



**Scottish Funding Council**  
Annual Report and Accounts 2016-17



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## Chair's Foreword



The last year has seen considerable discussion about further and higher education. This has been prompted by a number of major reviews, including the Scottish Government's review of the enterprise and skills agencies, Audit Scotland's reviews of colleges and higher education in Scotland's universities, and increased interest in colleges and universities by the Scottish Parliament.

We welcome these reviews because they have highlighted the contribution that colleges and universities make to Scotland's economy, society and well-being, and the role that SFC plays as the national, strategic body for the funding of further and higher education. The discussions have been wide-ranging, but have focused particularly on two key questions: what contribution can colleges and universities make to improving Scotland's long-term economy and prospects? And how can we continue to develop our education system in a way that improves access, creates more opportunities for more learners, and reduces inequality?

These are questions which have been central to our progress over the last year, and to our Strategic Plan ambition that Scotland should be the best place in the world to learn, to educate, to research, and to innovate.

On the economy, we have supported the Scottish Government's Economic Strategy by working to improve the environment for innovation in Scotland, particularly through our funding and support for eight Innovation Centres in key economic sectors. We want the Innovation Centres to stimulate greater collaboration between industry and academia and we commissioned a review of progress from Professor Graeme Reid, which reported in the autumn of last year. I was pleased that the conclusions of Professor Reid's review were very encouraging, and reinforce the potential of the programme in its attempts to achieve transformational change for Scotland's economy. Indeed, in a debate in the Scottish Parliament in November last year on how Scotland's Innovation Centre Programme is driving innovation, it was gratifying to see the potential of the Innovation Centres, and SFC's role in establishing the Programme, acknowledged by so many MSPs.

The review also identified some important opportunities for the future and, as a result, we are developing proposals which recognise the contribution that colleges can make to business innovation.

We have also continued to invest in other initiatives aimed at improving innovation in the economy, including through our Innovation Voucher Scheme, and our University Innovation Fund. I was delighted that SFC was able to host an event at the Scottish Parliament in March this year, showcasing some of the innovative ideas coming out of Scotland's universities.

Our research base provides a strong foundation for the development of an innovation-driven economy. We have therefore continued to focus our investment on world-leading and internationally excellent research and, in our funding decisions for the next financial year, have given priority to protecting the core research budget and maintaining our Research Excellence Grant at the same level as in Academic Year 2016-17. As well as supporting our ambitions for innovation, our funding will allow universities to continue exploring some of the big challenges facing our society and the world.

Improving access to learning has been a personal priority during my period as Chair of SFC. I am pleased that there has been steady progress in improving the opportunities for students from disadvantaged backgrounds, with the latest information showing that the proportion of students to Scottish universities from the 20% most deprived areas has increased from 13.3% in 2012-13 to 14.4% in 2015-16. However, this is only one measure and does not tell the whole story, and, as I made clear in my Foreword last year, there is still much more to do if all our young people, whatever their background, are to have an equal opportunity to succeed in education.

I was very pleased therefore to learn in December 2016 of Professor Sir Peter Scott's appointment as Scotland's first Commissioner for Fair Access to Higher Education. Professor Scott has a wealth of experience, and we look forward to working with him to remove the barriers to fair access, and to implement the recommendations of the Commission on Widening Access (COWA). We made an important start in the next phase of our work on fair access, by setting new national aspirations in our Outcome Agreement guidance to universities. These targets will help us make progress in achieving the First Minister's goal that a child born today in one of our most deprived communities should, by the time he or she leaves school, have the same chance of going to university as a child born in one of our least deprived communities.

We have taken forward a wide range of other work over the year which will create more opportunities for more learners. For example, we have worked with colleges to develop the young workforce by introducing new vocational learning pathways in the Senior Phase of Curriculum for Excellence in schools. Our data shows that these are providing more opportunities, with an increasing uptake of these vocational courses, rising from 2,101 in 2013-14 to 3,014 in 2015-16. And we have taken on new work to support the Scottish Government's priorities for education, particularly in closing the attainment gap between children from disadvantaged backgrounds and those from better off backgrounds. An example of this is our work to support a significant

expansion in Early Learning and Childcare (ELC), where we have been developing plans to increase and develop the ELC workforce through the learning provision of colleges and universities.

A common theme in much of our work is partnership working. As the newly appointed Chair of SFC in October 2013, I realised very quickly that SFC's national position provided a real opportunity to develop our system of learning in Scotland; but it would require more and better partnership working to help improve the opportunities for learners, the learner journey, and the learning environment. We have therefore given priority to working with other public bodies and agencies to develop joint solutions, create new opportunities, and highlight the positive contribution that colleges and universities make to Scotland's well-being.

To give just one example from last year, I was delighted that SFC was able to develop a partnership with Universities Scotland to support *Scotland's Universities Welcome the World*, an initiative intended to showcase the diversity of life in Scotland's universities. Over 350 people from 65 countries came together in Edinburgh in January to celebrate the launch at a Burns Night with an international twist, attended by Scotland's First Minister. It was a pleasure to meet so many young people from across the world who have chosen Scotland as a place to study and learn, and to celebrate together the cultural value that international students bring to Scotland.

Our national role also allows SFC to look ahead and think strategically about the future needs of the college and university sectors and, at times, to ask some challenging questions: how should colleges and universities be funded to maintain excellence and international competitiveness? What kind of infrastructure will colleges and universities need in the future?

This ability was brought home to me at a gala reception that I attended in October last year with other members of the SFC Board to celebrate the completion of the new City of Glasgow College building at Cathedral Street. This new, state-of-the art

college campus, one of the largest in Europe, is transforming the learning and teaching environment for students in Glasgow, and is miles away from the image of college buildings of only a few years ago. But it is the result of the ability of SFC to plan for the long-term and work closely with colleges, Scottish Government and others to achieve change in a sometimes complex and rapidly changing environment.

These are just a few examples of work that we have been doing over the last year to deliver our Strategic Plan priorities, and the priorities of Scottish Ministers.

This is my final Annual Report as Chair of SFC. It has been a privilege to lead the organisation over the last few years, and to witness the remarkable progress of our colleges and universities. We have a successful further and higher education sector in Scotland and, although there will continue to be significant challenges, not least from Britain's withdrawal from the European Union, I am confident of its prospects for the future.

Finally, I would like to thank colleges, universities, and colleagues in Scottish Government and our partner bodies for their support and advice during my period as Chair. I also want to put on record my appreciation of the enthusiasm, dedication and hard-work of SFC's Board members and staff, and their commitment to the work of the organisation. I wish you every success.

A handwritten signature in black ink, appearing to read 'Alice Brown', with a long horizontal flourish extending to the right.

**Professor Alice Brown CBE**

Chair

### Interim Chief Executive's Report



#### Introduction

My report introduces our organisation and provides a brief summary of our Strategic Plan priorities, a review of our performance, and highlights the key risks that we have faced over the last year.

#### Who we are

The Scottish Further and Higher Education Funding Council (SFC) is the national, strategic body for funding teaching and learning, research, innovation and other activities in Scotland's 25 colleges and 19 universities and higher education institutions. SFC is a Non-Departmental Public Body (NDPB) of the Scottish Government and was established on 3 October 2005.

#### Our Strategic Plan 2015-18

Our Strategic Plan ambition is that Scotland should be the best place in the world to learn, to educate, to research and to innovate by 2025.

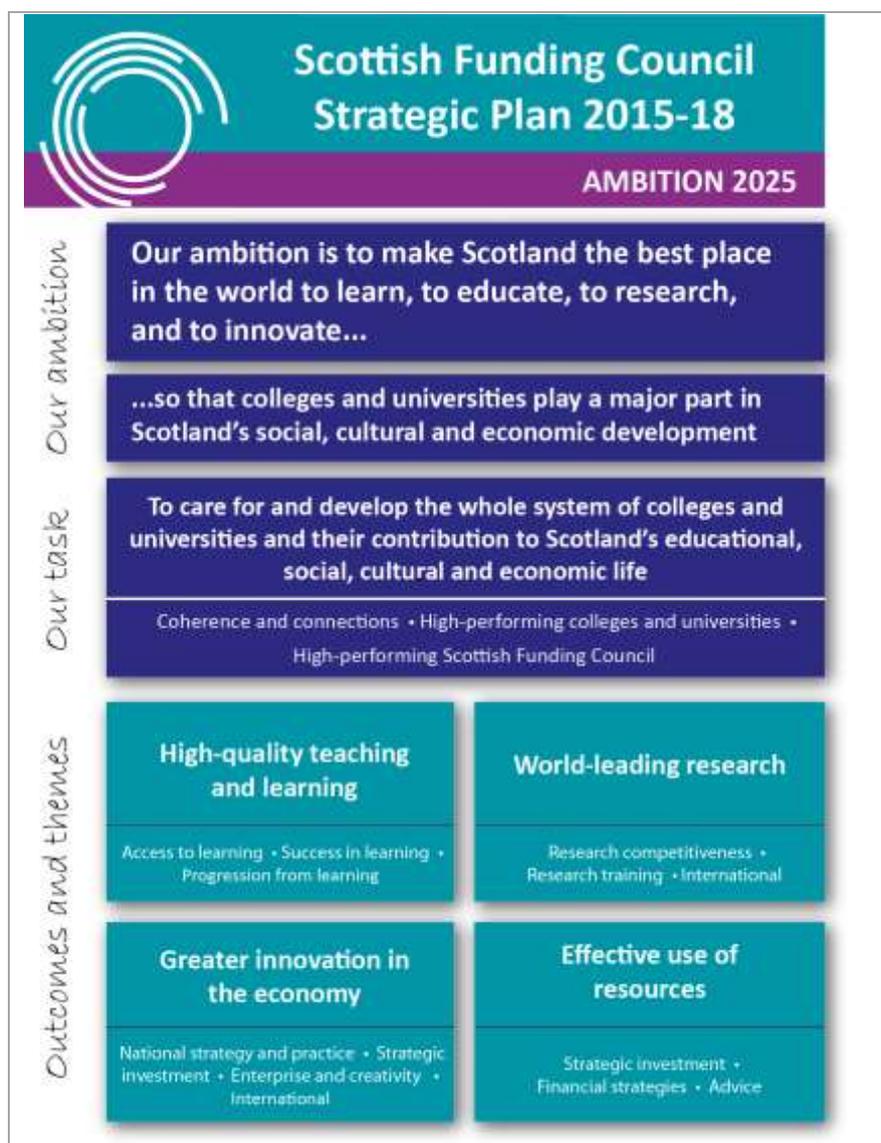
Our task is to care for and develop the whole system of colleges and universities and their connections and contribution to Scotland's educational, social, cultural and economic life. We do this by:

- Developing Outcome Agreements with colleges and universities, which set out what they will deliver in return for our funding, and monitoring performance.
- Being an active, creative and reliable partner with others where we have shared or overlapping goals – Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, NHS Education Scotland, Research Councils, NUS Scotland, local authorities – and many others.

- Promoting improvement across the whole education system through our influence and funding but particularly in every aspect of our colleges and universities.
- Investing strategically in colleges and universities to support national initiatives, mergers or shared services.

We use our resources effectively to achieve three key Strategic Plan outcomes:

- High-quality learning and teaching.
- World-leading research.
- Greater innovation in the economy.



## Performance summary

The evidence suggests that our performance against our Strategic Plan outcomes is good, despite a challenging external environment.

In the past year, both the college and university sectors provided more learning opportunities for students by exceeding our student activity targets for Academic Year (AY) 2015-16. Colleges and universities are continuing to make a major contribution to Scotland's prosperity, with over 225,000 skilled and creative people entering the economy or further study every year.

We have seen modest progress in widening access to learning, with an increase in the proportion of learners from the 20% most deprived areas of Scotland entering university. In addition, we have also seen an increase in the proportion of college entrants from the 10% most deprived areas, as a percentage of total activity. However, we recognise that we will need to see quicker progress if we are to meet the targets set by the Commission on Widening Access (COWA) and the First Minister.

In research, our long-term sustained investment in research has been vital to the world-wide reputation of Scotland's universities. For example, Scotland continues to score very highly in international rankings of research universities: in the 2016 QS World University Rankings, three Scottish universities appeared in the top 100. The university sector also continues to attract a share of UK Research Council income at a level that is well above Scotland's population share of the UK, attracting 14.7% of total income in 2015-16. At the same time, the research undertaken at Scotland's universities is having an impact on all aspects of society – from improving business innovation to developing our understanding of Scotland's culture, society and history.

We have continued to invest in strategic initiatives aimed at improving university-business interaction and, through that, greater business innovation. There is evidence of increasing links between universities and businesses; for example, income to universities from knowledge exchange activity increased from £418 million in 2014-15 to £451 million in 2015-16. Our planned investment of up to £120 million in Innovation Centres in key sectors of the economy, alongside other initiatives, such as our funding of Interface – the business/university 'matchmaking' agency – are also making a real difference. These improvements highlight the value of our partnership work with the enterprise agencies, universities, colleges, and business.

In terms of our own organisation, in recent years we have transformed SFC and its impact. We have moved our focus from funding the system of colleges and universities to promoting the delivery of better outcomes from learning and research, which benefit Scottish society, culture and development. We have continued to develop our Outcome Agreement approach to the funding of colleges

and universities and, during the year, published our national aspirations for colleges and universities over the period from 2017-18 to 2019-20.

We have continued to act as the authoritative source of evidence, data and information on further and higher education in Scotland, by providing advice to the Scottish Government and others, by contributing to various national policy reviews, and by publishing a wide range of data, statistics, and analyses. At the same time, our work to improve our communications has shown good progress, with an increased profile for SFC on social media and strong interest in our work from the media and stakeholders.

More detailed information about our performance in 2016-17 is contained in the next section of the Annual Report and Accounts.

### Key risks

During the course of Financial Year (FY) 2016-17, we have managed between 12 to 18 corporate level risks to the achievement of our Strategic Plan objectives. These risks have appeared in our corporate Risk Register and fall into the following broad categories:

- The financial health of colleges and universities, and governance in the college sector, including specific issues arising from historical decisions taken by some college boards of management during their merger process.
- Budgets for colleges and universities in the context of the Spending Review and the draft Scottish Budget for 2017-18.
- The achievement of performance indicators and student number targets in the college sector, including student number targets for European Social Fund (ESF) activity.
- Communications and SFC's role and relationship with partner bodies and other stakeholders.
- Britain's exit from the European Union and the implications for colleges and universities.
- Climate change targets and the implications for colleges and universities.
- Industrial relations in the college sector.
- SFC's internal capacity and resources.

We have actively managed these risks throughout the year, working closely with Scottish Government, colleges, universities and other partners. In particular, our Board has focused a significant amount of attention on the cumulative impact of the different risks to the college sector.

As in previous years, a common theme running through these risks is 'change' and the capacity of colleges and universities to respond and adapt to a rapidly changing external environment. We will continue to give priority in 2017-18 to helping colleges

and universities adapt in a way that supports their sustainability and our Strategic Plan ambitions.

As well as the risks in our Corporate Risk Register, SFC has also addressed some significant issues during FY 2016-17. The significant issues are listed in the Governance Statement in Section 2 of this document.

### Going concern

The statement of financial position at 31 March 2017 shows net assets of £9.1 million. Funding for 2017-18 has been approved by the Scottish Parliament and there is no reason to believe that future funding and budgetary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

### Final remarks

I was delighted to be appointed Interim Chief Executive of SFC in August 2016 and am grateful for the support that I have received from colleagues in colleges, universities, Scottish Government, our many other partners, and of course the staff and Board of SFC. We all have in common a desire to make Scotland the best place in the world to learn, to educate, to research, and to innovate, and I look forward to working with you over the next year to achieve our shared ambition.



**John Kemp**

Interim Chief Executive and Accountable Officer

Date: 23 June 2017

## Performance Analysis

Following the introduction of our current Strategic Plan in 2015, we introduced a Performance Report which measures and assesses our performance. The report draws on qualitative and quantitative evidence, including performance indicators. We report to the SFC Board on our performance at each meeting.

Our progress over the last year is summarised below.<sup>1</sup>

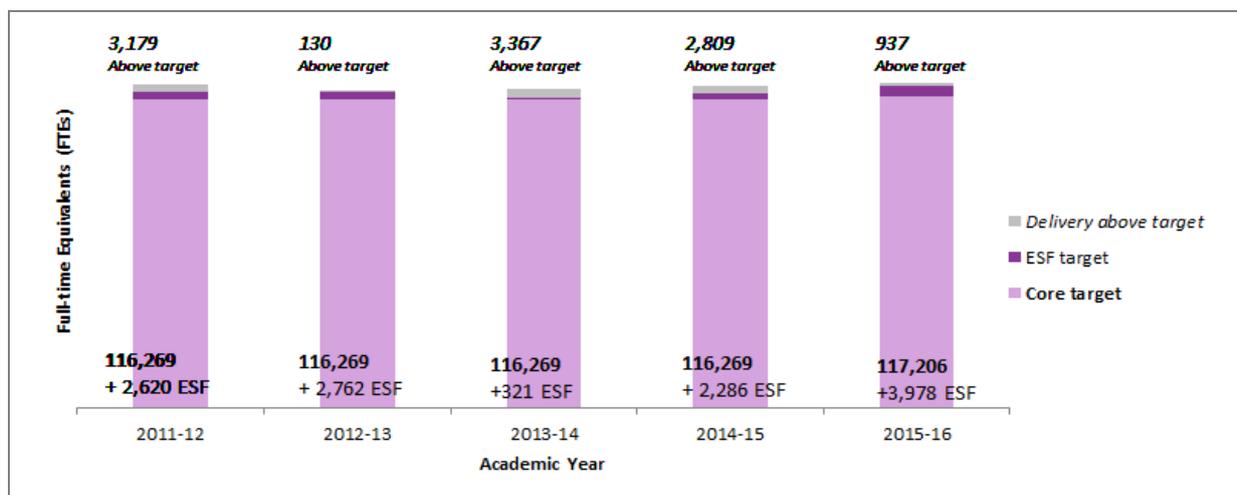
### Outcome: High-performing colleges and universities

Our purpose here is to achieve a coherent system of high-performing, sustainable colleges and universities with good governance arrangements.

In the past year, both the college and university sectors provided more learning opportunities for students across Scotland by exceeding SFC's student activity targets for Annual Year (AY) 2015-16.

### Performance indicators

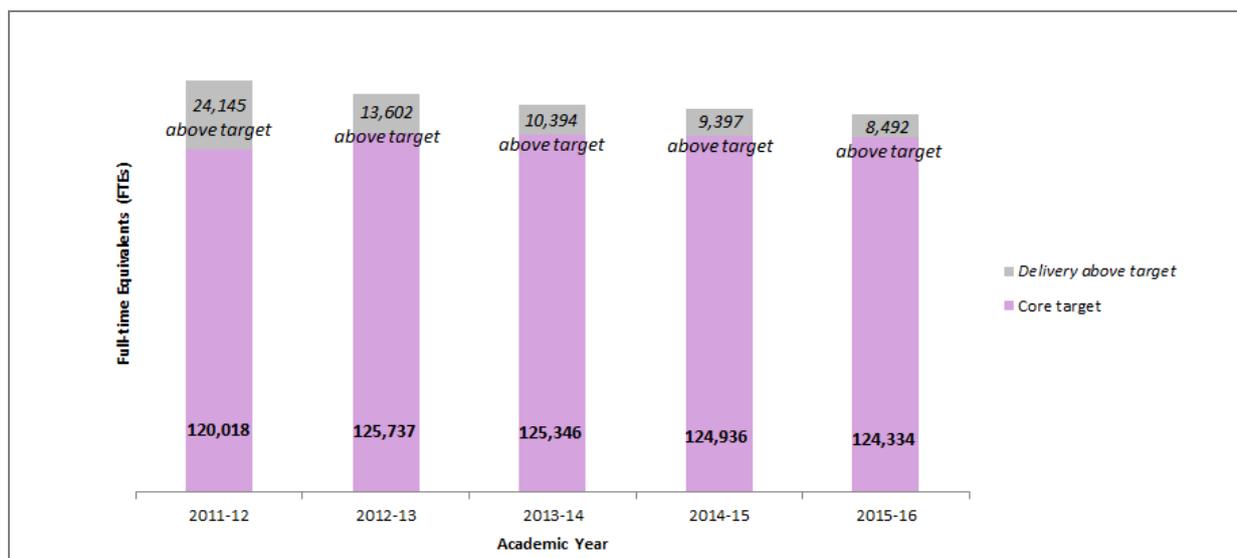
#### Scotland's colleges: delivery against FTE targets (including European Social Fund activity)



Source: SFC Further Education Statistics (FES)

<sup>1</sup> Where a chart shows 'Latest', this indicates the latest year for which data is available.

## Scotland's universities: delivery against FTE targets



Source: Higher Education Statistics Agency (HESA)

The introduction of a regional structure is continuing to transform the college sector in Scotland and improve the opportunities for students. In August 2016, we published a report into the impact and success of the programme of college mergers. Our report concluded that the implementation and outcome of the merger programme has been a success, although some colleges are still addressing particular challenges, including financial and operational issues. The report can be found on SFC's website ([www.sfc.ac.uk](http://www.sfc.ac.uk)). During the year, we continued to support the Regional Strategic Bodies in the college sector, including working with the Lanarkshire Regional Board and Glasgow Colleges' Regional Board to ensure that they are in a position to take on responsibility for funding their assigned colleges. We also contributed to a review of the structures and ways of working at the University of the Highlands and Islands (UHI), with a view to developing a fully connected tertiary learning system in the region.

The opening of both the new Cathedral Street Campus at the City of Glasgow College and Ayrshire College's Kilmarnock Campus in 2016 marked another important stage in SFC's programme of work over a decade and more to transform radically the learning environment for students in these two important areas. In December 2016, we received ministerial approval to progress Forth Valley College's new Falkirk campus. This will be an £83M project, with SFC providing £70M in capital grant, and will create significant new opportunities for learners in that region.

During 2016-17, we continued to develop our approach to assessing the financial health of colleges and universities, by focusing our staff resources and support on those institutions at greatest risk.

We have also given priority to supporting the work that colleges and universities do to become more accessible and diverse. In August 2016, we published our first

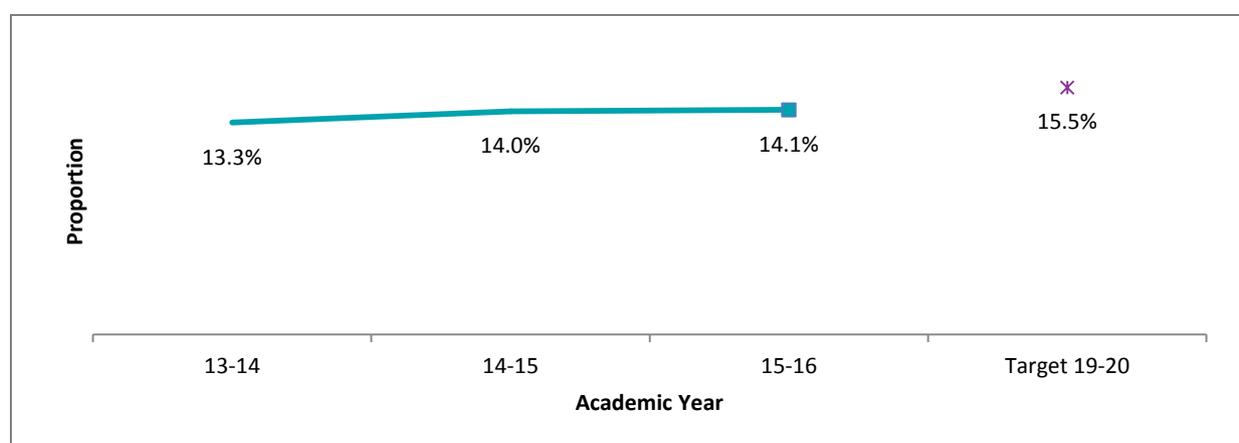
Gender Action Plan, which sets out the actions that we will take to address gender imbalances at the subject level within college regions and universities.

### Outcome: High-quality teaching and learning

Our purpose here is to achieve an outstanding system of learning which is accessible and diverse, and where students progress successfully with the ability, ideas and ambition to make a difference.

#### Performance indicators

##### Proportion of Scottish domiciled undergraduate entrants to Scottish HEIs from the 20% most deprived areas (AY)



Source: Higher Education Statistics Agency (HESA)

Colleges and universities have devoted significant attention to meeting the needs of learners from deprived areas, and there is continued improvement. In particular, data for AY 2015-16 shows a modest increase in the proportion of learners from the 20% most deprived areas of Scotland entering university. There has also been an increase in the proportion of college entrants from the 10% most deprived areas, as a percentage of total activity.

We recognise that there is more to do. The trends in relation to the young fulltime student intake to our universities from the 20% most deprived areas are less positive than for all students, as are successful completion rates in the college sector from the 10% most deprived areas. We have agreed that addressing these issues will be a priority in our Outcome Agreements with colleges and universities.

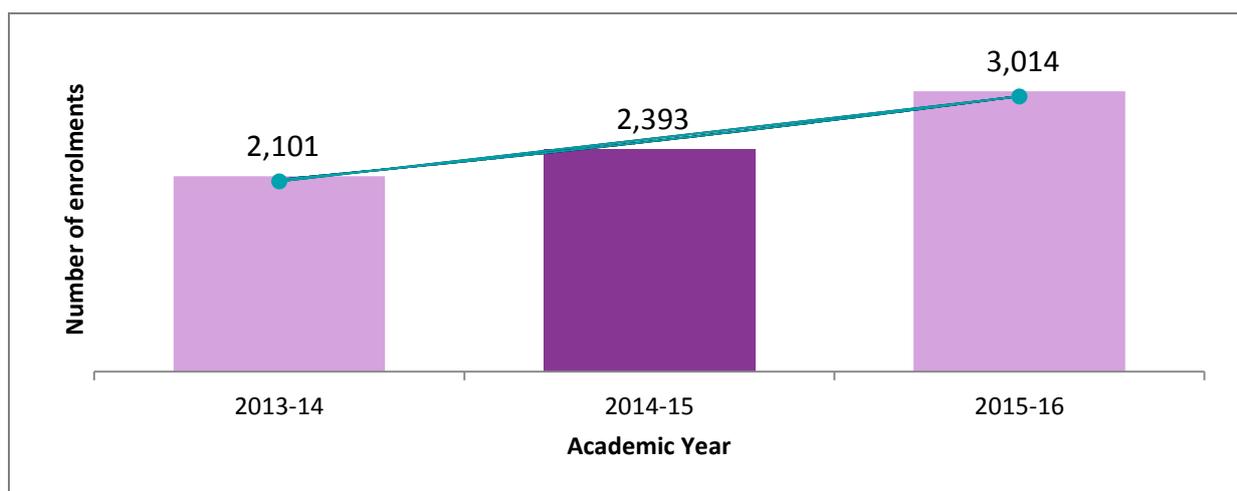
We also recognise that we will need to see quicker progress if we are to meet the targets set by the Commission on Widening Access (COWA), including ensuring that, by 2030, students from the 20% most deprived areas should make up 20% of entrants to higher education. We therefore included the COWA widening access targets in our Outcome Agreement Guidance for 2017-20 onwards.

In December 2016, the Scottish Government announced that Professor Peter Scott had been appointed the first Commissioner for Fair Access to Higher Education in Scotland. Since his appointment, we have been working with Professor Scott on our approach to widening access.

Ensuring that students have a high-quality learning experience and are able to progress successfully through their learning are also important priorities for SFC. We engaged in activity aimed at improving the connections in the learning system, particularly through our work on progression from college to university (articulation) and through colleges' key delivery role in the implementation of the Scottish Government's youth employment strategy, Developing the Young Workforce (DYW).

Colleges are playing a central role in DYW by introducing new vocational learning pathways in the senior phase of Curriculum for Excellence in schools. Our data for 2015-16 shows an increasing uptake of senior phase vocational courses delivered by colleges, rising from 2,101 in 2013-14 to 3,014 in 2015-16.

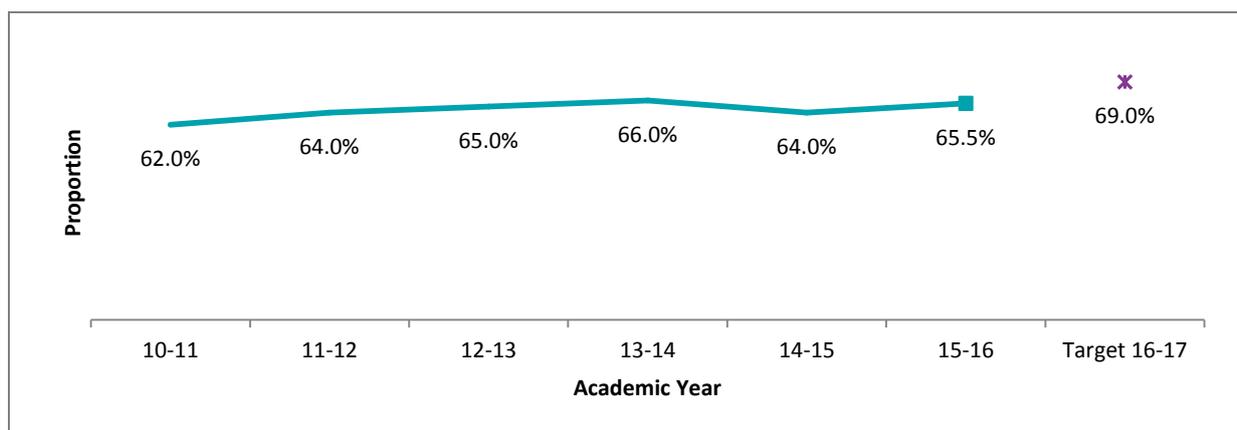
**Developing the Young Workforce: Number of enrolments to senior phase vocational pathways courses at Scotland's colleges (AY)**



Source: SFC Further Education Statistics (FES)

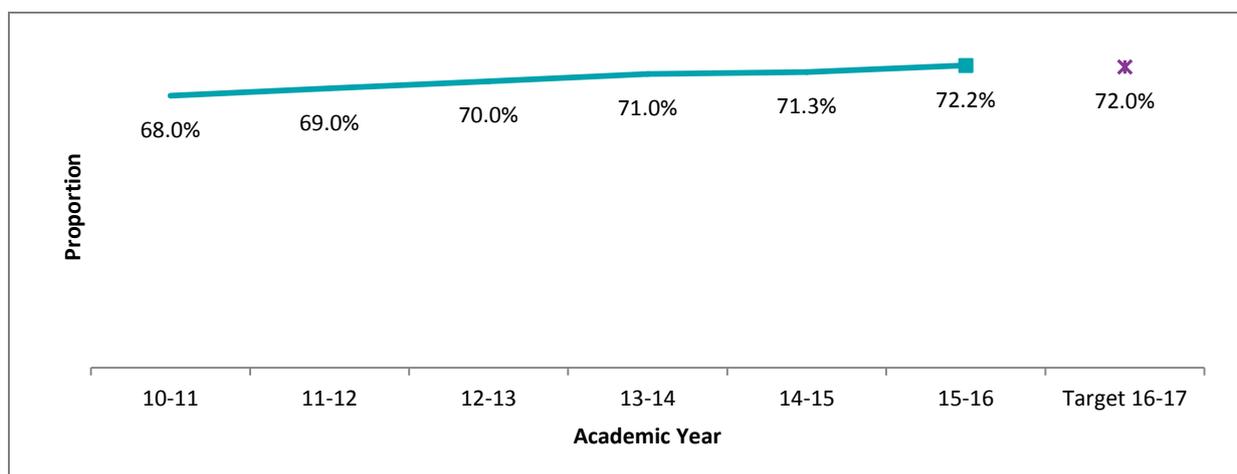
We are also continuing to see progress in articulation: more students are receiving full credit and recognition for study at Higher National (HN) level and are moving into a degree programme at university with advanced standing.

**Proportion of full-time FE learners gaining recognised qualifications at Scotland's colleges (AY)**



Source: SFC Further Education Statistics (FES)

**Proportion of full-time HE learners gaining recognised qualifications at Scotland's colleges (AY)**

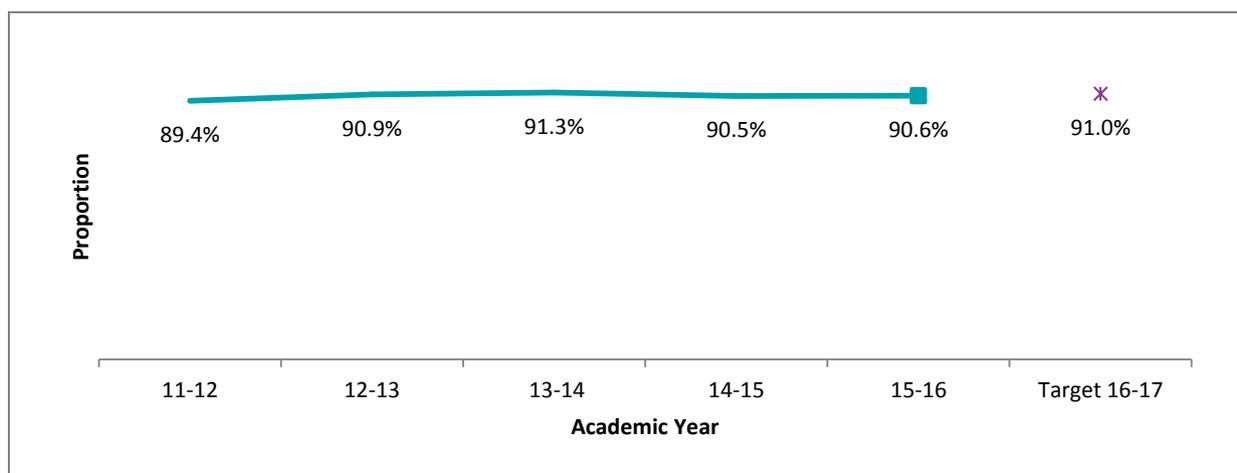


Source: SFC Further Education Statistics (FES)

In the university sector, there has been an improvement in retention rates over the last year. In 2015-16, the retention rate for full-time first degree Scottish domiciled undergraduates rose to 90.6%, and is close to our national ambition of retaining at least 91% by 2016-17.

In the college sector, 65.5% of students on full-time programmes at college completed successfully in 2015-16, whilst a further 9.0% completed irrespective of their final result. In total 74.5% of students completed their course.

## Proportion of Scottish-domiciled entrants to full-time undergraduate courses at HEIs returning to study in year two (AY)



Source: Higher Education Statistics Agency (HESA)

We have continued to develop our arrangements for enhancing and assessing the quality of learning in the college and university sectors. In the college sector, we introduced new arrangements, which contain a greater focus on the integration of performance monitoring of Outcome Agreements with the quality framework for colleges.

During the year, universities have been working on the design of a refreshed quality framework for the sector, which will be introduced in summer 2017. We agreed with the university sector that, pending the introduction of the new framework, there would be no reviews of quality (Enhancement-Led Institutional Reviews) in AY 2016-17, although QAA Scotland undertook its usual programme of annual engagement discussions with universities, and reported to us on any issues that emerged.

We want students to progress successfully into employment or further study with the ability, ideas, and ambition to make a difference. We have therefore given priority to developing our partnership with Skills Development Scotland (SDS). As part of the work of the Scottish Government's review of Enterprise and Skills, we have agreed a framework for enhanced skills planning, comprising five stages, from assessment through to review and evaluation.

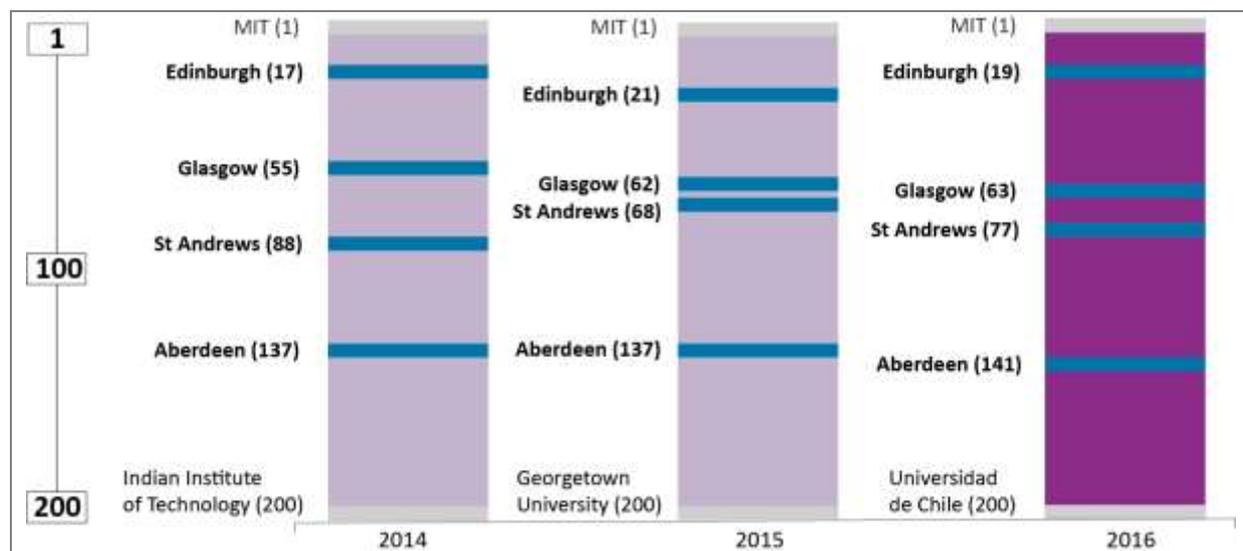
We have also continued to work closely with SDS on the development of their Regional Skills Assessments – which aim to assess the economic and labour market situation in different sectors of the economy – and Skills Investment Plans, which we use in our Outcome Agreements with colleges and universities to inform curriculum development.

### Outcome: World-leading research

Our purpose here is to ensure that Scotland has world-leading universities, nationally and internationally competitive, with a global reputation for their research.

## Performance indicators

### World ranking of top 200 research universities



Source: QS World University Rankings (<http://www.topuniversities.com/university-rankings>)

We have continued to focus our investment on world-leading and internationally excellent research and, following the publication of the Scottish Government's draft Budget for Financial Year (FY) 2017-18, announced our decision to protect the core research budget and maintain the Research Excellence Grant (REG) at the same level as in AY 2016-17.

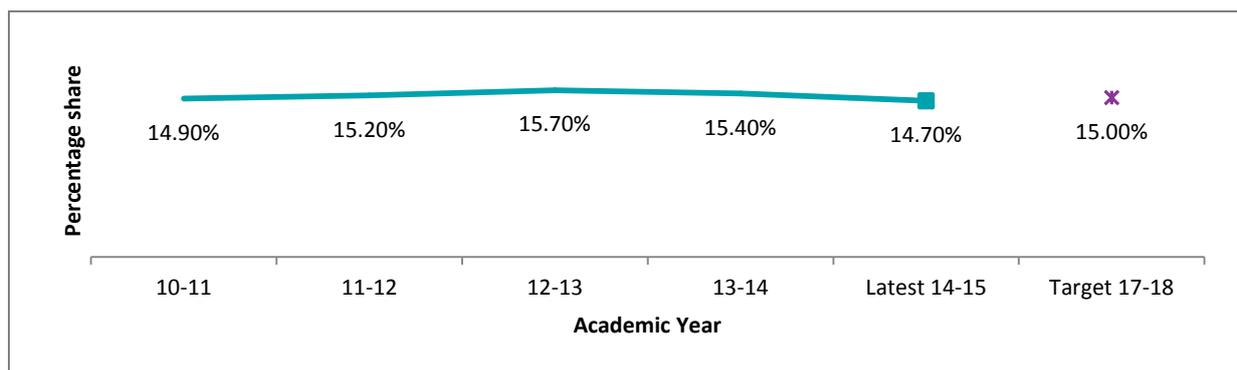
Our long-term investment in university research is helping to make a significant contribution to the reputation and profile of our universities, as well as providing a strong foundation for the development of an innovation-driven economy.

Evidence from international rankings of research universities continues to show a strong performance from Scotland. In 2016, Scotland had more universities ranked in the top 200 in the world per head of population than any other country except Luxembourg. In the 2016 QS World University Rankings, three Scottish universities appeared in the top 100, with the University of Edinburgh moving to number 19 in the world, from 21 in the previous year.

The university sector also continues to maintain its share of UK Research Council income at a level that is well above Scotland's population share of the UK, attracting 14.7% of total income in 2015-16.

At the UK-level, we have worked with the other UK funding bodies on a review of the UK-wide Research Excellence Framework – which is used to assess the quality of research in universities in the UK – and on proposals to establish UK Research and Innovation (UKRI), which brings together the UK Research Councils, InnovateUK, and the research functions of the Higher Education Funding Council for England (HEFCE).

## Share of UK Research Council income



Source: Higher Education Statistics Agency (HESA)

At the start of the year, we used our leadership role to work with UHI on securing the future of the Scottish Association for Marine Science (SAMS), because of its importance to marine science research in Scotland.

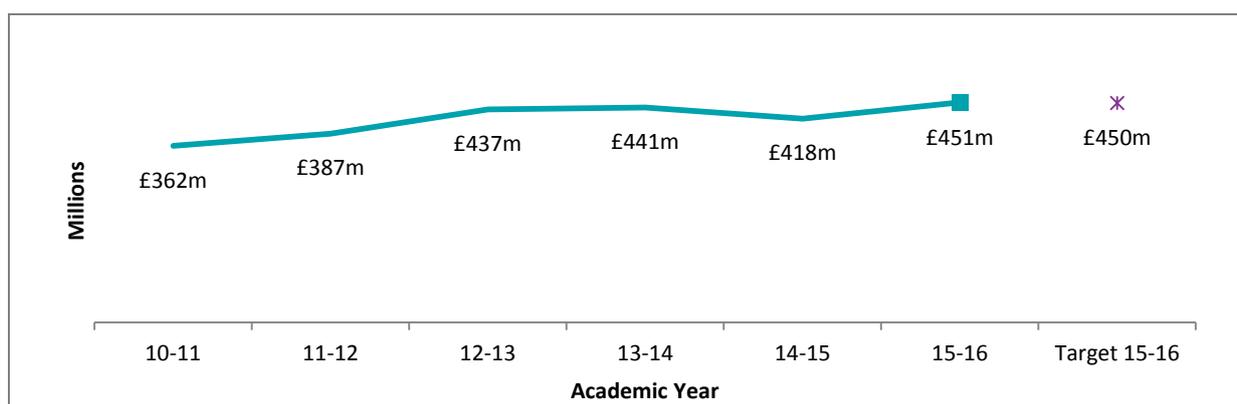
Finally, we have begun work to develop a new research strategy for SFC, particularly in the context of increasing international competition, and the potential challenges arising from the UK's withdrawal from the European Union.

### Outcome: Greater innovation in the economy

Our purpose here is to contribute to a national culture of enterprise and innovation leading to a more productive and sustainable economy.

### Performance indicators

#### Income from knowledge exchange activity (AY)



Source: Higher Education Statistics Agency (HESA)

We have continued to invest in strategic initiatives aimed at improving university-business interaction and, through that, greater business innovation: in particular, through our planned investment of over £120 million in Innovation Centres in key sectors of the economy, our Innovation Voucher Schemes, and the University Innovation Fund.

There is evidence of increasing links between universities and businesses; for example, income to universities from knowledge exchange activity increased from £418 million in 2014-15 to £451 million in 2015-16.

An important feature of our work in 2016-17 on innovation has been in partnership with Scottish Government, the Enterprise Agencies, and other stakeholders to develop our approach nationally to innovation. This work is helping to ensure that there is a coherent approach towards developing the infrastructure to support innovation in Scotland, and that we are achieving the cultural change that is needed to make it sustainable.

We have, for example, worked with the Scottish Government and others on the development of an Innovation Action Plan, and on its review of Enterprise and Skills. We have also developed our own programme for the future in response to the Reid review of the Innovation Centre Programme. This will include an enhanced contribution from the college sector as part of broader ongoing work to recognise and develop the support colleges give to Scotland's businesses.

During the year, we have given attention to the implications of increased innovation on the skills requirements of businesses; in particular, if businesses are to be able to use and benefit from new processes, products or ideas, they will require staff with the right skills and abilities to help them grow. We have therefore focused on business leadership needed for company growth, and have worked with the enterprise agencies to establish relevant Continuing Professional Development (CPD) and curricula development, and are now engaging with the university sector.

### **Outcome: Effective use of resources**

Our purpose here is to ensure that:

- SFC's resources are invested strategically and are aligned with the investments of other public bodies to achieve the greatest impact and make the best use of resources.
- SFC has effective financial strategies and operations and is an authoritative source of high-quality, evidence-based advice on further and higher education.

We play an important role in advising Scottish Ministers on long-term financial planning in the college and university sectors. One of our main activities in 2016-17 was working strategically with the Scottish Government on preparations for the Spending Review and our planning for the publication of our Outcome Agreement funding for colleges and universities for AY 2017-18. Following the publication of the draft Scottish Budget, we published successfully our indicative funding allocations for colleges and universities for AY 2017-18 in February 2017.

In the university sector, we were able to protect the core allocations for the university sector teaching and research and have allocated resources strategically on our Outcome Agreement priorities for teaching and learning, research, and innovation. In the college sector, we increased total teaching funding for AY 2017-18 by 3% to support our Outcome Agreement priorities, including the provision of £1.6 million of additional funding for an increase in Early Years Education (childcare) activity. We have also increased Student Support funding by 1.45%.

Following consultation with the sectors, we announced the allocation of additional capital funding in September 2016 for FY 2016-17 of £24.3 million for university estates and research infrastructure, and £10 million to support the upgrade and maintenance of college estates. The additional funding was part of the Scottish Government's £100 million capital investment package for Scotland.

During the course of the year, we worked with the sectors to develop a long-term evidence-based understanding of the priorities for capital investment, including commissioning a full estates condition survey in the college sector, which will be completed in summer 2017. We have also developed a long-term infrastructure framework for the sectors, which will shape our future policy work on capital investment, digital infrastructure investment, and the sectors' low carbon programmes.

We have continued to act as a Lead Partner in the FY 2014-2020 European Social Fund (ESF) Programme, and have two approved Strategic Interventions: 'Youth Employment Initiative' and 'Developing Scotland's Workforce'. The Youth Employment Initiative (YEI) is focused on young people (aged 16-29) who are not in employment, education or training in areas of high youth unemployment (South-West Scotland) and runs for the period AY 2015-16 to 2017-18. Developing Scotland's Workforce (DSW) focusses on higher and advanced level skills for or to meet needs of key employment sectors and runs initially for the period AY 2015-16 to 2017-18. Subject to approval, we expect the programme to run for another three years to AY 2020-21.

### **Outcome: High-performing Scottish Funding Council**

Our purpose here is to ensure that SFC is an innovative, effective public body capable of leading and delivering ambitious change.

As the national, strategic body for the funding of colleges and universities, SFC is an important source of evidence, data and information on further and higher education, and plays a major role in advising the Scottish Government and others on the learning system in Scotland. During FY 2016-17, we used our expertise to contribute to a range of important policy reviews, including the Scottish Government's reviews of student support and the learner journey, and in response to the recommendations from the Commission on Widening Access. We have also contributed actively to the

Scottish Government's review of the Enterprise and Skills agencies in Scotland, including to all of the work-streams.

We have continued to publish a wide range of data, statistics and evidence about further and higher education, including performance indicators, and evaluations of specific policy initiatives, such as the programme of Innovation Centres, and mergers in the college sector.

More widely, we have given priority to developing our communications and our relationships with stakeholders; in particular, we have developed our social media activity and, as a result, have seen a significant increase in the number of individuals following our news on Twitter and LinkedIn.

There was increased scrutiny of colleges and universities in FY 2016-17, particularly as a result of major reviews undertaken by Audit Scotland, including reviews of the college sector and higher education in Scottish Universities and the Scottish Government's Enterprise and Skills Review. We have responded to this scrutiny by providing evidence and by attending evidence sessions held by various Committees of the Scottish Parliament, including the Public Audit and Post-Legislative Scrutiny Committee, the Education and Skills Committee, the Economy, Jobs and Fair Work Committee, and the Equalities and Human Rights Committee. This level of scrutiny highlights the important role that colleges and universities play in the national life of Scotland, and the role that SFC plays in supporting that work and in providing oversight of the system of further and higher education.

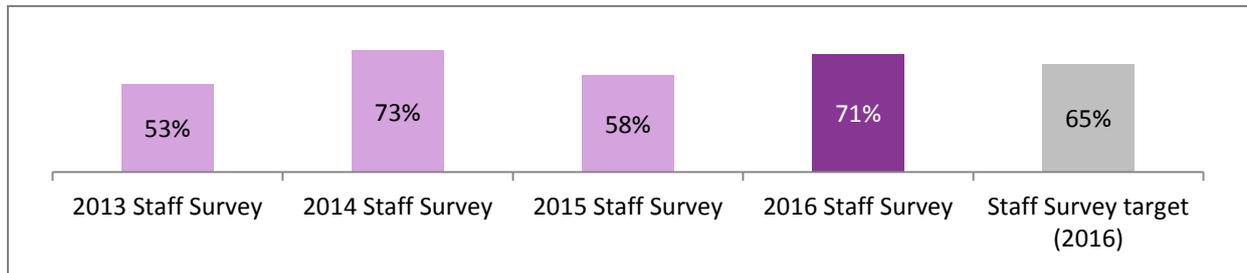
We play an important leadership role in supporting the Scottish Government's priorities for further and higher education through our Outcome Agreement approach to funding. Outcome Agreements are negotiated with colleges and universities and reflect the return that we and the Scottish Government expect for the public investment in further and higher education. They are also an opportunity for colleges and universities to make clear the contribution that they plan to make to the outcomes set out in our Strategic Plan. We have continued to develop our approach to Outcome Agreements and, in October 2016, published our priorities for the period 2017-18 to 2019-10.

Within our organisation, we have given attention to staff learning and development. Among other things we, updated our Performance Management and Development scheme to give more of a focus to continuous review and development and we introduced a set of leadership and management competencies to the performance framework for senior staff.

Towards the end of the year, we undertook our annual Staff Survey for 2016. The results showed a significant improvement in staff engagement, from a score of 58% in December 2015 to 71% in December 2016. However, the results also pointed to some areas for attention, which we are addressing with our staff.

## Performance indicators

### Staff engagement at SFC



Source: SFC

In the context of our Strategic Plan commitment to deliver value-for-money as a public body, we began a major review of our accommodation needs: this will give us the opportunity to enhance cross-organisational collaboration through smarter working as well as improving our efficiency as an organisation.

## Financial Performance Report

The Council's funding grant disbursements and operating costs for the year ended 31 March 2017 are contained in the financial statements in Section 3. The accounts have been prepared under a direction issued by the Scottish Ministers in accordance with paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005. The accounts comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FRM).

The Council's net expenditure for the year was £1,764,464,000 (2015-16: £1,643,799,000). Grants are disbursed and expenditure incurred in relation to the Council's Strategic Plan priorities.

The running cost expenditure of the Council for the year was £7,857,000 (2015-16: £7,649,000) being staff costs of £5,514,000 (2015-16: £5,293,000) (note 3), other operating charges of £2,212,000 (2015-16: £2,204,000) (note 6), depreciation of £26,000 (2015-16: £35,000) (note 4) and amortisation costs of £105,000 (2015-16: £117,000) (note 5).

Other operating income totalled £37,891,000 (2015-16: £10,606,000). This relates to the clawback of grant income from institutions of £9,289,000 (2015-16: £4,399,000) (note 9), other grant income of £26,540,000 (2015-16: £972,000) (note 10), other income of £2,012,000 (2015-16: £nil) (note 11) and European Social fund income of £50,000 (2015-16: £5,235,000) (note 8).

## Statement of financial position

### *Property, plant and equipment*

The Council does not own any land or buildings. Its premises in Edinburgh are leased by the Scottish Ministers (as statutory successors to the Secretary of State for the Environment) and sub-let to the Council. The lease ends in June 2017 and the Council is in the final stages of concluding a new lease.

Expenditure on capital assets during the year was £nil (2015-16: £nil) (note 4).

### *Intangible assets*

The Council's intangible assets are IT software and software licences. Expenditure during the year totalled £66,000 (2015-16: £nil) (note 5).

### *Non-current assets*

Recoverable grants due after one year decreased to £2,685,000 (as at 31 March 2016: £2,843,000) due to repayments (note 12).

### ***Current assets***

Trade and other receivables decreased to £3,764,000 (as at 31 March 2016: £3,993,000) (note 12 and 13).

### ***Cash balance***

The SFC aims to distribute the funds received each year within that year. Our Financial Memorandum with the Scottish Government recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently, we are permitted to carry forward limited cash balances. The Statement of Financial Position as at 31 March 2017 shows a cash balance of £4,715,000 (as at 31 March 2016: £4,663,000) (note 14).

### ***Capital and reserves***

The balance on reserves, amounting to £9,148,000 (as at 31 March 2016: £9,860,000) includes a balance of £2,843,000 (as at 31 March 2016: £3,169,000) on the Institution Advances Reserve. The movement on reserves arises from an excess of expenditure over income.

### ***Funds for distribution to institutions***

The Council is funded on a financial year basis but distributes funds to institutions on an academic year basis. Academic years run from August to July each year to match with the operating cycles of the institutions. The level of funds distributed in any financial year therefore depends on the expenditure profiles for the relevant portions of the two academic years that overlap it.

Expenditure in any financial year can be higher or lower than the level of funding provided for that year. Where expenditure exceeds the funds provided the excess is funded from the reserves held for distribution at the end of the previous financial year. Where expenditure is less than the level of funds provided the surplus is added to reserves for distribution brought forward from the previous financial year.

### ***Payment of creditors***

The Council observed the principles of the Government-backed Better Payment Practice Group, [www.payontime.co.uk](http://www.payontime.co.uk). In line with Treasury guidance, the Council's policy was to pay all invoices not in dispute within 30 days or on the agreed contractual terms if otherwise specified. From December 2008, the Council changed its payment terms from 30 to 10 days in order to meet the 10-day payment cycle introduced by the government. The Council aimed to pay 100% of invoices, including disputed invoices once settled, on these terms.

An analysis of the Council's payment performance for the year to 31 March 2017 indicated that 98.2% (2015-16: 97.0%) of invoices were paid within 10 days of the presentation of a valid invoice and 99.7% (2015-16: 99.6%) of invoices were paid within 30 days.

At the year end, our trade payables balance – that is to say, the amount owing to our suppliers – was £6,941. Comparing this balance with the aggregate amount invoiced by suppliers in year (£1,720,697), and expressing this as a number of days, gives an indication of the average time we take to pay our bills: for the year ended 31 March 2017 our figure for 'creditor days' was 1.47 days (2015-16: 0.62).

### ***Pension liabilities***

Details of the accounting policy for pension liabilities and information regarding the relevant pension schemes for the Council are given in the remuneration report.

### ***Company directorships and other significant interests held by Board members***

The register of interests for Board members of the Council can be found at <http://www.sfc.ac.uk/about-sfc/council-board/council-membership/council-membership.aspx>.

### ***Audit***

The audit of the accounts of the Council has been undertaken by Audit Scotland, appointed by the Auditor General for Scotland. The audit fee from 1 April 2016 to 31 March 2017 was £70,000 (2015-16: £68,000). No non-audit services were supplied during the year.

## Sustainability Report

The following table summarises our environmental performance data.

	FY 2016-17			FY 2015-16		
		CO <sub>2</sub> tonnes per annum	Attributable expenditure (£)		CO <sub>2</sub> tonnes per annum	Attributable expenditure (£)
Emissions scope 2 (indirect) - electricity	173,406 kWh	94.78	19,867	165,395 kWh	90.42	16,247
Emissions scope 3 Waste category (a) (total waste)	930 bags	4.00	2,911	985 bags	4.24	2,971
Emissions scope 3 (travel)	132,631 miles	20.58	48,407	195,209 miles	27.85	66,420
<b>Total</b>		<b>119.36</b>	<b>71,185</b>		<b>122.51</b>	<b>85,638</b>
<b>Target for 2016-17 per SFC Carbon Management Plan: 120.8 tonnes CO<sub>2</sub> (20% reduction on 2014-15)</b>						

### Energy

Overall our energy usage during FY 2016-17 has slightly increased. Our total usage this year was 94.78 tonnes of CO<sub>2</sub> (2015-16: 90.42), increase of 5%. The variation in CO<sub>2</sub> usage is a consequence of the longer winter.

### Information technology

Our work with the Scottish Government Digital Transformation team on the Data Hosting and Data Centre Strategy for the Scottish Public Sector means we are continually looking for ways to reduce our ICT carbon footprint and running costs. We are also liaising with the Scottish Government Smarter Work Place team to access their knowledge as we move forward on our approach to embrace agile working. With regard to cyber security, we continue to adopt a layered multi-vendor approach with a combination of anti-virus, anti-malware and anti-exploit technology throughout these layers.

### Waste

Our paper consumption in FY 2016-17 was 321,500 sheets. This is a decrease on 2015-16 (497,500) of 35%. Recycling of paper, including cardboard, was 11.96 tonnes (2015-16: 14.7 tonnes) this reduction is a consequence of the lower paper consumption. During 2016-17 we recycled 82kgs of aluminium cans (2015-16: 45.75kgs) and 451kgs of plastic bottles and tetra drinks cartons (2015-16: 411kgs). Total waste for 2016-17 was 16.5 tonnes, of which 12.5 tonnes (76%) was recycled, a decrease of 2% on 2015-16.

This has been a good year: consumption of paper has decreased, disposal of non-recyclable waste has broadly stayed the same as last year and all other areas of recycling have increased.

Facilities are still in place to recycle glass, however these services are run by the landlord for all tenants of the building and we have no data for these.

	2016-17 Tonnes	2015-16 Tonnes
Total waste	16.50	19.39
Waste to landfill	4.00	4.24
Waste recycled at source	12.50	15.15
Percentage of total waste recycled at source	75.85	78.1

## Water

There is no means of measuring our water consumption in the building and the landlord has no plans at present to introduce measurement of water consumption.

## Travel

Car mileage has decreased by 1.34%, train travel by 37% and air travel by 28% from FY 2015-16 due to staff being encouraged to make better use of phone and video conferencing facilities.

## Key activities and progress in Financial Year 2016-17

SFC once again sponsored the Student Engagement category in the EAUC Green Gown Awards. Scottish institutions won three 'winner' and one 'highly commended' awards.

South Lanarkshire College won the small institution award under the Built Environment category. The judges praised the college's new East Kilbride campus for the clarity of its design approach. The University of Aberdeen made it a double by winning the large institution award in the same category. Its ground-breaking Passive House Nursery is showcasing a low-energy way of design that is still rare in the UK.

Glasgow School of Art won the small institution award in the SFC-sponsored Student Engagement category. Its city-wide RADIAL project engaged with 4,000 people and created Glasgow's first ever student zero waste festival.

Elsewhere, Ayrshire College was highly commended in the Community Category and the universities of Stirling, Abertay, West of Scotland and Edinburgh all made it to

the finals. Staff at Ayrshire College and Glasgow Caledonian University were finalists in the Sustainability Professional Awards.

Within the organisation, we have continued to promote sustainability activity and communications to staff throughout the year in support of various national campaigns; for example, Fair Trade Fortnight, Earth Hour 2016, and Training in how to prepare healthy office lunches and increase physical activity at work, including a coffee morning to encourage staff to walk to work.

We have continued the significant progress in FY 2016-17:

- We achieved a Gold Award in the NUS Green Impact Accreditation Framework in FY 2015-16 and exceeded the targets in our Carbon Management Plan.
- We increased staff use of telephone conference facilities and have reduced the cost of travel, both in mileage and non-productive business time.
- We use motion detectors to save energy costs when areas of our office are unoccupied.
- We embed sustainability into the tendering of procurement contracts by awarding 5% of the evaluation scoring for corporate and social responsibility aims .
- We continue a policy of e-documents for our corporate publications.
- Our use of scanning and emailing documents has increased throughout the organisation.

### **Biodiversity and social responsibility**

Through staff awareness campaigns we encourage staff to support environmental and social responsibility initiatives. We took part in “Tree Time”, giving time to help Edinburgh and Lothians Greenspace Trust by pulling up Himalayan Balsam, a non-native plant that invades river banks, waste land and gardens, and smothers other vegetation.

Staff are also offered three volunteering days each year to use their business skills to help charities.

During the year, we took part in the Edinburgh Jobs, Education and Training (JET) initiative, which aims to reduce youth unemployment, by providing work experience for a young person, who worked with us on Fridays during the school terms from September to December 2017. We continue to be a Pioneering Partner in MCR Pathways, a mentoring programme that works to change the lives of some of Glasgow’s most disadvantaged young people.

We also use local charity ‘Social Bite’ for catering.

We only use cleaning products which do not harm the environment. We recycle all of our printing products.

We have worked with the building landlords on the planting on the office balconies to encourage biodiversity, and other external planting.

Staff ran events during the year to raise money for charity. These included a XMAS jumper day to raise money for Forth One's Mission Christmas, donating XMAS boxes to Womens Aid, running a bring and buy sale for Streetwork and collecting used stamps for Oxfam.



**John Kemp**  
Accountable Officer

Date: 23 June 2017

## SECTION 2: THE ACCOUNTABILITY REPORT

### Directors' Report

#### SFC's structure

SFC's Board is responsible for providing strategic direction to the organisation. Board members are appointed by Scottish Ministers, usually for a period of three or four years. With the exception of the Chief Executive, Board members are non-executive.

In FY 2016-17, membership of the board was as follows:

<b>Chair</b>	Professor Alice Brown CBE
<b>Interim Chief Executive</b>	John Kemp was appointed Interim Chief Executive on 8 August 2016 following the retirement of Laurence Howells.
<b>Members</b>	Robin Crawford Audrey Cumberland Professor Maggie Kinloch Paul Little Lorraine McMillan Douglas Mundie Professor Anton Muscatelli Dr Keith Nicholson Veena O'Halloran Professor Albert Rodger Caroline Stuart Marlene Wood

SFC Board meetings are attended by a representative of the Scottish Government and observers from the Higher Education Funding Council for England, the Higher Education Funding Council for Wales and NUS Scotland.

More information about Board members and their interests can be found on SFC's website at [Board members and their interests](#).

SFC's executive employs 106 staff at a single location in Edinburgh. The executive is structured into four Directorates:

- Access, Skills, and Outcome Agreements
- Research and Innovation
- Finance
- Corporate Services

The Senior Management Team (SMT) provides leadership to the executive, and its membership is the Chief Executive and four Directors.

### **Estate strategy**

SFC leases office accommodation at 97 Haymarket Terrace in Edinburgh. The current lease ends in June 2017 and the Council is in the final stages of concluding a new lease.

### **Information security**

There have been no breaches of data security or reported incidents of loss of personal data by the Council during FY 2016-17.

## Statement of Council's and Accountable Officer's Responsibilities

Under paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005, the Council is required to prepare a statement of accounts in respect of the year ended 31 March 2017 in the form, and on the basis, determined by Scottish Ministers. The accounts are prepared on an accruals basis and must give a true and fair view of the Council's state of affairs at 31 March 2017 and of its net resource outturn, application of resources, changes in taxpayers' equity, and cash flows for the financial year.

In preparing the accounts the Council is required to comply with the requirements of the *Government Financial Reporting Manual (FRM)* and, in particular, to:

- Observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going concern basis.

The Principal Accountable Officer for the Scottish Administration has designated the Chief Executive as the Accountable Officer of the Scottish Funding Council. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the Council's assets, are set out in the *Memorandum to Accountable Officers of other Public Bodies* issued by the Scottish Government.

The Accountable Officer has taken all steps to make himself aware of any relevant audit information and to establish that Audit Scotland is aware of that information. There is no relevant audit information of which Audit Scotland is not aware.

The annual report and accounts as a whole is fair, balanced and understandable.

The Accountable Officer confirms that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

## The Governance Statement

### Introduction

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of SFC's objectives. The *Memorandum to Accountable Officers of other Public Bodies* sets out these responsibilities.

The purpose of the Governance Statement is to explain the composition and organisation of SFC's governance structures and how they support the achievement of SFC's objectives. It sets out the governance structures, risk management and internal control processes that have been operating in SFC during FY 2016-17 and reports my assessment of the effectiveness of these arrangements.

### Governance framework

The Scottish Funding Council's governance framework is based on the legislative powers of the organisation and its Management Statement and Financial Memorandum with Scottish Government. The following diagram outlines the current governance structure, which supports the achievement of SFC's objectives.



Members of the SFC Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of the Council's affairs. Members have full and

timely access to all relevant information to enable them to perform their roles effectively. Members' roles and responsibilities are described in the *Code of Conduct for members of the Scottish Further and Higher Education Funding Council*. A register of members' interests is available on the Council's website at [Committees and registers of interests](#).

The Council reviews and updates its governance framework in the light of developments in good practice, changes in external regulation, and in the light of its own reviews of effectiveness. The Council is also currently working with the Scottish Government to replace the current Management Statement and Financial Memorandum with a new Framework Document, which will update the governance framework within which SFC operates as a result of the Post-16 Education (Scotland) Act 2013 and other developments.

### **Board effectiveness**

The SFC Board reviews its performance annually and considers the implications of this assessment for improving its effectiveness. Every three years this exercise is externally facilitated.

Following consideration of the results in June 2016, the Board agreed a set of improvement actions for FY2016-17. The key actions were:

- Develop stakeholder engagement.
- Improve understanding at Board level of policy developments in other parts of the UK.
- Begin to identify the implications of Britain's withdrawal from the European Union.

These actions have been taken forward over the course of the year by the Board and executive.

### **Committees of Council**

The Council has established six committees to advise it on specific responsibilities or undertake specific functions. Three of the committees have responsibility for policy, strategy, and funding in relation to Outcome Agreements with colleges and universities: Access and Inclusion Committee, Skills Committee, and the Research and Knowledge Exchange Committee. The Skills Committee and the Research and Knowledge Exchange Committee are established under statute.

The other three committees are responsible for organisational or regulatory matters: Audit and Compliance Committee, Finance Committee, and the Remuneration Committee.

The **Access and Inclusion Committee** advises the Council on access and inclusion matters and on the implementation of *Learning for All* – the Council’s strategy for widening access to learning – including monitoring the progress of key themes from the strategy.

The **Skills Committee** is a joint committee with Skills Development Scotland (SDS), advising both Boards on skills needs of, and policies for, Scotland. The Committee collects monitors and evaluates evidence on skills needs in Scotland and on the supply of, and demand for, learning and training solutions. Its advice informs the development of Outcome Agreements with colleges and universities.

The **Research and Knowledge Exchange Committee** has a role to respond to, recommend, and advise the Council on research and knowledge exchange strategy, policy and funding issues relevant to the development of Outcome Agreements with Scottish universities and colleges. The Committee’s main areas of advice include strengths, weaknesses, opportunities and threats in research and innovation, and advice on the prioritisation in the use of the Council’s resources. The Committee also works with the national enterprise agencies and other stakeholders to give Council advice on innovation and support of knowledge exchange, which contributes to sustainable economic growth.

The Council is advised on risk, internal control and governance matters by its **Audit and Compliance Committee**. The Committee’s responsibilities include: Best Value and value for money; monitoring the Council executive’s management of the Council’s Risk Register; the review of internal controls and other internal audit matters; receiving and reviewing all reports from Internal Audit and External Audit; consideration of the Council’s Annual Report and Accounts, and oversight of the management of the Council’s compliance with legislation and regulation.

The **Finance Committee** has a remit to review the Council’s financial strategy, oversee the Council’s financial monitoring of institutions, scrutinise the annual budgets for programme funds, scrutinise the financial position of the Council, and review the annual report and accounts for consistency with financial information reviewed by the Committee during the year.

The remit of the **Remuneration Committee** is to determine the broad framework for the remuneration – including performance and related elements – of the Chief Executive in agreement with the Scottish Government and, in consultation with the Chief Executive, to determine the broad framework and level of remuneration for directors. It also confirms the annual increase of the remuneration of the Chair and Council Board members, within Scottish Government limits. When appropriate, the Committee will also advise on the selection process, and the appointment of, the Chief Executive and provide guidance to the Chief Executive in relation to the selection and appointment of directors.

Each committee provides an annual report to the Board on their activities and their effectiveness during the year. For FY 2016-17 each committee reported that it had met the terms of its remit and performed effectively.

Further details of the remits and memberships of all the Council committees are published on the Council's website at:

<http://www.sfc.ac.uk/about-sfc/council-committees/council-committees.aspx>.

Towards the end of the Financial Year, the SFC Board agreed to establish a Capital Decision Point Committee to ensure that there is appropriate governance arrangements, proper scrutiny, and due diligence of major capital projects funded by SFC. The Committee will be established formally in FY 2017-18.

Council members' attendance at Board and committee meetings in FY 2016-17 is shown in the table on page 38.

The following table refers only to formal Board and Committee meetings. In addition, Council Board members chair other forums, serve on other working parties and attend meetings on behalf of the Council and, for some members, time spent on travel is also a significant commitment.

## Council members' attendance at meetings

<b>Council members' attendance at Council and Committee meetings</b>	<b>Council</b> <i>Eight meetings</i>	<b>Access and Inclusion</b> <i>Four meetings</i>	<b>Research and Knowledge Exchange</b> <i>Four meetings</i>	<b>Skills</b> <i>Four meetings</i>	<b>Audit and Compliance</b> <i>Three meetings</i>	<b>Finance</b> <i>Six meetings</i>	<b>Remuneration</b> <i>Four meetings</i>
Professor Alice Brown (Chair)	8 c						
John Kemp (Interim Chief Executive)	6 of 6				2 of 2	5 of 5	
Laurence Howells (Chief Executive, Retired 8 August 2016)	2 of 2				1 of 1	1 of 1	
Robin Crawford	8					6 c	
Audrey Cumberford	6	2	2 of 4				
Professor Maggie Kinloch	5	4 c					
Paul Little	5			3	2		
Professor Anton Muscatelli	6			-		4	
Lorraine McMillan	8			4 c			
Douglas Mundie	8		4			6	4 c
Dr Keith Nicholson	7		2 of 4		2		
Veena O'Halloran	8	3					4
Professor Albert Rodger	8		4 c				
Caroline Stuart	8				3		
Marlene Wood	6				3 c		2
<i>c = Chairperson</i>							

## Assessment of corporate governance

I can confirm that corporate governance has been exercised throughout the year in accordance with the principles for good governance set out the terms of the Scottish Government's *Scottish Public Finance Manual (SPFM)*, the *Management Statement and Financial Memorandum with Scottish Government*, and associated guidance and good practice guidance.

## Risk management

The Council's risk management strategy is to:

- Ensure that the Council's strategic priorities and business functions are not adversely affected by significant risks that have not been anticipated.
- Ensure that risk management is a key element of effective corporate governance within the organisation.
- Have in place a risk management framework for identifying, assessing and managing risks at group and corporate levels.
- Ensure that our risk management framework is manageable, proportionate to our business, and integrated with our planning and reporting processes.
- Identify significant risks in a corporate risk register.
- Ensure that appropriate controls and mitigating actions are in place to manage risks.
- Have in place arrangements for ensuring the effectiveness of our approach to risk management, including through the Audit and Compliance Committee, and the programme of internal audit.
- Promote an innovative, less risk-averse culture in which the taking of appropriate risks – which might help us better achieve our strategic priorities – is encouraged.

The Council has delegated responsibility for the on-going review of the effectiveness of our risk management arrangements to its Audit and Compliance Committee. The corporate risk register is reviewed at each meeting of the Audit and Compliance Committee and each meeting of the Council Board.

Whilst, as Accountable Officer, I remain ultimately responsible for managing and implementing the Council's risk management strategy on a day-to-day basis, and for reporting to the Audit and Compliance Committee, delegation of responsibility for managing the key risks in the register is essential if risk management is to be effective. The risk register, therefore, identifies 'owners' for each risk; these are mainly within the senior staff of the Council's executive, chosen for their expertise in the particular areas of risk.

Risk management is embedded in the operations of the Council. Risks are reviewed by managers regularly and any changes highlighted. The Senior Management Team also monitors risks regularly and reviews the Corporate Risk Register at least six times a year.

The Council has developed its approach to risk management during FY 2016-17 by developing individual risk registers for key functions or projects and by providing briefing and training material to staff on risk management.

### **Information governance**

The Chief Operating Officer is the Senior Information Risk Owner (SIRO) for SFC. Day-to-day management of information risks is the responsibility of the Assistant Director, Strategy. All information assets have been identified and are recorded in the Council's Data Asset Register.

There were no breaches in information security in FY2016-17.

### **Internal audit**

Internal audit is a key independent source of assurance. The strategic and annual planning of internal audit reviews is risk based, meaning their work is targeted to the areas identified as greatest risk and strategic importance. Internal audit carried out five reviews in FY 2016-17, none of which identified any major control weakness. Implementation of internal audit recommendations is closely monitored and reported to each meeting of the Audit and Compliance Committee. In addition, our internal auditor carries out an independent review of progress with implementation to validate the executive's monitoring and reporting. The majority of internal audit recommendations have been implemented.

### **Significant Issues**

The financial health of colleges is the significant issue in FY 2016-17. Three colleges received Section 22 reports from Audit Scotland in relation to their Annual accounts for Academic Year 2015-16. These were Edinburgh, Moray and Lews Castle Colleges.

The Scottish Funding Council is working directly with those colleges and with a Regional Strategic Body to put in place arrangements to secure the right outcomes for colleges and the people they serve. In particular, we have supported Edinburgh College in the developing and delivery of its Business Transformation Plan (BTP), including three phases of voluntary severance over the past two years; and we

remain in frequent contact with the College's senior management team as they design and give effect to a refreshed curricular offer.

Both Moray and Lews Castle Colleges form part of the University of the Highlands and Islands (UHI) – the Regional Strategic Body. In the case of these Colleges, the SFC continues to work closely with UHI, to which we have provided support for a voluntary severance programme at Moray College, and, more broadly, which we have supported in modelling options it can consider in the distribution of funding to its colleges. In all cases, our focus remains helping the institutions in question to reach a sustainable position.

### **Review of the Effectiveness of the System of Internal Control**

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The *Scottish Public Finance Manual* (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

My review of internal control is informed by:

- The Council's Audit and Compliance Committee, which assesses the effectiveness of assurances in relation to the systems of governance, risk management and internal control.
- The executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework.
- The line management process within the organisation.

- Regular meetings between Council staff and our sponsor directorate at the Scottish Government to review the risk register and our process for risk management.
- The work of the internal auditors, contracted to Scott-Moncrieff for the year to 31 March 2017, who submit to the Council's Audit and Compliance Committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement.
- Comments made by external auditors in their reports.
- Certificates of assurance provided to me by the executive managers in accordance with the guidance contained within the SPFM.

For the year to 31 March 2017, the Head of Internal Audit reported completion of all reviews in the Audit Plan. Internal Audit was of the opinion that the Council's systems provided a reasonable basis for maintaining control and that the control framework provided reasonable assurance regarding the effective and efficient achievement of the Council's objectives. This opinion is based on recommendations in the audit reports being satisfactorily implemented.

On the basis of the assurances provided from the sources of assurance outlined above, I can confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the SPFM, have operated for the year ended 31 March 2017 and up to the date of approval of the annual report and accounts.



**John Kemp**  
Accountable Officer

Date: 23 June 2017

## Remuneration and Staff Report

The sections marked '\*' in this Remuneration Report have been audited by Audit Scotland. The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they were consistent with the financial statements.

### Remuneration policy

A Remuneration Committee reviews and determines the remuneration of the Chief Executive and directors of the executive on an annual basis and within the context of budgetary constraints and Scottish Government pay policy. The Committee also determines the remuneration and annual increase for the Chair and Council members, in line with Scottish Government pay policy. The pay policy determines that all of the above decisions are subject to Scottish Government approval.

Current membership of the Remuneration Committee consists of three non-executive members of the Council's Board.

### Chair and Council members

Members of the Council are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of the Council's affairs. Council membership during 2016-17 is detailed on page 31.

#### \* Council members' remuneration (including Chair and Chief Executive)

	<b>Year ended 31 March 2017 £'000</b>	<b>Year ended 31 March 2016 £'000</b>
Salary and allowances	312	306
Social security costs	27	25
Other pension costs	29	29
	<b>368</b>	<b>360</b>

**\*Council membership for the period 1 April 2016 to 31 March 2017**

<b>Member</b>	<b>Appointment start date</b>	<b>Appointment end date</b>	<b>Remuneration year ended 31 March 2017 £</b>	<b>Remuneration year ended 31 March 2016 £</b>
Professor Alice Brown (Chair)	3 October 2013	2 October 2017	47,898	47,424
Laurence Howells (Chief Executive)	26 April 2013	8 August 2016	See page 46	See page 46
John Kemp (Interim Chief Executive)	8 August 2016		See page 46	See page 46
Robin Crawford	3 October 2009	2 October 2017	11,906	11,789
Audrey Cumberford	3 October 2009	2 October 2017	11,906	11,789
Alison Jarvis	17 November 2008	3 October 2015	-	5,894*
Professor Maggie Kinloch	16 March 2012	3 October 2019	11,906	11,789
Paul Little	4 October 2015	3 October 2019	11,906	5,894*
Paul McKelvie OBE	10 December 2007	3 October 2015	-	5,894*
Lorraine McMillan**	1 September 2014	2 October 2017	11,906	11,789
Douglas Mundie	1 September 2014	2 October 2017	11,906	11,789
Professor Anton Muscatelli	16 March 2012	3 October 2019	11,906	11,789
Dr Keith Nicholson	16 March 2012	3 October 2019	11,906	11,789
Veena O'Halloran	4 October 2015	3 October 2019	11,906	5,894*
Professor Albert Rodger	3 October 2009	2 October 2017	11,906	11,789
Alan Stannett	10 December 2007	3 October 2015	-	5,894*
Caroline Stuart	4 October 2015	3 October 2019	11,906	5,894*
Marlene Wood	16 March 2012	3 October 2019	11,906	11,789

All Board members are entitled to receive a fee of £327 per day (2015-16: £321), up to a maximum total fee of £11,906 (2015-16: £11,789) per financial year. Where a Board member's membership did not include a full year, but they received a full-year equivalent salary of £11,789, this is indicated by \* in the above table. The daily fee is not pensionable.

All members are paid the daily fee direct to them via payroll, except one who has elected to have her daily fee paid to her employer (indicated by \*\* in the above table).

Council members attendance at meetings are given on page 38

As at 31 March 2017 there were 14 council members of whom 7 were females and 7 were males.

## Chief Executive

The Chief Executive's salary is reviewed in line with Scottish Government policy based on the recommendations of the SFC Remuneration Committee, which are subject to approval by the Scottish Government.

The Chief Executive is an ordinary member of the Principal Civil Service Pension Scheme (PCSPS). The employer's contribution to the scheme amounted to 24.3% of the Chief Executive's pensionable salary.

John Kemp was appointed Interim Chief Executive on 8 August 2016 following the retirement of Laurence Howells.

## Senior staff

The remuneration of senior staff is reviewed annually in line with Scottish Government policy and may provide for progression and a cost of living increase, subject to not exceeding the salary scale maximum. Apart from the general requirement to perform satisfactorily, there is no performance-related element. Senior staff are employed on an open-ended contract with a notice period of three months from employee or employer.

## \*Salary and pension entitlements for senior employees

### Single total figure of remuneration

	Salary (£'000)		Pension benefits (to nearest (£'000)) <sup>2</sup>		Total (£'000)	
	2016-17	2015-16	2016-17	2015-16 <sup>3</sup>	2016-17	2015-16
Laurence Howells (Chief Executive, retired 8 August 2016, FYE £115-120k)	40-45	115-120	5,000	25,000	45-50	145-150
John Kemp (appointed Interim Chief Executive on 8 August 2016, FYE £115-120k. Previously Director of Access, Skills and Outcome Agreements, FYE £95-100k)	110-115	95-100	152,000	31,000	260-265	125-130
Michael Cross (appointed Interim Director of Access, Skills and Outcome Agreements on 10 October 2016. FYE £80-85k) <sup>4</sup>	35-40	-	-	-	35-40	-
Martin Fairbairn (Chief Operating Officer) <sup>5</sup>	110-115	110-115	17,000	31,000	125-130	140-145
Stuart Fancey (appointed Director of Research and Innovation on 23 March 2016, FYE £75-80k. Previously Interim Director of Research and Innovation from 16 November 2015, FYE of £75-80k)	80-85	30-35	111,000	79,000	190-195	110-115
Lorna MacDonald (appointed Director of Finance on 14 September 2015, FYE for 2015-16 £95-100k)	95-100	50-55	39,000	21,000	135-140	70-75
Dee Bird (Interim Secretary to the Council from 9 November 2015 to 30 April 2016) <sup>6</sup>	0-5	15-20	4,000	25,000	5-10	40-45
Helen Gibson (Interim Chief Operating Officer from 9 November 2015 to 30 April 2016) <sup>7</sup>	0-5	15-20	9,000	44,000	10-15	55-60
Riona Bell (Director of Finance and Corporate Resources, retired 30 September 2015, FYE £95-100k,))	-	35-40	-	10,000	-	45-50
Paul Hagan (Director of Research and Innovation, left 30 November 2015, FYE £95-100k)	-	65-70	-	16,000	-	85-90

<sup>2</sup> The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights.

<sup>3</sup> Pension benefits were misstated in SFC Annual Report and Accounts 2015-16

<sup>4</sup> Michael Cross is on secondment from the Scottish Government.

<sup>5</sup> In May 2015, Martin Fairbairn went on secondment to Glasgow Colleges' Regional Board. A part-time secondee from Napier University joined the Council for the period 19 May to 13 November 2015 to act as Interim Secretary to the Council. The secondment was extended beyond the originally anticipated date and arrangements were made to temporarily backfill his post in November 2015. This was done following interview and the role was shared 50:50 between two SFC Assistant Directors. Dee Bird was appointed as Interim Secretary to the Council whilst retaining 50% of her work as Assistant Director. Helen Gibson was appointed as Interim Chief Operating Officer for 0.5FTE and the balance of her contracted hours were retained to spend on her Assistant Director duties. Both these interim posts were extended up to 30 April 2016 to allow for Martin Fairbairn's secondment, to maintain continuity and for the gradual phasing back into SFC duties during the month of April 2016.

<sup>6</sup> Dee Bird was appointed as Interim Secretary to the Council on 9 November 2015 whilst retaining 50% of her work as Assistant Director her composite salary was £65-70k 0.5FTE at Director salary of £75-80k with the balance at 0.5 of her Assistant Director salary. She reverted to her substantive salary on 30 April 2016.

<sup>7</sup> Helen Gibson was appointed as Interim Chief Operating Officer on 9 November 2015 for 0.5FTE and the balance of her contracted hours were retained to spend on her Assistant Director duties. Her composite salary to 31hrs per week was £55-60k (0.5 of £75-80k plus the balance at her Assistant Director salary). She reverted to her substantive salary on 30 April 2016.

There were no bonus payments or benefits in kind payments made in either 2016-17 or 2015-16.

### **Pay multiples**

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in the SFC in the financial year 2016-17 was £115-120,000 (2015-16: £115-120,000). This was 3.19 times (2015-16: 3.45) the median remuneration of the workforce, which was £37,089 (2015-16: £34,059).

In 2016-17, nil (2015-16: nil) employees received remuneration in excess of the highest paid director. Remuneration ranged from £20,085 to £118,473 (2015-16: £18,750 to £117,300).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

**\*Pension entitlements of the most senior members of the executive**

The pension entitlements of the most senior members of the executive were as follows:

	<b>Accrued pension at pension age as at 31 March 2017</b>	<b>Real increase in pension and related sum at pension age</b>	<b>CETV at 31 March 2017</b>	<b>CETV at 31 March 2016 or start date</b>	<b>Real increase in CETV</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Laurence Howells Chief Executive (retired 8 August 2016)	50-55 plus a lump sum of 160-165	0-2.5 plus a lump sum of 0-2.5	1,223	1,227 <sup>8</sup>	4
John Kemp Interim Chief Executive	35-40	7.5-10	664	509	127
Martin Fairbairn Chief Operating Officer	30-35 plus a lump sum of 95-100	0-2.5 plus a lump sum of 2.5-5	656	611	13
Stuart Fancey Director of Research and Innovation	20-25	5-7.5	328	238	75
Lorna MacDonald Director of Finance	0-5	0-2.5	40	14	18
Dee Bird	0-5	0-2.5	39	37	2
Helen Gibson	10-15 plus a lump sum of 35-40	0-2.5 plus a lump sum of 0-2.5	184	178	5

Michael Cross, Director of Access, Skills and Outcome Agreements is seconded from the Scottish Government.

<sup>8</sup> SFC Annual report and accounts 2015-16 was misstated.

## Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements for staff employed directly by the Council and also for Scottish Government staff seconded to the Council and paid through the Council's payroll. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in the service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pension Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of  $1/80^{\text{th}}$  of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of  $1/60^{\text{th}}$  of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited

with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

### Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the

member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

<b>Staff numbers (excluding Chief Executive)</b>				
	<b>Year ended 31 March 2017</b>			<b>2016</b>
	<b>Directly employed staff</b>	<b>Seconded and agency staff</b>	<b>Total</b>	<b>Total</b>
<b>Average number of FTE employees</b>	98	1	99	104

The Council employed 63 females and 43 males as at 31 March 2017. The Interim Chief Executive is a male employee, and there are one female and three male Directors. An analysis of staff costs is given in note 3 to the financial statements.

### Disclosure of exit packages

Reporting of Civil Service and other compensation schemes – exit packages

SFC had one non-compulsory exit during the year 2016-17. The payment made in respect of this was within that permitted by the Civil Service Compensation Scheme rules and consisted of £92,320.

### Sickness absence data

The 12-month rolling absence figure for the Council was 2.35% as at 31 March 2017 (as at 31 March 2016: 3.5%). The absence rate for public sector organisations in the same period was 4.3% (CIPD Annual Survey Report 2016 – Absence Management).

## Staff policies applied during the financial year

The SFC is required to disclose staff policies applied during the financial year for:

- giving full and fair consideration to applications for employment by the SFC made by disabled persons, having regard to their particular aptitudes and abilities;
- continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company; and
- otherwise for the training, career development and promotion of disabled persons employed by the company.

The key policies which the SFC can apply are:

- Equality and Diversity Policy.
- The SFC Bullying and Harassment Policy which covers any negative action from staff towards staff with disabilities.
- Recruitment and Selection Procedure.
- Disciplinary Procedure.
- