

EXECUTIVE DIRECTOR: SARAH JANE HANNAH

QUARTER 2 2024/25 FINANCE REPORT

Purpose

This paper provides the Board with an update on the financial position for the 2024/25 financial year, and a summary of other ongoing financial issues.

Priority

Routine – this is reviewed on a quarterly basis and is part of the regular reporting suite of documents.

Key Messages

A. 2024/25 Position

2024/25 Results to 30 September 2024

Against an original budget position of net expenditure to 30 September 2024 of [REDACTED], the actual net expenditure to date compared favourably at [REDACTED]. [REDACTED]

The highlights include an additional [REDACTED] of income to date – [REDACTED]

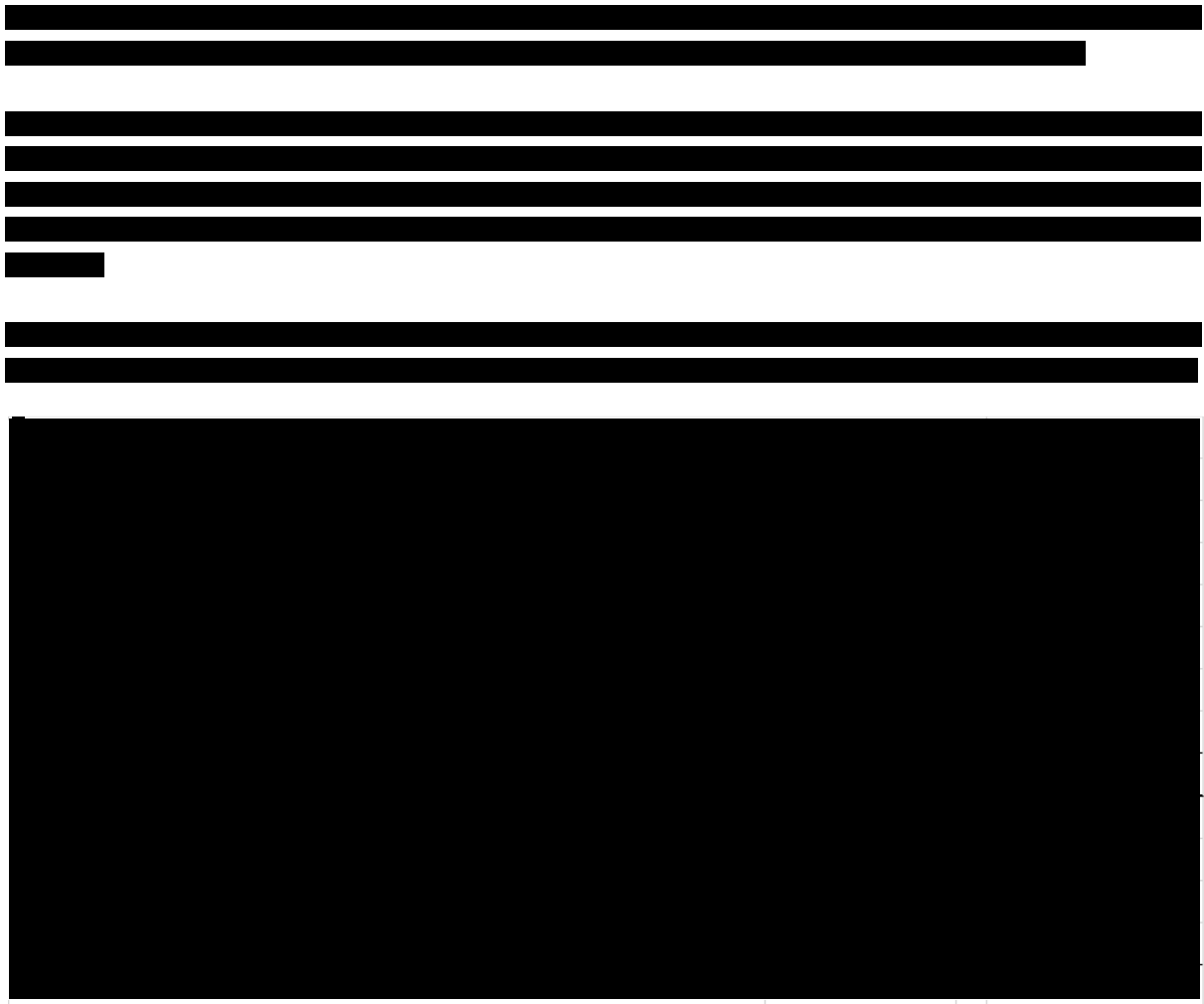
Expenditure is [REDACTED] more than originally budgeted – with associated cost of goods sold on retail and related credit card charges increasing [REDACTED]. There were increases in vehicle expenditure of [REDACTED], and utilities costs of [REDACTED], with savings of [REDACTED] on other staff costs and a high cut from [REDACTED] on marketing expenditure in line with government spending guidelines. Wages expenditure was in line with budget.

