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| TITLE: | Quarter 1 2025-26 Finance Report |
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| JOB TITLE: | Director of Finance & Business Services |
| EMT APPROVED DATE: | 20 August 2025 |

PURPOSE

This paper provides the Board with an update on the latest position for the 2025/26 financial year, and a summary of other ongoing issues within the Finance & Business Services directorate.

RECOMMENDATION

For assurance.

BACKGROUND

A quarterly financial update is provided as part of the regular reporting suite of documents to inform the assessment of the organisation's operational budget to date and provide forecasting details of the year-end position.

ASSESSMENT

A. 2024/25 pre-audit position and progress

Accruals have been reviewed and adjustments made to the year-end figures for inclusion in the Annual Report & Accounts for last year. Further adjustments may arise during September and October as Audit Scotland work through their audit; however, the 2024/25 year is currently showing a break-even position.

There was an increase in income from utility accruals of [REDACTED] due to additional work on establishing actual readings and recoverable income in that area, with an increase of [REDACTED] in cost recoveries and sundry sales.

This made up for adjustments to expenditure during the year-end accruals process of [REDACTED] to wages and salaries and [REDACTED] in additional expenditure on maintenance, resulting in an overall break-even position.

The preparation of the 2024/25 Annual Report & Accounts is underway with a draft set of Annual Report & Accounts being reviewed internally the week of the Board meeting before a final draft will be made available to Audit Scotland as scheduled in September.

The ARC provided comments on the narrative of the document at the latest meeting on 5th June, and those comments have been taken into account.

As reported at the last Board, the work on fixed assets remains a resourcing concern, and as reported below in **Appendix 1** external audit recommendations update. There have been delays to the information required from project managers across the organisation regarding project status reports as at 31 March 2025. Some of those projects finished and went live prior to 31 March, and so the project assurance committee needs to consider better management of information flow to support the teams providing the information as well as the teams depending on that information.

B. 2025/26 Position to Date

The original 2025/26 budget was presented to the Board on 25 March 2025, showing a predicted overspend of [REDACTED].

The draft year-to-date net expenditure as at 31 July 2025 is [REDACTED]. This is a positive position compared to the expected budget of [REDACTED].

[REDACTED]

The bulk of the underspend represents planned works of [REDACTED] which have been subject to delay. This is not deemed to be a long-term saving over the course of the year due to the committed nature of the expenditure. However, there is an estimated underspend on utilities of [REDACTED] and an underspend on wages of [REDACTED] due to lower than expected expenditure on seasonal/casual staff which is subject to monthly analysis and scrutiny from the EMT, and a revised forecast in wages for the earlier than anticipated introduction of the salary sacrifice scheme to the defined contribution scheme with Scottish Widows. [REDACTED]

[REDACTED]

C. 2025/26 Reforecast (RF1)

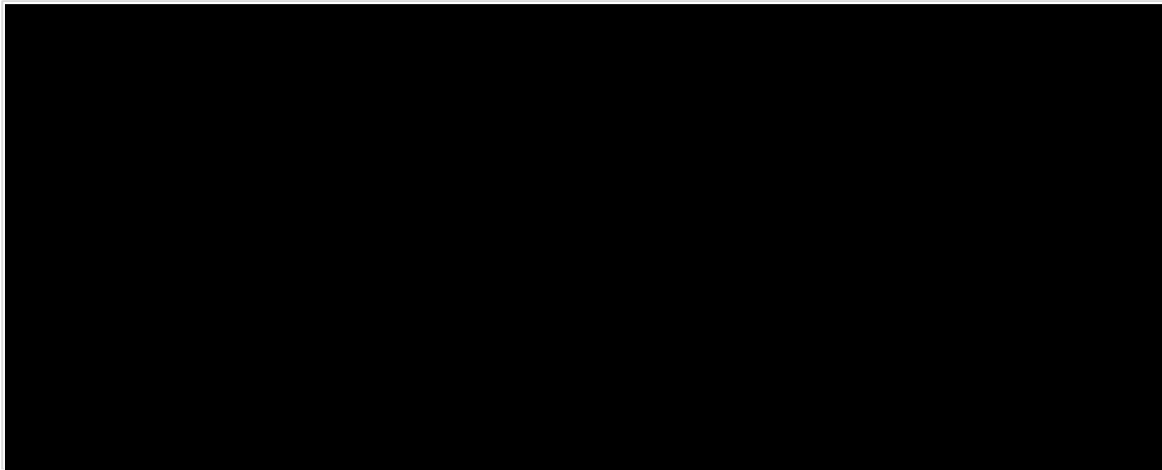
RF2 is collated from detailed analysis during October/November, is based on actual results for the end of September and provides a much more accurate picture due to the timing of the high season across our canals and destinations.

RF1 is the most difficult to forecast, and so only material adjustments have been made. The Heads of Service have all been provided with their reforecasted figures, with a clear instruction from finance that the aim is still to break even and all staff are expected to work towards reducing the forecast overspend.

A full list of committed and uncommitted costs for the rest of the year is being compiled so that an optimal understanding of future costs can be provided.

[illegible]

Decrease in Forecast Income since budget -



A consistent [REDACTED] of our income is from rental income, and the estates team has strong evidence that the portfolio has assurance over its tenancy arrangements.

With [REDACTED] of Scottish Canals' income based on Destinations, fluctuations on the retail side of the organisation can seriously affect the outturn position. The projected increase of [REDACTED] is ambitious but achievable. Despite issues with income from boats over recent months, the total retail income has performed well against the original budget to date. This indicates that the remainder of the summer months will be strong.

There have been drops in expected utilities and cost recovery income of [REDACTED] respectively. Income from utilities is based on estimations at this time of year, and the team have prudently provided for this. Cost recoveries are changeable dependant on what third party funding can be obtained and used against expenditure on, for example, towpaths. There are limited opportunities early in the financial year to develop programmes of work, and so the team have cautiously lowered this accrual.

| [REDACTED] | | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
|------------|------------|------------|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

The only material change in expenditure since the budget was published is a drop of [REDACTED] in Heat and Light.

[illegible]

C. Compliance – Pensions

There have been no further issues identified with pension compliance.

D. Compliance – HMRC

Corporation Tax and VAT is still under review by HMRC for the 2024/25 financial year. The finance team continues to follow up with them regularly to conclude this prior to the audit.

CORPORATE CONSIDERATIONS ANALYSIS

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| Strategic Priorities | Prioritisation of ensuring the organisation is well-run and fulfils its statutory obligations regarding financial compliance is part of our corporate plan 2023/28. |
| Health & Safety | N/A |
| Financial | There are no new financial implications arising from this report other than those detailed within the report. |
| Legal | There are no additional legal implications arising from the contents of this report out with those identified above. |
| Risk / Risk Appetite | Risks have been identified as above. |
| Sustainability | N/A |
| Environment | N/A |
| People | N/A |
| Fair Work | N/A |
| Communication | N/A |
| Community & Third Sector | N/A |
| Commercial | N/A |
| Asset | Depreciation is not included within this report as it is not part of the cash expenditure reflected in and reported against our cash revenue Grant-in-Aid package. |

RECOMMENDATION

The Board is asked to note the contents of this paper for awareness.

OUTCOME

APPENDIX 1

The Director of Finance & Business Services owns all the below audit recommendations.

| Audit of the Financial Statements 2023/24 | | | | | |
|--|--|---|---|---|------------------------|
| No. | Summary of Issue | Details | Recommendation | Agreed Management Action | Agreed Due Date |
| 1 | Accounting for assets under construction (AUC) – Inadequate procedures increase the risk of material error in the value of AUC and operational assets in the financial statements. | Operational assets should be held at fair value; assets under construction are valued at cost. When assets under construction are completed and transferred to operational assets they should be revalued (or their value assessed to confirm it is not materially different from fair value). Some operational assets transferred from assets under construction during 2023/24 were valued at cost and not at fair value. Some assets that became operational in-year were not transferred from AUC to operational assets. Some assets that were replaced were not removed from operational assets. | Arrangements should be put in place to ensure all assets under construction are reviewed to ensure that they remain correctly categorised at year end. Arrangements should include: Robust procedures / instructions for officers covering of the valuation of new operational assets and the disposal of any assets being replaced. Management review of treatment of assets under construction. | Accepted. Improvements in the Project Assurance Committee have been put in place to ensure reporting on assets under construction are adequately reported to the finance team for recording in the fixed asset system timeously after the year-end. Update: This is complete. However, it was completed late and has put the finance team under pressure at an exceedingly busy time once again. It is recommended that a 'lessons learned' meeting is held with the Project Assurance Committee and Project Managers, as such documentation should be a part of the fortnightly PAC updates, and should not be left outstanding until well after the year-end and the project has gone live. | 30-Jun-25 |

| No. | Summary of Issue | Details | Recommendation | Agreed Management Action | Agreed Due Date |
|-----|--|--|---|--|-----------------|
| 2 | Valuation of Investment Properties – Without proper reconciliation processes between the valuer's report and the FAR there is a risk of a material error in the financial statements. | There were discrepancies between the valuation of investment properties in the valuer's report as at 31 March 2024 and the values of those assets in the fixed asset register (FAR). | A reconciliation should be carried out between the valuer's report and the investment properties in the fixed asset register to ensure the fixed asset register is complete and accurate. | <p>Accepted.</p> <p>A reconciliation will now be conducted at least annually and is reflected in the timetable of work prior to the audit of the 2024/25 Annual Report & Accounts.</p> <p>Update: Work is scheduled. The Investment Property has been retendered this year, and as a result a lot of additional work has had to be undertaken by the Estates team. Although the deadline for the reconciliation is still expected to be met, the valuation is still outstanding as at the date of this report (19 Aug 2025).</p> | 31-Aug-25 |
| 3 | Indexation of assets held on the Fixed Asset Register – If the fixed asset register is not properly maintained then the application of indexation to assets held on the fixed asset register could result in | Indexation had not been properly applied to assets held on the fixed asset register because of inadequate update of the fixed asset register. This included incorrect classification of assets, unclear application of de minimis capitalisation threshold and the inclusion of third-party assets and prior year disposals. | Scottish Canals should put in place adequate arrangements to ensure the correct application of indexation to assets held on the fixed asset register. This should include a regular review of asset classifications, clear application of the de minimis capitalisation threshold, removal of third-party assets and disposals from the | <p>Accepted</p> <p>A review of asset classifications will be conducted annually, with an additional policy and procedure in place for classification on capitalisation. The existing disposal policy will be reviewed, and further work will be done at the Project Assurance Committee to identify</p> | 31-Aug-25 |

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| | a material error in the financial statements. | | fixed asset register to reduce the risk of errors in applying indexation. | disposals / possible disposals on project approval. Update: Additional policies have been put in place and are subject to review. | |
| 4 | Deferred Income - The reported deferred income figures are overstated because of incorrect accounting treatment. | Scottish Canals were deferring income over the lifetime of the related assets. The financial accounts were overstated by £8.438 million. | Arrangements should be put in place to ensure that deferred income applied is in line with IAS 20. This should include: Training and robust procedures / instructions for officers covering in the correct treatment of deferred income. Management review of treatment of deferred income. | Accepted Additional policy and procedure will be created in order that the Project Assurance Committee reviews third party funding requirements on agreement. Update: Additional processes have been put in place. | 30-Sep-25 |

| Wider Scope | | | | | |
|--------------------|---|--|---|--|-----------|
| 5 | <p>Asset Valuation Methodology - Without further support or training asset valuations will continue to require audit adjustments.</p> | <p>Ernst & Young have provided support and training to ensure FReM compliant valuations around useful lives and indexation. This support and training has been provided for one officer. Our financial statement work on valuations resulted in a number of audit adjustments.</p> | <p>Training and support on the application of the indexation methodology should be extended to ensure sufficient officer capacity and resilience. Management should review the application of the indexation methodology as part of the ARA completion process.</p> | <p>Accepted</p> <p>Training on application of the valuation will be provided to four members of the finance team to provide some resilience on single points of expertise.</p> <p>Update: The additional Senior Financial Accountant role was only approved by EMT on 1 July 2025 as other options were requested to be looked at first given the overspend budget position. As a result, the advert for the role has only just closed, and interviews are due to take place in August, with the hope that there will be a successful candidate by November to guide the 2025/26 year-end process.</p> | 30-Jun-25 |

| No. | Summary of Issue | Details | Recommendation | Agreed Management Action | Agreed Due Date |
|--|---|--|---|--|-----------------|
| 6 | Medium Term Financial Plan – There is a risk that strategic objectives are not met. | <p>Scottish Canals investment strategy and draft medium term financial projections have been agreed with Transport Scotland. There has been agreement with HMRC on arrangements for VAT and corporation tax.</p> <p>A workforce plan is currently being developed as part of a new People Strategy.</p> <p>To support the delivery of its Corporate Plan Scottish Canals' draft medium-term financial plan will need to be updated to reflect the position around investment, VAT, corporation tax and workforce planning.</p> | Scottish Canals should finalise its three-year medium-term financial plan to address the significant challenges around financial sustainability and the delivery of its corporate plan. | <p>Accepted A draft medium-term financial plan will be agreed by the EMT in the summer, for approval at the next available Board meeting in August 2025.</p> <p>Update: Work has been delayed with limited resources over the summer, and the overview strategy presented today is the first stage of a more consultative internal approach.</p> | 28-Aug-25 |
| Brought forward from the Prior Year | | | | | |
| 7 | Approach to future revaluations – Valuations become out of date and accounting policies are not FreM compliant. | <p>The current valuation of assets was undertaken at 31 March 2022. Revaluations must be redone within five years in accordance with the FreM.</p> | | <p>Accepted A full proposition for the year-ended 31 March 2025, 31 March 2026 and 31 March 2027 will be collated. A tender process will begin in May 2025, with an intention to have a new valuation contract in place by May 2026.</p> <p>Update: Work not yet started.</p> | 31-May-26 |

| No. | Summary of Issue | Details | Recommendation | Agreed Management Action | Agreed Due Date |
|-----|------------------------|---|----------------|---|-----------------|
| 8 | Disaster Recovery Plan | Scottish Canals should establish a formal disaster recovery plan. | | <p>Accepted Update: Additional Business Impact Analyses for key systems were all completed during the last quarter of 2024/25. Through consultation with an external CISO, Scottish Canals now has a comprehensive asset list with regular updates to ensure compliance visibility and internal awareness. More work to continue to prioritise systems, functions, and develop testing of the system during the summer months. Internal Audit has offered to provide support during the testing phase. There is availability of Audit Glasgow resource over September and October to conduct this work.</p> <p>The detailed Incident Management Plan and Guidance was updated in December as expected, with full emergency instructions.</p> | 30-Sep-25 |