279**	**42,667**

9 INVESTMENT PROPERTY

	Freehold land, buildings and structures £000
Valuation	
At 1 April 2013	13,100
Transfer from property, plant and equipment	253
Additions	1,508
Revaluation	1,073
At 31 March 2014	15,934
At 1 April 2014	**15,934**
Transfer to property, plant and equipment	**(805)**
Additions	**679**
Disposals	**(140)**
Revaluation	**230**
At 31 March 2015	**15,898**

In the income statement, the organisation has recognised £1,428,000 (2014: £1,132,000) of rental and moorings income from investment properties.

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

	2015	2014
	£000	£000
Historical cost	**8,866**	9,012
Revaluation surpluses	**7,032**	6,922
	15,898	15,934

Investment properties were valued as at 31 March 2015 and 31 March 2014 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 British Waterways. In the year ended 31 March 2015 all professional valuations for investment properties were performed by DTZ.

10 INVESTMENTS

SUBSIDIARIES

The organisation has 1 ordinary share of £1, a 100% shareholding, in BWB (General Partner) Limited, an investment company registered in Scotland. The profit for the year ended 31 March 2015 amounted to £36,105 (2014: £32,667). At 31 March 2015, BWB (General Partner) Limited had net assets of £72,027 (2014: £35,922).

ASSOCIATES

	2015	2014
Investments in associates:	**£000**	£000 as restated
At 1 April	**3,143**	2,711
Additions	**-**	160
Share of profits	**570**	272
At 31 March	**3,713**	3,143

The organisation has a 49% interest in Bigg Regeneration Limited Partnership, a property rental entity registered in Scotland. The profit for the year ended 31 December 2014 amounted to £1,331,184 (2013: £160,458). At 31 December 2014 the entity had partners' interests of £6,621,126 (2013: £5,289,942).

BWB (General Partner) Limited has 50 Ordinary B shares, a 50% shareholding, in Bigg Regeneration (General Partner) Limited, the general partner of Bigg Regeneration Limited Partnership. Bigg Regeneration (General Partner) Limited is registered in Scotland. The loss for the year ended 31 December 2014 amounted to £Nil (2013: £6). At 31 December 2014 Bigg Regeneration (General Partner) Limited had net assets of £94 (2013: £94).

The organisation has 49 Ordinary B shares, a 49% shareholding, in Edinburgh Quay Limited, a property development company registered in Scotland. The profit for the year ended 31 December 2014 amounted to £38,002 (2013: loss £21,869). At 31 December 2014, Edinburgh Quay Limited had net assets of £651,568 (2013: £613,566).

11 INVENTORIES

	2015	2014
	£000	£000
Consumables	**12**	19
Finished goods and goods for resale	**75**	67
	87	86

12 TRADE AND OTHER RECEIVABLES

(a) Current

	2015	2014
	£000	£000
Trade receivables	**1,426**	1,327
Less: provision for impairment of trade receivables	**(64)**	(71)
Prepayments and accrued income	**3,034**	2,449
Deferred consideration agreements	**1,829**	3,734
Value added tax	**1,149**	449
	7,374	7,888

(b) Non-current

	2015	2014
	£000	£000
Deferred consideration agreements	**372**	2,180
	372	2,180

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

	31-60 days	61-90 days	Over 90 days
	£000	£000	£000
Trade receivables	**93**	**242**	**186**

Credit risk in respect of receivables is limited, due to the organisation'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 £10,617,000 (2014: £13,697,000) being the sum of cash and cash equivalents and trade and other receivables. The fair values are not materially different to carrying values.

