
Annual Report
& Accounts
2015/2016

**Scottish
Canals**

British Waterways Annual Report & Accounts 2015/2016

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.

Head office:
Canal House
Applecross Street
Glasgow
G4 9SP

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Directors' Report

Directors

The following directors have held office since 1 April 2015:

Non-executive directors & members of the board

Andrew Thin	(Chairman)
Tanya Castell	(Vice Chair)
Martin Latimer	
Deborah Benson	(Appointed 1 July 2015)
Cathie Bankier	(Appointed 1 July 2015)
Geoff Aitkenhead	(Resigned 30 June 2015)
Steve Dunlop	(Chief Executive Officer)

Executive directors (non-board members)

David Lamont	(Resigned 11 December 2015)
Katie Hughes	
Richard Millar	
Claire Lithgow	

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' 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 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 future developments and 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
23 June 2016

Strategic Report

Principal activities and review of the business

Scottish Canals manage all of Scotland's canals together with a number of associated land and property assets. Whilst its historic purpose was a key part of Scotland's transport network, the organisation has transformed into something which is now more diversified and cross-cutting, contributing to Scotland's tourism and regeneration economy through its focus on destination development. The principal activities of Scottish Canals in the financial year were the provision of canal moorings and licences, rental of land and property, retail services, tourism and regeneration activities.

Scottish Canals has core statutory duties which are set out in the Transport Act 1962, which gives statutory responsibility for operating and maintaining the waterways for which the British Waterways Board are the navigation authority, and the Transport Act 1968 which classified the nationalised inland waterways where in use at that time in Scotland, England and Wales as either commercial or cruising, with a statutory obligation to maintain.

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 Scottish Ministers. It is sponsored through 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. These canals are classed as Scheduled Ancient Monuments. The Caledonian and Crinan Canals are classified as commercial waterways and the Forth & Clyde and Union Canals are classified as cruising waterways. 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 as set out in the National Performance Framework.

Scottish Canals drives tourism activity and stimulates economic regeneration in key locations throughout the network to generate surpluses for reinvestment in the canals, through working with a range of partners across the public, private and third sectors, collectively raising awareness of the contribution that the inland waterways make to Scotland's economic, social and environmental prosperity.

Scottish Canals has a clear vision of 'Safeguarding our heritage, building our future'. This is detailed further within its Corporate Plan and fundamentally underpins the aims and objectives of its annual business plans, which include the aim of generating income that can be reinvested back into the canal network to protect the Scheduled Ancient Monuments entrusted to its care.

Principal risks and uncertainties

There are a number of risks and uncertainties that could impact on both the reputation and performance of Scottish Canals. Therefore, it is important that Scottish Canals has in place appropriate measures to mitigate these risks and uncertainties. The approach to risk management that has been adopted by Scottish Canals is set out within the Corporate Governance Statement.

Whilst the directors appreciate the valuable financial contribution Scottish Government makes through its Grant-In-Aid funding and are delighted with the levels of self-earned income, their primary concern is that these sums, combined with current levels of investment, are insufficient to sustain the asset maintenance requirements of the canal infrastructure in the medium to long term. This is now the key risk to the organisation and hence the primary focus for discussions with Transport Scotland and Scottish Government. While these discussions are on-going, the directors are fully focused on mitigating risks - which is likely to be by way of service provision alteration or re-design - while remaining focused on ensuring health and safety at all times.

Scottish Canals is an asset based business. The assets, by their historic nature and their environment, are technically in a steady state of decline which the organisation is doing well to

manage and mitigate. This has been exacerbated in recent years by the effects of climate change. Like other public asset based organisations, a backlog of maintenance and investment has built up and therefore, asset failure is an ever present and increasing risk.

Scottish Canals is moving through a challenging period of change which includes the redesign of role profiles and job evaluation across the organisation, coupled with a review of terms and conditions of employment. This is further challenged by a drive towards encouraging more volunteering, diversifying the workforce, and promoting a cultural shift towards delivering financial self-sustainability whilst ensuring throughout that employees know and appreciate the high regard within which they are held.

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

Analysis of development and performance

2015/16 was Scottish Canals' third full financial year since becoming a stand-alone public body. Scottish Canals continued its transition from the previous cross-border organisation and cemented its position as a driver of regeneration and tourism along the canal network.

The aim remained for Scottish Canals to deliver its vision of 'Safeguarding our heritage, building our future', which articulates the organisation's ambitions to improve the lives of the people who live, work and do business along Scotland's canals. Scottish Canals has delivered on the targets it set out at the start of the year in its 2015/16 business plan, which was designed to deliver the objectives in relation to growing public value, financial sustainability and empowering and motivating people, as articulated in the corporate plan.