The RF2 position is based on the actual financial results at the end of September 2024, and the process of reviewing the position takes a minimum of three/four weeks after the closure of the September month-end accounting period. As a result, there are no figures available at the time of writing this report. Additional information will be provided verbally at the Board. It is expected that the budget-holders have cut some excessive projections from the RF1 position, as a lot of work has been done to reduce expenditure which was projected in July/August, and bring back the expenditure to be more in line with budget.

[REDACTED]
[REDACTED]
[REDACTED]

B.

[REDACTED]



A full VAT process has also now been shared with HMRC since the ARC, in order to solidify and formalise the methodology and calculations of VAT going forward. A response is awaited.

It is expected that Scottish Canals will produce a parallel run return during November for examination by HMRC, based on the September VAT return. This will require a review, and agreement on terms of payment in order to prevent any interest accruing in the future.

It is recommended that engagement with HMRC continues so that in the summer of 2025 HMRC have the opportunity to review the returns and assess compliance with the new VAT regime.

The Corporation Tax strategy has been reviewed, with a draft computation produced for the 31 March 2024 financial year. Agreement on the terms of corporation tax assessment going forward is now awaiting review by HMRC. This is still expected in December.

C. Annual Report & Accounts – progress report

The draft 2023/24 Annual Report & Accounts were presented to audit on 1st October, as per the agreed timeline. The team from Audit Scotland are conducting weekly meetings with the Head of Finance to review progress. To date, the Audit Scotland team has been undertaking review work, although they have experienced some absence throughout October. They have committed to reviewing resourcing over the next few weeks to ensure the audit remains on track.

As reported to the Audit & Risk Committee on 10 October, and as detailed in the appendix attached, 7 out of 13 external audit recommendations have been completed. The outstanding recommendations are summarised as follows:

- i. Medium-term financial strategy - incl VAT, Corporation Tax, Workforce Planning
- ii. Capital Policies and Procedures
- iii. Maturity of Disaster Recovery

It is recommended that updates on the above three remaining items will continue to be reported to the ARC until complete, however the recommendations template at the end of this report will no longer be produced, pending the outcome of the 2023/24 external audit.

D. Additional work

As reported at the previous two Boards, there has been no movement / sign-off of either the **Investment Strategy** or the **Framework Document**. This requirement for approval has also been raised with the Transport Scotland CEO. A meeting has been scheduled for 14 November with Richard Millar, Nicola Christie, SJ Hannah, Bianca Kirk and the sponsor team at Transport Scotland in order that this is progressed. The guidance around obtaining approval for all expenditure over £100k remains in place. This requires transfers of capital funds between projects to be sent to Transport Scotland, and any revenue contracts with expenditure over £100k. Transport Scotland have confirmed this is a temporary measure and will not feature as a permanent fixture in the Framework Document. With assurance that all revenue expenditure of that size is contractual, finance have agreed to retrospectively inform Transport Scotland, which they deem acceptable. Clarity over the use of commercial funds and scrutiny in this area will be discussed on 14 November.

Unfortunately, there has been a continued absence of a payroll administrator in the organisation, and although an interim payroll supervisor was in post, they left in August.

This has resulted in a significant increase in workload for the Director of Finance, Head of Finance and Financial Transactions Manager dealing with existing payroll issues as well as the administration exercise of correcting historic pension errors.

Despite this pressure, the additional re-forecasting work, and the audit of both BWB and Scottish Canals underway, the finance team successfully completed its requirements for the 2024/25 **National Fraud Initiative** exercise which had a deadline of 25 October 2024.

A new two-year post has been agreed by EMT, and a new payroll manager started on Monday 28 October. Their remit will include improving processes, procedures; integrating Planday timesheet management across the business; and ensuring there are robust controls with an internal due diligence review. This will set up Scottish Canals' payroll function in order that it could become part of a managed process out-with the organisation in line with public service reform.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- Asset: Nothing additional currently. 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.
- Environment: Nothing additional currently.
- Health & Safety: Nothing additional currently.

Conclusions and Recommendations

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

Author: Sarah Jane Hannah
Title: Director of Finance & Business Services
Date: 30 October 2024

No	Issue/risk	Recommendation	Agreed Management Action	Update from Management – 30-Sep-2024	Agreed Date of Action	Agreed Action Owner
1	<p>Review of valuation status of assets</p> <p>We found some assets that had not been subject to revaluation review process, and these were obtained late in the audit process but not adjusted in the accounts.</p> <p>Risk – valuations are not fully reflected in the accounts.</p>	<p>Scottish Canals undertakes a review of all depreciated replacement cost (DRC) assets to check that that a valuation report has been obtained and is reflected in the Asset Register.</p>	<p>A review of all the valuations will be conducted for the 31 March 2024 year-end to ensure assets requiring revaluation have been incorporated in the valuation.</p> <p>The adjustment for the late valuations was under the materiality threshold. Late changes to the Accounts were not made for immaterial adjustments.</p>	<p>Despite the delay in some information coming to the finance team., this review is now complete and awaiting external audit.</p>	Complete	Director of Finance & Business Services

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2	Asset register formula checking We found errors in the Fixed Asset Register formulae. Risk - Amounts used in the Accounts are incorrect due to errors in FAR formulae.	Management should review the formulae in the FAR as part of the FAR closedown procedures.	Although a review of the 31 March 2023 Fixed Asset Register (FAR) was undertaken, this formulae error was not identified prior to audit. Time for both peer review and manager review of the completed FAR will be incorporated within the year-end timetable.	Despite delays, this work is now complete in time for the external audit review.	Complete	Director of Finance & Business Services

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3	<p>Medium term financial strategy/ outlook projections and Corporation Tax /VAT</p> <p>Scottish Canals does not have a medium-term financial strategy (MTFS) in place as at November 2023.</p> <p>Recent changes to the calculation of tax may not be fully reflected in future financial plans.</p> <p>Risk – That future financial position is unsustainable.</p>	<p>Scottish Canals should review and revise future financial forecasts and issue a 3-year medium term financial plan.</p>	<p>a. Adjustments to the final proposition for calculating VAT are being collated, with an expected final position expected in April 2024.</p> <p>b. The methodology for the organisation's corporation tax since becoming a non-departmental public body will also be reviewed. Discussions with HMRC have not begun pending the VAT work, however HMRC have been informed of the intention to reach a written agreement on the treatment of grant-in-aid and associated expenditure. (June 2024)</p> <p>c. Draft medium term projections were shared with Transport Scotland in July 2023, with an investment strategy shared in February 2024. Once the VAT position has been finalised, a full projection on investments has been conducted, a more robust medium-term financial strategy will be completed.</p>	<p>Stage one is finalising the VAT and Corporation Tax positions, as this will have a significant impact on future spending power of the organisation.</p> <p>HMRC has not provided a full assessment based on the HMRC/Transport Scotland/Scottish Canals meeting held Friday 26th.</p> <p>The Corporation Tax strategy has been reviewed, with a draft computation produced for the 31 March 2024 financial year. Agreement on the terms of corporation tax assessment going forward is now awaiting review by HMRC. This is still expected in December.</p> <p>The Investment Strategy is still awaiting authorisation by Transport Scotland.</p> <p>Projections were shared with the Board in August 2024 – see annex to this paper.</p> <p>The latest quarter two reforecast position will be collated in October, and then 2025/26 budget and additional forecasts will be subject to further review. This will be shared with Transport Scotland to take into account for the 2025/26 budget process, and will inform the strategy along with the workforce planning strategy.</p>	<p>31-Jul-24 (see Corporation Tax commentary and likely extended deadline to December 2024 for Corporation Tax)</p>	<p>Director of Finance & Business Services</p>

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4	<p>Late capital grants</p> <p>As significant amount of capital grants were not identified till after the accounts were submitted for audit.</p> <p>Risk – capital grant funding is not recognised in the accounts.</p>	Accounts closedown procedures should include a process to identify capital grants to ensure these are complete.	As part of the internal audit on project management, procedures on Stagegate completion of projects (SG5) are being reviewed and improved within the Project Assurance Committee. Part of this review includes a financial review of any third-party funding agreements going forward. An additional review will be timetabled as part of the year-end procedures prior to the first draft of the 31March 2024 accounts being collated 31 July 2024.	This was completed in line with timetable in July.	Complete	Director of Finance & Business Services
5	<p>Procedures and controls over asset movements and completion/disposal</p> <p>Some assets were incorrectly recorded as Assets under construction when they had been completed and the unaudited accounts included an asset disposal in error.</p> <p>Risk – Movements in assets are not correctly recorded.</p>	Scottish Canals should establish processes and controls to ensure asset additions, disposals and transfers are correctly recorded and communicated to Finance.	As detailed above (recommendation 4), the Stagegate reports on project completion (SG5) are being improved. These were not all completed timeously for the 31 March 2023 financial year. These will form part of the Project Assurance Committee timeline during April and May going forward.	A number of procedures and processes are now in place, with the Project Assurance Committee finalising new Stagegate and providing staff training on 9 th October.	31-Jul-24 (now likely to be delayed until mid-October)	Director of Finance & Business Services

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6	<p>Review of the group and group accounts</p> <p>Millennium Link Trust (MLT) was effectively a subsidiary body prior to 2021/22 and had material assets, which should have led to Scottish Canals preparing group accounts. The status of ownership of Bigg Regeneration Ltd Partnership changed, due to the consequences of the land swap deal. Any growth in value of the joint ventures could mean that these become material group bodies.</p> <p>Risk – that Scottish Canals wrongly continues to rely on the immateriality of its group and continues not to prepare group accounts.</p>	<p>Scottish Canals should review the status of each of its group entities for accounts purposes, with legal advice if necessary. The accounts closedown process should include an explicit review of the materiality of group entities.</p>	<p>This has been reviewed each year with previous auditors. Scottish Government and Azets reviewed the situation during the 31 March 2023 financial year - all concurred with Scottish Canals that no consolidation was necessary. However, this will continue to be reviewed annually on the basis of any material increase in the value in Bigg Regeneration as advised above.</p> <p>A special resolution to wind up MLT was lodged with Companies house in November 2023, and Johnston Carmichael are managing that voluntary liquidation process.</p> <p>Edinburgh Quay Limited and Edinburgh Quay (Three) Limited were both dissolved on 2 January 2024.</p> <p>The only remaining related organisations are:</p> <ul style="list-style-type: none"> •BwB (General Partner) Limited •Bigg Regeneration (General Partner)Limited •Bigg Regeneration Limited Partnership 	<p>The management accounts from BIGG have now been received, and an assessment has been completed. With no material changes to the BIGG accounts, it considered unnecessary for group accounts to be prepared for the year ended 31 March 2024.</p> <p>This will continue to be monitored in future years.</p>	Complete	Director of Finance & Business Services

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7	<p>Approach to future revaluations</p> <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>Risk - Valuations become out of date and accounting policies are not FreM compliant.</p>	Scottish Canals should outline plans for the future revaluation of its assets within the FreM framework.	<p>A handover piece of work from EY is due in March 2024, with an initial proposal to use indices to update the valuation for the 31 March 2024 year-end.</p> <p>A full proposition for the year-ended 31 March 2025, 31 March 2026 and 31 March 2027 will be collated and provided to Audit Scotland during the 2023/24 audit.</p>	<p>A full handover is now complete, with all required data for Scottish Canals to complete the interim valuations in-house.</p> <p>Scottish Canals has determined that this process will remain in place for the year ended 31 March 2025, unless there are any additional audit recommendations.</p> <p>A full valuation by external valuers will be required as at 31 March 2027, however consideration will be given to an alternative process next year.</p>	31-Mar-24 (additional review work will be conducted – expected completion the beginning of September)	Director of Finance & Business Services
8	<p>Review of disclosures</p> <p>Significant improvements were made in the accounting disclosures in 2022/23, but there is further scope to review these and make further improvements. For example in describing the sensitivity of key assumptions in estimates</p> <p>Risk - Important disclosures that assist in the understanding of the accounts might be omitted.</p>	Scottish Canals should further review their disclosures as part of preparing 2023/24 financial statements.	A technical review of disclosure requirements will be conducted as part of the timetable for the 31 March 2024 year-end.	Completed on track with the accounts preparation process.	Complete	Director of Finance & Business Services

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9	Related party interests and register of interests We found an inconsistent approach for identifying and recognising other related parties, which did not consider recording or reporting any related party responsibilities undertaken by Heads of departments.	Scottish Canals should review its process for recording and related parties (Exhibit 4)	A review of our Senior Management Team will now be incorporated as part of the annual review.	These have been completed.	Complete	Director of People, Safety & Governance
b/f 1.	Disaster Recovery Plan	Scottish Canals should establish a formal Disaster recovery plan.	This is being monitored as part of our key requirements in internal audit. A working group will be established to work through this during quarter one of the 2024/25 financial year.	Although there has been a working group established, and a roadmap prepared, there have been insufficient resources to progress this. It is expected that this will take more time, and will not be fully completed until 31 December 2024.	31-Jul-24 (expected delay to 31 December 2024 – see update in ARC paper on progress from management)	Director of Finance & Business Services
b/f 2.	Dundashill	Scottish Canals still own certain Dundashill plots, which are currently valued as an investment property. It is recommended that the Board review this strategy.	The Board has been updated since the 2021/22 financial year on the progress and updated strategy at Dundashill as part of the overriding Investment Strategy. This will continue to be reported to Board, however there has been no change in strategy recently whilst the existing plots are being developed out through the BIGG joint venture.	A written report was provided to the Board at the August meeting, with a visit to the site including partners from Glasgow City Council, NG Homes, Scottish Opera, Igloo Regeneration in order to review the strategy.	30-Sep-24	Chief Operating Officer

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b/f 3.	Workforce planning	Scottish Canals should develop a workforce plan.	Recent years have focussed around workstreams within the job evaluation project. Establishing a workforce plan is key to the medium-term financial strategy going forward. Re-setting the establishment, a review of working hours and rotas, defining business and customer needs, and embedding succession planning throughout the organisation, consolidating into a new People Strategy will be targeted during the calendar year.	In Process	31-Dec-24	Director of People, Safety & Governance
b/f 4.	VAT position	If the VAT settlement is less than forecasted, Scottish Canals need to agree how the funding, not used, will be transferred back to Scottish Government.	It is anticipated that the VAT settlement will be finalised over the next two months. Transport Scotland has intimated that any overpayment should be repaid as part of a capital grant-in-aid return back to Transport Scotland for distribution. Based on the latest revised estimations, the likelihood of there being a large repayment is low.	Meeting with HMRC, Scottish Canals and Transport Scotland held on 26 th July to respond to outstanding queries. Outcome report outstanding as at today's report date.	31-May-24 (delay likely until end of October for confirmation of calculations)	Director of Finance & Business Services