13 TRADE AND OTHER PAYABLES

	2015	2014
	£000	£000
Trade payables	**2,539**	4,463
Taxation and social security	**194**	162
Accruals	**1,201**	2,523
Deferred income	**716**	2,311
Other payables	**65**	84
	4,715	9,543

14 PROVISIONS

	At 1 April 2014	Released/ paid	**At 31 March 2015**
	£000	£000	**£000**
Personal injury & third party claims	67	(37)	**30**
	67	(37)	**30**

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

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

15 OPERATING LEASES

Operating lease agreements where the organisation is lessee

The organisation 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

	2015	2014
	£000	£000
Not later than one year	49	35
After one year but not more than five years	187	140
After five years	63	99
	299	274

Leasehold plant and equipment

	2015	2014
	£000	£000
Not later than one year	521	429
After one year but not more than five years	1,035	957
After five years	6,129	5,992
	7,685	7,378

Operating lease agreements where the organisation is lessor

The organisation 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:

	2015	2014
	£000	£000
Not later than one year	110	107
After one year but not more than five years	440	428
After five years	6,050	5,992
	6,600	6,527

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

16 PENSION AND OTHER POST - RETIREMENT BENEFITS

Employee Retirement Benefits

Defined Benefit

Scottish Canals participates in a defined benefit pension arrangement called the Waterways Pension Fund (the Fund).

The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Fund is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, Scottish Canals must agree with the trustees of the Fund the contributions to be paid to address any shortfall against the Statutory Funding Objective and contributions to pay for future accrual of benefits. The Statutory Funding Objective does not currently impact on the recognition of the Fund in these accounts.

The Fund is managed by a Trustee Company, Waterways Pension Trustees Limited. The Chairman of the Trustee Company is an independent Trustee Director. The remaining directors of the Trustee Company have been appointed in part by the participating employers and in part from elections by members of the Fund. The Trustee Directors have responsibility for obtaining valuations of the Fund, administering benefit payments and investing the Fund's assets. The Trustee Director delegates some of these functions to its professional advisers where appropriate.

The Fund exposes the organisation to a number of risks:

- Investment risk. The Fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities, the value of the assets and liabilities may not move in the same way.
- Inflation risk. A significant proportion of the benefits under the Fund are linked to inflation. Although the Fund's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk. In the event that members live longer than assumed, a deficit will emerge in the Fund.

There were no plan amendments, curtailments or settlements during the year.

Explanation of amounts in the financial statements

Amounts recognised in the Balance Sheet	**2015 £000**	**2014 £000**
Fair value of assets	4,960	4,010
Present value of funded obligations	(4,890)	(3,650)
Surplus	**70**	**360**
Impact of asset ceiling	(70)	(360)
Net defined benefit liability	**-**	**-**

Reconciliation of net defined benefit liability	2015 £000	2014 £000
Net defined benefit liability at start of period	-	-
Current service cost (inc administration costs)	740	620
Past service costs	-	-
Settlement / curtailment cost	-	-
Net interest (income)/expense	-	(30)
Re-measurements	(90)	(160)
Organisation and employee contributions*	(650)	(430)
Net defined benefit liability at end of year	**-**	**-**

*Included within Organisation and employee contributions are amounts deducted within the organisation's salary sacrifice scheme.

Amounts recognised in Profit & Loss	2015 £000	2014 £000
Current service cost (inc administration costs)	740	620
Interest on liabilities	180	140
Interest on assets	(180)	(170)
Past service cost	-	-
Settlement / curtailment cost	-	-
Total	**740**	**590**

Re-measurements over the year	2015 £000	2014 £000
Loss on fund assets in excess of interest	(260)	80
Experience losses on liabilities	(80)	10
Losses from demographic assumption changes	(10)	-
(Gains)/losses from financial assumption changes	570	(20)
Changes in effect of asset ceiling	(310)	(230)
Total remeasurements	**(90)**	**(160)**

Reconciliation of assets and liabilities

The change in the assets over the year was:

	2015 £000	2014 £000
Fair value of assets at the start of the period	**4,010**	**3,320**
Interest on assets	180	170
Organisation and employee contributions	650	430
Contributions by Fund participants	10	220
Benefits paid (inc administration costs)	(170)	(50)
Change due to settlements / curtailments	-	-
Return on plan assets less interest	280	(80)
Fair value of assets at the year end	**4,960**	**4,010**

The change in the liabilities over the period was:

	2015 £000	2014 £000
Liabilities at the start of the period	**3,650**	**2,730**
Current service cost (inc administration expenses)	740	620
Contributions by Fund participants	10	220
Past service cost	-	-
Interest cost	180	140
Benefits paid (inc administration costs)	(170)	(50)
Change due to settlements / curtailments	-	-
Experience (gain) / loss on liabilities	(80)	10
Changes to demographic assumptions	(10)	-
Changes to financial assumptions	570	(20)
Liabilities at the end of the year	**4,890**	**3,650**

Assets

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

Asset category	**2015**
Equities	34.3%
Property	8.9%
Diversified growth	8.1%
Infrastructure	1.4%
Bonds	18.5%
Index-linked gilts	9.5%
Cash and net current assets	1.4%
PFP	17.9%
Total	**100.0%**

The assets do not include any investment in shares of the organisation.

Actuarial Assumptions

The principal assumptions used to calculate the Fund's liabilities include:

Assumption	2015	2014
Discount rate	3.40% pa	4.60% pa
CPI inflation	2.30% pa	2.60% pa
Pension increase (CPI max 2.5% pa)	1.80% pa	2.10% pa
CARE revaluation (CPI max 2.5% pa)	1.80% pa	2.50% pa
Retirement age	"Minimum pension age"	"Minimum pension age"
Cash commutation	18% of pension	18% of pension
Mortality	105% of S1PMA (males) 110% of S1PFA (females) CMI 2014 model Long term rate of improvements 1.25% pa	105% of S1PMA (males) 110% of S1PFA (females) CMI 2013 model Long term rate of improvements 1.25% pa

Sensitivity of the liabilities

Adjustments to assumptions	Approximate effect on liabilities £000
Discount rate	
Plus 0.50%	(400)
Minus 0.50%	440
Inflation	
Plus 0.50%	340
Minus 0.50%	(320)
Life expectancy	
Plus 1 year	250
Minus 1 year	(240)

The above sensitivities are approximate and show the likely effect of an assumption being adjusted whilst all other assumptions remain the same. The sensitivities shown are for the Fund's active membership as a whole, rather than the members employed by the organisation.

Effect of the Fund on organisation's future cashflows
The organisation is required to agree a Schedule of Contributions with the Trustee of the Fund following a valuation which must be carried out at least once every three years.

In the event that the next valuation reveals a larger deficit than expected the organisation may be required to increase contributions above those set out in the existing Schedule of Contributions, and above those expected to be agreed under the 2013 valuation Schedule of Contributions. Conversely, if the position is better than expected then contributions may be reduced.

Expected contributions in the year to 31 March 2016 are approximately £670,000.

The weighted average duration of the defined benefit obligation for the entire Fund (based on the IAS 19 assumptions at 31 March 2015) is around 18 years.

The organisation was party to a Deed of Accession to enable The Scottish Waterways Trust to participate in the Waterways Pension fund, signed in October 2012. This applied to the then current employees (4) who were able to participate in this scheme. The Fund is now closed to new members. The organisation has also provided a Deed of Guarantee in respect of the pension members of The Scottish Waterways Trust to guarantee the liabilities to the Fund of the members of The Scottish Waterways Trust.

Defined Contribution
For employees who commenced employment after 31 March 2011, the organisation operates a defined contribution pension plan.

The defined contribution plan is a pension plan under which the organisation pays fixed contributions to Standard Life. The organisation 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 period. The amount of employer contributions is disclosed in Note 5.

There were no material amounts owing or prepaid at 31 March 2015.

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 British Waterways trading as Scottish Canals, 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.

17 DEFERRED CAPITAL INCOME

	2015	2014
	£000	£000
Balance at 1 April		
Government grants	**11,580**	6,215
Other	**724**	700
	12,304	6,915
Received during the year		
Government grants	**2,945**	5,365
Other	**1,504**	47
Transfer (to)/from current liabilities		
Government grants – transfer to current liabilities	**(185)**	-
Other - transfer from current liabilities	**1,940**	-
Other - transfer to current liabilities	**(131)**	-
Deducted from asset carrying value		
Government grants	**(1,050)**	-
Other	**(147)**	-
Released to income statement		
Government grants	**(165)**	-
Other	**(63)**	(23)
Balance at 31 March	**16,952**	12,304
Comprise:		
Government grants	**13,125**	11,580
Other	**3,827**	724
	16,952	12,304

18 FINANCIAL INSTRUMENTS

Details of Scottish Canals' statutory and financial framework are set out on pages 28-29. Scottish Canals, as a public body, is not exposed to the degree of financial risk faced by other business entities due to restrictions on borrowing.

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 organisation 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 organisation's net liquidity position through rolling forecasts on the basis of expected cash flows. The organisation'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 ongoing government funding and the ability to release cash as necessary from both non-current and current assets.

Interest rate risk

The main risk arising from Scottish Canals' financial instruments is interest rate risk.

The vast majority of the financial assets held by Scottish Canals are cash equivalents and Trade and other receivables (Note 12), and the fair value is not materially different to carrying amount. Scottish Canals disposed of the Whisky Bond property in 2011. 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 Statement of Comprehensive Income.

The financial liabilities held by Scottish Canals are trade and other payables (Note 13), 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-'. These policies are continually monitored and updated for the prevailing market conditions and follow guidance from Scottish Government. The organisation 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.

Financial assets and liabilities

2014			Fixed interest rate				
		Floating interest rate	< 1 year	2 - 5 years	> 5 years	Non interest bearing	Total
	Note	£000	£000	£000	£000	£000	£000
Financial assets – loans and receivables							
Trade and other receivables	12	-	3,658	1,829	-	4,230	9,717
Asset at fair value	12	351	-	-	-	-	351
Cash and cash equivalents		3,629	-	-	-	-	3,629
Total financial assets		3,980	3,658	1,829	-	4,230	13,697
Financial liabilities at amortised cost							
Trade and other payables	13	-	-	-	-	9,543	9,543
Total financial liabilities		-	-	-	-	9,543	9,543

2015		Floating interest rate	Fixed interest rate < 1 year	2 - 5 years	> 5 years	Non interest bearing	**Total**
	Note	£000	£000	£000	£000	£000	**£000**
Financial assets – loans and receivables							
Trade and other receivables	**12**	-	1,829	-	-	5,545	**7,374**
Asset at fair value	**12**	372	-	-	-	-	**372**
Cash and cash equivalents		2,871	-	-	-	-	**2,871**
Total financial assets		**3,243**	**1,829**	**-**	**-**	**5,545**	**10,617**
Financial liabilities at amortised cost							
Trade and other payables	**13**	-	-	-	-	4,715	**4,715**
Total financial liabilities		**-**	**-**	**-**	**-**	**4,715**	**4,715**

19 RELATED PARTY TRANSACTIONS

The organisation has a 49% interest in Bigg Regeneration Limited Partnership. During the year, the organisation received a share of profits from Bigg Regeneration Limited Partnership of £570,000 (2014: £272,401). The organisation repaid Bigg Regeneration Limited Partnership £22,462 (2014: the organisation was advanced £22,462 from Bigg Regeneration Limited Partnership). At the year end, the organisation owed Bigg Regeneration Limited Partnership £nil (2014: £22,462).

The Director of Finance and the Head of Legal services are Board members of Millennium Link Trust. During the year, the organisation incurred rental charges of £110,000 (2014: £107,000) to Millennium Link Trust and sold goods and services totalling £110,000 (2014: £107,000) to Millennium Link Trust.

The Scottish Government

BRITISH WATERWAYS BOARD (operating as Scottish Canals)

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 2015 and each financial year thereafter shall be prepared by The British Waterways Board, operating as Scottish Canals and shall comprise:

   (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;
   - Notes to the accounts.

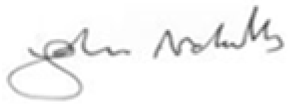
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, cash flows for the financial year, and of the state of affairs as at the end of the financial year. The annual accounts shall also, where applicable, comply with:

   - International Financial Reporting Standards (IFRS) as adopted by the European Union;
   - the accounting and disclosure requirements of companies legislation currently in force; 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 1 to this Direction.

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



JOHN NICHOLLS

On behalf of the Scottish Ministers Dated 23 January 2015

Schedule 1

The Board Members' Report

The Board Members' Report shall contain the information which the Companies Act 2006 requires to be disclosed in the directors' report and shall include a brief history of British Waterways;

The Annual Accounts

The Annual Accounts will 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.