With a focus on prudent financial sustainability, Scottish Canals has continued with its plans to stimulate demand for a range of water and land-based activities, both on and along the canals. Further, development of new products and services which people choose to buy will generate income that can be reinvested into preserving the canals for future generations to enjoy.

Scotland's canals now consistently welcome over 22 million visitations per year from cyclists, walkers, kayakers and boaters and of note this year the 15,000th boat trip passenger sailed between the Kelpies on the Forth & Clyde canal extension in June 2015. To support these visits, significant towpath improvement works were undertaken by Scottish Canals in 2015/16. Through the leverage of third party funding, £2.2million of repairs across the towpath network were undertaken this year, to maintain the assets, ensure accessibility and provide public value.

Following the international launch of Helix Park in 2014/15, HRH the Princess Royal led a flotilla of around 40 boats along the Forth & Clyde Canal in July 2015 to the Kelpies, before meeting some of the groups and individuals involved in the Helix project and officially opening the Kelpies and canal extension. This marked another milestone in the life of the Kelpies and heightened local, national and international awareness of the project.

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. Scottish Canals has also worked successfully this year with its partners to regenerate and develop the canals to open them up not only to individuals, but also to business and commercial opportunities.

Through a joint venture vehicle, Bigg Regeneration Limited Partnership, Scottish Canals has now embarked on its first housebuilding project which will build 42 homes on the banks of the canal at Maryhill in Glasgow. This joint venture is currently delivering significant regeneration benefits in North Glasgow and has created a platform for the wider area to be developed for the local community and existing and new businesses.

The regeneration of the Forth & Clyde Canal's western gateway took another step forward in 2015/16 as a £1million project to continue the transformation of the area into a vibrant tourism and leisure destination got underway. The development at Bowling Basin in West Dunbartonshire, funded by Scottish Canals and partners, the Coastal Communities Fund, West Dunbartonshire Council and

Sustrans, will see disused railway arches transformed into a suite of commercial units, as well as delivering landscaping and access improvements. The scheme, which is due for completion in 2016/17, will also create scenic viewpoints and follows a previous £1million project, funded by the Scottish Government, to bring back to life as business premises four of the arches of the historic Caledonian and Dunbartonshire Railway Bridge.

During 2015/16, Scottish Canals also continued to build its holiday cottage and barge portfolio with the acquisition of two additional boats, which will be refurbished prior to coming into service in 2016/17. These will add further activity and vibrancy to the canals as we continue to deliver on our destination development plans, which were largely focused in Laggan and Banavie this year.

Investment was made in weed-cutting and dredging equipment, which will allow for a programme of continual dredging on the Lowlands canals in future years. The initial programme to meet boating customer requirements in relation to tackling high spots began this year and will continue on into 2016/17.

Scottish Canals has embarked on phase one of a significant investment project at The Falkirk Wheel – the world's only rotating boat lift - to revitalise the customer experience and enhance the range of activities, products and services on offer. This investment programme has been designed to deliver increased financial returns, which will be used to maintain and sustain the canal network.

Indeed, 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.

Preparatory work began this year in relation to the consultation on the provision of future pension arrangements should the defined benefit scheme, the Waterways Pension Fund, close to future accrual in September 2016. This consultation will launch in early 2016/17 and participation from potentially affected employees and their Trade Union representatives will be encouraged.

Key performance indicators (KPIs)

Scottish Canals employs a comprehensive suite of key performance indicators (KPIs) across all areas of the organisation. These KPIs help to measure and manage performance in the delivery of individual, operational, commercial and corporate goals. 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, which can be measured through relevant KPIs.

Scottish Canals employs KPIs as a tool to drive improvements in the key measures that are important to the organisation. Therefore, as the organisation continues to grow and evolve, KPIs are used to help identify process issues that need to be addressed and Scottish Canals remains committed to publishing those KPIs which are directly relevant to stakeholders, whilst using these internal measures to drive continuous improvement and Best Value in processes encompassing performance, customer service and operational delivery.

The current health and safety action plan and 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 yet again to be a useful tool as Scottish Canals continues to invest in protecting the health, safety and wellbeing of staff, customers and partners.

Operational, financial and strategic targets were set out in the 2015/16 business and operational plan.

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 42 measures. Of these, only two were not achieved or in the process of being achieved. These two 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 requires ongoing review and development.

Operationally this year, as the challenges of significant under-investment over a sustained period of time increase the pressure on canal assets, KPIs in relation to operational serviceability and unplanned closures have become increasingly critical.

Strategically, Scottish Canals' approach to asset management and the system to prioritise and programme investment has been further refined. The results of this as are now the subject of discussion with Transport Scotland.

Scottish Canals has continued to work with partners on the feasibility study and business case for the North Glasgow Integrated Water Management Programme this year and this project will have the clear ability to deliver social, economic and environmental benefits to one of the most deprived areas in Europe.

Environmental matters

Scottish Canals launched a new Environment Strategy during the year 2015/16. This comprehensive strategy sets out how the organisation will continue to deliver environmental benefits during the next 10 years and beyond and will play a key role as the organisation looks to achieve its goal of having canals act as catalysts for sustainable development in communities across Scotland, underlining the commitment to the efficient and beneficial use of land resource, with conservation and enhancement of the unique waterway landscape and character.

The Environment Strategy assesses Scottish Canals' current performance in 10 key environmental areas and identifies ways in which existing achievements can be built on during the next decade. The document is designed to provide Scottish Canals with a blueprint for responding to emerging environmental challenges while also identifying environmentally friendly ways, such as reducing electricity usage, to minimise costs.

The strategy has been developed in partnership with organisations including the Scottish Environment Protection Agency (SEPA), Scottish Natural Heritage (SNH), Fit for the Future Network, National Trust for Wales, Historic Environment Scotland and Resource Efficient Scotland.

Given that the canals are part of a working, living waterway network, used for navigation, regeneration, tourism and general recreation, 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 consistently achieve good practice, continually improve performance and be acknowledged as an 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.

During 2015/16, there has been continued 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.

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 included in the Environment Action Plans which support the delivery of the objectives of the Environment Strategy.

Employees

As at 31 March 2016, the workforce of Scottish Canals was comprised as follows:

	Total	Board*	Executive Directors	Senior Managers
Female	80	3	2	3
Male	180	2	2	5
	260	5	4	8

*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.

In a clear demonstration of its commitment to encouraging and celebrating diversity throughout the organisation Scottish Canals was immensely proud to have achieved the Scottish Government's 50:50 target before 2020 in both its board and management teams in 2015/16.

Results

The results for the year are set out on pages 20 to 49.

Scottish Canals recorded total comprehensive income for the year of £871,000 (2015: £562,000) and a surplus for the year of £641,000 (2015: £472,000). This surplus will be reinvested to help safeguard the future of the canals.

Grant-In-Aid (GIA) funding received from Scottish Government was £10million (2015: £10million), split as £8million of revenue GIA and £2million of capital GIA. This revenue GIA amounts to 45% of the total recorded revenue (2015: 43%).

In all, 2015/16 has been another highly productive year that not only continued to showcase 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. The gain on revaluation of £212,000 in the book asset value of investment properties is worthy of note as a testament to the sound investment decisions made in previous years. This has all ensured that Scottish Canals is well-placed to deliver its ambitious plans for the future as it continues to contribute to the delivery of the National Performance Indicators achievements of the Scottish Government.

Future developments

The future developments, performance and success of Scottish Canals will be largely determined by the ability to continue to invest in the future of Scotland's canal network, the success of partnerships and commercial ventures and the continued support of its shareholder, the Scottish Government.

Through effective partnership working 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 financial sustainability and empowering and motivating people.

The aims and ambitions for the year ahead are articulated in the 2016/17 business plan, which is supported by the asset management plan and investment prospectus which were refined in 2015/16.

Scottish Canals has delivered an excellent full year performance in 2015/16, both financially and operationally, in challenging circumstances and this is testament to the commitment of employees across the entire organisation. In addition to the delivery of customer operations and key projects there are rigorous cost control measures in place, a clear focus on the maximisation of income streams and a prudent approach to spending throughout the year.

The Board and executive management team are well placed to make informed spending decisions with regards to the surplus for reinvestment into the new financial year.

Policy and practice on payment of creditors

Scottish Canals' policy is to pay all matured and properly authorised invoices relating to transactions with suppliers in accordance with contractual terms and conditions.

N Christie
Secretary to the Board
23 June 2016

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 as set out in the **Scottish Canals Corporate and Operational Governance Arrangements** 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 five non-executive members, including the Chair and the Vice Chair, Geoff Aitkenhead having stepped down as a non-executive Board member with effect from 30 June 2015 and Deborah Benson and Cathie Bankier having been appointed as non-executive Board members with effect from 1 July 2015, and the Chief Executive Officer. It held nine 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 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.

Audit & Risk Committee

The Audit & Risk Committee is chaired by Tanya Castell, a non-executive member with financial services background and extensive risk and regulatory expertise. Deborah Benson replaced Geoff Aitkenhead as the other non-executive member. David Watt continued as an independent non-executive Committee member bringing a wealth of public sector and audit experience and expertise and 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 2016 is shown in the table below. The figure in brackets indicates the number of meetings that the director was eligible to attend.

Name	Board		Audit & Risk Committee	
	Held	Attended	Held	Attended
Andrew Thin	9	9(9)	-	-
Geoff Aitkenhead ²	9	3(3)	4	-(-)
Tanya Castell	9	9(9)	4	4(4)
Steve Dunlop ¹	9	9(9)	-	-
Martin Latimer	9	9(9)	-	-
Deborah Benson ³	9	6(6)	4	2(2)
Cathie Bankier ⁴	9	6(6)	-	-
David Watt ⁵	-	-	4	4(4)

¹Chief Executive Officer

²Stepped down as a non-executive Board member and as a member of the Audit & Risk Committee with effect from 30 June 2015

³Appointed as a non-executive Board member and as a member of the Audit & Risk Committee with effect from 1 July 2015

⁴Appointed as a non-executive Board member with effect from 1 July 2015

⁵David Watt is an independent non-executive member of the Audit & Risk Committee and is not a Board member

Board and Committee performance

Formal annual evaluation processes are in place for all Board members including the Chair. Induction and 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.

<https://www.scottishcanals.co.uk/corporate/about-us/meet-the-board/board-code-of-conduct>

Risk and Internal Control

Internal control framework

As at 31 March 2016, a suite of documents appropriate for the size of Scottish Canals, covering operational management for all areas of the business were in place and remain so up to the date of approval of the Annual Report and Accounts. There is strong commitment to continuous improvement to address document development, revision, compliance monitoring and internal audit methods and requirements going forward.

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 and processes, 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 quarterly 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 2015/16: Project Management; Inspection Programme; Budget Setting - Income; Business Continuity and Emergency Planning and Asset Management Strategy. 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 BDO has provided the following annual statement of assurance:

- The risk management activities and controls in the areas examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements.
- Based on 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 significant 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 auditors for Scottish Canals for the year ended 31 March 2016 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 2015/16 in July 2016.

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)
23 June 2016

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 into 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 2016, in accordance with the Scottish Government policy on public sector pay in Scotland which applies to Scottish Canals. 2015/16 was the second year of a two-year pay deal. 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 Scottish Ministers.

	Date of expiry of term	Contracted time (days) commitment during the year	Gross salary 2016 £	Gross salary 2015 £	Taxable benefits 2016 £	Taxable benefits 2015 £	2016 Total (excl pension) £	2015 Total (excl pension) £
Andrew Thin	31/03/17	up to 42	14,070	14,070	-	-	14,070	14,070
Geoff Aitkenhead ¹	01/07/15	up to 20	1,200	5,440	-	-	1,200	5,440
Duncan Sutherland ²	25/09/15	up to 20	-	3,600	-	-	-	3,600
Tanya Castell	01/07/18	up to 20	4,800	4,800	-	-	4,800	4,800
Martin Latimer	01/07/18	up to 20	4,800	4,800	-	-	4,800	4,800
Cathie Bankier ³	30/06/18	up to 20	3,600	-	-	-	3,600	-
Deborah Benson ³	30/06/18	up to 20	3,600	-	-	-	3,600	-
Steve Dunlop ⁴	-	-	136,177	134,829	10,342	12,645	146,519	147,474
Katie Hughes	-	-	87,359	86,494	8,842	8,622	96,201	95,116
David Lamont ⁵	-	-	150,873	83,441	7,240	10,192	158,113	93,633
Claire Lithgow	-	-	83,248	82,424	8,890	8,716	92,138	91,140
Richard Millar	-	-	69,704	69,014	9,634	10,292	79,338	79,306
Total			559,431	488,912	44,948	50,467	604,379	539,379

¹Resigned 30 June 2015

²Resigned 3 December 2014

³Appointed 1 July 2015

⁴Steve Dunlop is a member of the Board and the Chief Executive Officer

⁵Resigned 11 December 2015. David Lamont received a payment of £90,635 for loss of office.

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 taxable benefits from prior year
Chief Executive Officer	1%	-18%
All employees	1%	11%

Accrued pension

			Accrued total pension(pa) as at 31 March		Value of pensions input amount during year to 31 March	
			2016 £	2015 £	2016 £	2015 £
	Normal Retirement Age	Normal Retirement Date				
Steve Dunlop	61.5	06/02/23	21,774	18,636	47,876	45,761
David Lamont ¹	63	03/10/26	6,259	5,387	11,812	20,059
Katie Hughes	63	11/06/36	7,635	6,271	19,240	20,519
Richard Millar	63	18/11/35	17,848	16,457	18,761	23,486

¹David Lamont became a preserved member of the Fund on 11 December 2015. The pension amount as at 31 March 2016 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

	2016 £	2015 £
Claire Lithgow	11,655	11,539

N Christie
Secretary to the Board
23 June 2016

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 2016 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, 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 organisation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; 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 the organisation as at 31 March 2016 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

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR TO 31 MARCH 2016

	Note	2016 £000	2015 £000
Revenue	2	9,942	10,260
Government grant	3	8,000	8,889
Total revenue		17,942	19,149
Operating expenditure	4	(17,848)	(19,609)
Pension re-measurement – service cost		(230)	(90)
Operating deficit		(136)	(550)
Share of profits on investments		528	570
Gain on revaluation of investment properties		212	230
Surplus before finance and taxation charges		604	250
Finance income	6	61	222
Surplus before taxation		665	472
Taxation	7	(24)	-
Surplus for continuing operations after taxation		641	472
Statement of other comprehensive income			
Surplus for the year		641	472
Pension re-measurements		230	90
Total comprehensive income for the year		871	562

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	8	45,816	42,667
Investment property	9	16,479	15,898
Investments	10	5,041	3,713
Trade and other receivables	12	394	372
Deferred tax assets	7	-	99
Total non-current assets		67,730	62,749
Current assets			
Inventories	11	78	87
Trade and other receivables	12	2,539	7,374
Cash and cash equivalents		6,573	2,871
Total current assets		9,190	10,332
Total assets		76,920	73,081
Current liabilities			
Trade and other payables	13	5,603	4,715
Provisions for liabilities	14	-	30
Total current liabilities		5,603	4,745
Non-current liabilities			
Deferred tax liabilities	7	-	99
Deferred capital income	17	19,147	16,952
Total non-current liabilities		19,147	17,051
Total liabilities		24,750	21,796
Net assets		52,170	51,285
Capital and reserves			
Reserves		1,549	1,549
Donated assets reserve		19,818	19,804
Retained earnings		30,803	29,932
Total equity		52,170	51,285

Approved and authorised for issue by the Board.

Andrew Thin (Chairman)
23 June 2016

Steve Dunlop (Chief Executive Officer)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

	2016 £000	2016 £000	2015 £000	2015 £000
Surplus before taxation		665		472
Items not involving the flow of cash:				
Finance income	(61)		(222)	
Share of profits	(528)		(570)	
Gain on revaluation of investment property	(212)		(230)	
Depreciation	920		899	
Difference between pension charge and cash contributions	230		90	
Profit on sale of non-current assets	(9)		(233)	
		340		(266)
Operating surplus before movements in working capital		1,005		206
Movements in working capital				
Decrease/(increase) in inventories	9		(1)	
Decrease in receivables	1,739		56	
Release of capital income	(312)		(228)	
Increase/(decrease) in payables	45		(3,365)	
Decrease in provisions	(30)		(37)	
		1,451		(3,575)
Movement in cash from operations		2,456		(3,369)
Interest received		61		222
Net cash flows from operating activities		2,517		(3,147)
Cash flows from investing activities				
Payments to acquire property, plant and equipment	(3,467)		(3,946)	
Payments to acquire investment property	(475)		(754)	
Proceeds from disposal of non-current assets	314		374	
Net investments in associates and joint ventures	(800)		-	
Net cash flows from investing activities		(4,428)		(4,326)
Cash flows from financing activities				
Deferred consideration from CRT	1,829		3,658	
Capital income received	4,284		3,057	
Capital grant paid	(500)		-	
Net cash flows from financing activities		5,613		6,715
Net increase/(decrease) in cash and cash equivalents		3,702		(758)
Cash and cash equivalents at 1 April		2,871		3,629
Cash and cash equivalents at 31 March		6,573		2,871

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR

	Retained earnings						Total
	Realised capital reserve	Investment property revaluation reserve	Revenue reserve	Total retained earnings	Capital contribution	Donated assets reserve	
	£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)	-	-	-	-
Property revaluation movement	-	(120)	120	-	-	-	-
Balance at 31 March 2015	9,811	7,032	13,089	29,932	1,549	19,804	51,285

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						Total
	Realised capital reserve	Investment property revaluation reserve	Revenue reserve	Total retained earnings	Capital contribution	Donated assets reserve	
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2015	9,811	7,032	13,089	29,932	1,549	19,804	51,285
Surplus for the year after tax	-	-	641	641	-	-	641
Pension re-measurements	-	-	230	230	-	-	230
Donated assets received in year	-	-	-	-	-	14	14
Net transfer between reserves:							
Gain on revaluation	-	212	(212)	-	-	-	-
Property revaluation movement	-	(100)	100	-	-	-	-
Balance at 31 March 2016	9,811	7,144	13,848	30,803	1,549	19,818	52,170

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. No Accounts Direction has been issued for the year ended 31 March 2016. The Direction issued in the year to 31 March 2015 remains applicable. Therefore, the principles applied in previous Accounts Directions have been applied in the current year.

The following issued IFRSs and interpretations 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

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 11 – Accounting for Acquisitions of Interest in Joint Ventures
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants
- Amendments to IAS 27 – Equity Methods in Separate Financial Statements
- Annual Improvements – 2012-2014 cycle
- Amendments to IAS 1 – Disclosure initiative

Effective for annual accounting periods beginning on or after 1 January 2017

- IAS 7 Statement of Cash Flows – Amendments as result of the Disclosure initiative
- IAS 12 Income Taxes – Amendments regarding the recognition of deferred tax assets for unrealised losses

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

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

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.

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 3 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. Values are scrutinised by the executive directors following professional valuation.

Included within investment properties are moorings. Moorings are valued by the income they generate, determined by an earnings multiplier applied that returns an appropriate yield commensurate to the current market.

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 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 2016.

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, with Directors assessing any properties that may have changed use in the period or have been highlighted by external valuers.

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	2016	2015
	£000	£000
Sale of goods		
Water and utility sales	1,336	1,326
Retail sales	2,669	2,381
Rendering services		
Property rents	1,009	917
Wayleaves and easements	111	110
Moorings	569	511
Boat licences	517	439
Funding from third parties towards waterway maintenance and repair	2,441	3,467
Capital grant release	312	228
Third party recharges	473	288
Other income from services	505	593
	9,942	10,260

3 GRANTS RECEIVABLE FROM CENTRAL GOVERNMENT

Grants receivable	2016	2015
	£000	£000
Grants receivable from the Scottish Government comprises:		
Grant in aid	10,000	10,000
Future Transport Fund	-	834
Re-instatement and improvement project	-	1,000
Deferral of Capital Grant in aid	(2,000)	(1,700)
Deferral of Capital Future Transport Fund	-	(245)
Deferral of Capital re-instatement and improvement project	-	(1,000)
	8,000	8,889

4 EXPENDITURE

Operating expenditure in the year is analysed as follows:	2016	2015
	£000	£000
Major infrastructure works	1,544	1,575
Core waterway	6,823	6,967
Regeneration	2,938	4,299
Corporate affairs	326	366
Falkirk Wheel	1,454	1,511
Property and estates	1,425	1,268
Corporate and support services	3,338	3,623

Operating expenditure	17,848	19,609
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Operating expenditure includes:	2016	2015
	£000	£000
Depreciation of property, plant and equipment	920	899
Profit on sale of non-current assets	(9)	(233)
Operating lease expenses	799	895
Directors' remuneration	604	539
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:

	2016	2015
	Number	Number
Total employed	295	291
Full-time equivalent	251	258

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

(b) Total employment costs

	2016	2015
	£000	£000
Wages and salaries	7,260	7,175
Social security costs	566	611
Defined benefit pension contributions	374	437
Defined contribution pension contributions	106	94
Total employment costs	8,306	8,317

Included within total employment costs is £246,000 (2015: £254,000) accrued for annual leave entitlement at 31 March 2016.

6 FINANCE INCOME

	2016	2015
	£000	£000
Finance income		
Bank interest receivable	15	14
Other interest receivable	46	208
Total finance income	61	222

7 TAXATION

	2016	2015
	£000	£000
Tax		
Current tax	24	-
Deferred tax	-	-
	24	-

Corporation tax is calculated at 20% (2015: 21%) 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:

	2016	2015
	£000	£000
Surplus for the financial year before tax	665	472
Tax at the UK corporate tax rate of 20% (2015: 21%)	133	99
Tax effect of expenses that are not deductible in determining taxable profits	143	19
Investment property differences between accounts and tax basis	(95)	(48)
Losses and timing differences not recognised	(157)	(70)
Total tax	24	-

Deferred Tax

	Accelerated tax depreciation £000	Tax losses £000	Other short term differences £000	Total £000
At 1 April 2015	99	(97)	(2)	-
Charge to income	-	-	-	-
Offset of asset/(liability)	(99)	97	2	-
At 31 March 2016	-	-	-	-

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:

	2016 £000	2015 £000
Deferred tax liabilities	-	99
Deferred tax assets	-	(99)
	-	-

At the balance sheet date, the organisation has unrecognised tax losses carried forward of £1,225,000 (2015: £1,093,000).

8 PROPERTY, PLANT AND EQUIPMENT

	Operational freehold land, buildings and structures £000	Craft, vehicles, plant and equipment £000	Public artworks £000	Assets under construction £000	Total £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

	Operational freehold land, buildings and structures £000	Craft, vehicles, plant and equipment £000	Public artworks £000	Assets under construction £000	Total £000
Cost					
At 1 April 2015	36,323	4,057	6,104	1,279	47,763
Additions	2,330	713	-	1,229	4,272
Transfer	843	-	-	(1,037)	(194)
Disposal	-	(121)	-	-	(121)
At 31 March 2016	39,496	4,649	6,104	1,471	51,720
Depreciation					
At 1 April 2015	2,568	2,467	61	-	5,096
On disposal	-	(112)	-	-	(112)
Charge for year	646	213	61	-	920
At 31 March 2016	3,214	2,568	122	-	5,904
Net book value					
At 31 March 2016	36,282	2,081	5,982	1,471	45,816

9 INVESTMENT PROPERTY

	Freehold land, buildings and structures £000
Valuation	
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
At 1 April 2015	15,898
Transfer from property, plant and equipment	194
Additions	475
Disposals	(300)
Revaluation	212
At 31 March 2016	16,479

In the income statement, the organisation has recognised £1,578,000 (2015: £1,428,000) of rental and moorings income from investment properties.

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

	2016 £000	2015 £000
Historical cost	9,335	8,866
Revaluation surpluses	7,144	7,032
	16,479	15,898

Scottish Canals' investment properties are valued at fair value. Under IFRS 13 *Fair Value Measurement* the assets are defined as level 3 i.e. inputs for the asset or liability that are not based on observable market data (i.e. unobservable market inputs).

The following sets out the valuation techniques used in the determination of fair values within level 3 including the key unobservable inputs and the relationship between that to fair value.

Investment properties were valued as at 31 March 2016 and 31 March 2015 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 Scottish Canals. In the year ended 31 March 2016 all professional valuations for investment properties were performed by Cushman & Wakefield.

The valuation approach for residential properties uses Registers of Scotland data which is observable. For non-residential properties there is no recognised index which can be applied to secondary and tertiary areas within Scotland and, as such, the valuer used their market knowledge and expertise. The higher the expected vacancy rate, the lower the fair value.

Included within investment properties are moorings. Moorings are valued by the income they generate, determined by an earnings multiplier applied that returns an appropriate yield consumerate to the current market. The higher the multiplier, the higher the fair value. The valuer changed the multiplier from 6 to 5.8 in 2015/16 after considering sustainability of the growth and longer term plans from changes in charging policy. Had the multiplier remained at 6 the valuation, and surplus before taxation, would have been £114,000 higher.

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 2016 amounted to £45,969 (2015: £36,225). At 31 March 2016, BWB (General Partner) Limited had net assets of £58,116 (2015: £12,147).

ASSOCIATES

	2016	2015
	£000	£000
Investments in associates:		
At 1 April	3,713	3,143
Additions	800	-
Share of profits	528	570
At 31 March	5,041	3,713

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 2015 amounted to £1,062,461 (2014: £1,331,184). At 31 December 2015 the entity had partners' interests of £7,696,410 (2014: £6,633,949).

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 2015 amounted to £Nil (2014: £Nil). At 31 December 2015 Bigg Regeneration (General Partner) Limited had net assets of £94 (2014: £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 2015 amounted to £17,925 (2014: £38,002). At 31 December 2015, Edinburgh Quay Limited had net assets of £669,493 (2014: £651,568).

11 INVENTORIES

	2016	2015
	£000	£000
Consumables	8	12
Finished goods and goods for resale	70	75
	78	87

12 TRADE AND OTHER RECEIVABLES

(a) Current

	2016	2015
	£000	£000
Trade receivables	1,109	1,426
Less: provision for impairment of trade receivables	(103)	(64)
Prepayments and accrued income	777	3,034
Deferred consideration agreements	-	1,829
Value added tax	756	1,149
	2,539	7,374

(b) Non-current

	2016	2015
	£000	£000
Deferred consideration agreements	394	372
	394	372

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

	31-60 days	61-90 days	Over 90
	£000	£000	days
			£000
Trade receivables	78	80	184

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 £9,506,000 (2015: £10,617,000) 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

	2016	2015
	£000	£000
Trade payables	1,236	2,539
Taxation and social security	195	194
Accruals	2,277	1,201
Deferred income	1,828	716
Other payables	67	65
	5,603	4,715

14 PROVISIONS

	At 1 April 2015	Transferred /paid	At 31 March 2016
	£000	£000	£000
Personal injury & third party claims	30	(30)	-
	30	(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.

During the year, amounts provided for as provisions have been transferred to current liabilities.

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

	2016	2015
	£000	£000
Not later than one year	49	49
After one year but not more than five years	170	187
After five years	30	63
	249	299

Leasehold plant and equipment

	2016	2015
	£000	£000
Not later than one year	529	521
After one year but not more than five years	1,143	1,035
After five years	6,011	6,129
	7,683	7,685

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:

	2016	2015
	£000	£000
Not later than one year	110	110
After one year but not more than five years	440	440
After five years	5,940	6,050
	6,490	6,600

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	2016 £000	2015 £000
Fair value of assets	5,350	4,960
Present value of funded obligations	(5,200)	(4,890)
Surplus	150	70
Impact of asset ceiling	(150)	(70)
Net defined benefit liability	-	-

Reconciliation of net defined benefit liability	2016 £000	2015 £000
Net defined benefit liability at start of period	-	-
Current service cost (inc administration costs)	(830)	(740)
Re-measurements	230	90
Organisation and employee contributions*	600	650
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	2016 £000	2015 £000
Current service cost (inc administration costs)	(830)	(740)
Interest on liabilities	(180)	(180)
Interest on assets	180	180
Total	(830)	(740)

Re-measurements over the year	2016 £000	2015 £000
Gains & losses on fund assets in excess of interest	(150)	260
Experience losses on liabilities	80	80
Losses from demographic assumption changes	80	10
Gains & losses from financial assumption changes	300	(570)
Changes in effect of asset ceiling	(80)	310
Total remeasurements	230	90

Reconciliation of assets and liabilities

The change in the assets over the year was:

	2016 £000	2015 £000
Fair value of assets at the start of the period	4,960	4,010
Interest on assets	180	180
Organisation and employee contributions	600	650
Contributions by Fund participants	10	10
Benefits paid (inc administration costs)	(250)	(170)
Return on plan assets less interest	(150)	280
Fair value of assets at the year end	5,350	4,960

The change in the liabilities over the period was:

	2016 £000	2015 £000
Liabilities at the start of the period	4,890	3,650
Current service cost (inc administration expenses)	830	740
Contributions by Fund participants	10	10
Interest cost	180	180
Benefits paid (inc administration costs)	(250)	(170)
Experience gain on liabilities	(80)	(80)
Changes to demographic assumptions	(80)	(10)
Changes to financial assumptions	(300)	570
Liabilities at the end of the year	5,200	4,890

Assets

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

Asset category	2016
Equities	42.2%
Property	11.7%
Diversified growth	8.6%
Infrastructure	2.5%
Bonds	23.5%
Index-linked gilts	11.3%
Cash and net current assets	0.2%
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	2016	2015
Discount rate	3.60% pa	3.40% pa
CPI inflation	2.05% pa	2.30% pa
Pension increase (CPI max 2.5% pa)	1.70% pa	1.80% pa
CARE revaluation (CPI max 2.5% pa)	1.80% pa	1.80% pa
Retirement age	"Minimum pension age"	"Minimum pension age"
Cash commutation	25% of pension	18% of pension
Mortality	105% of S1PMA (males) 110% of S1PFA (females) CMI 2015 model Long term trend rate 1.25% pa	105% of S1PMA (males) 110% of S1PFA (females) CMI 2014 model Long term trend rate 1.25% pa

Sensitivity of the liabilities

Adjustments to assumptions	Approximate effect on liabilities £000
Discount rate	
Plus 0.50%	(460)
Minus 0.50%	520
Inflation	
Plus 0.50%	430
Minus 0.50%	(390)
Rate of mortality	
Long-term trend rate increased from 1.25% pa to 1.50% pa	70

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 2017 are approximately £660,000.

The weighted average duration of the defined benefit obligation for the entire Fund (based on the IAS 19 assumptions at 31 March 2016) is around 17 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 2016.

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

	2016	2015
	£000	£000
Balance at 1 April		
Government grants	13,125	11,580
Other	3,827	724
	16,952	12,304
Received/(paid) during the year		
Government grants	2,000	2,945
Other – received	1,284	1,504
Other – paid	(500)	-
Transfer (to)/from current liabilities		
Government grants – transfer to current liabilities	(283)	(185)
Other - transfer from current liabilities	6	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	(191)	(165)
Other	(121)	(63)
Balance at 31 March	19,147	16,952
Comprise:		
Government grants	14,651	13,125
Other	4,496	3,827
	19,147	16,952

18 FINANCIAL INSTRUMENTS

Details of Scottish Canals' statutory and financial framework are set out on pages 29-30. 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 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

2015		Fixed interest rate					Non interest bearing	Total
	Floating interest rate	< 1 year	2 - 5 years	> 5 years				
	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	

2016	Note	Floating interest rate £000	Fixed interest rate			Non interest bearing £000	Total £000
			< 1 year £000	2 - 5 years £000	> 5 years £000		
Financial assets – loans and receivables							
Trade and other receivables	12	-	-	-	-	2,539	2,539
Asset at fair value	12	394	-	-	-	-	394
Cash and cash equivalents		4,940	-	-	-	1,633	6,573
Total financial assets		5,334	-	-	-	4,172	9,506
Financial liabilities at amortised cost							
Trade and other payables	13	-	-	-	-	5,603	5,603
Total financial liabilities		-	-	-	-	5,603	5,603

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 £509,000 (2015: £570,000). During the year, the organisation repaid Bigg Regeneration Limited Partnership £Nil (2015: £22,462).

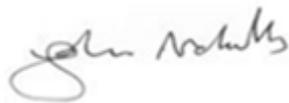
The Director of Finance and the Head of Legal services are Board members of Millennium Link Trust. During the year, the organisation incurred rental charges of £111,000 (2015: £110,000) to Millennium Link Trust and sold goods and services totalling £111,000 (2015: £110,000) to Millennium Link Trust.



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.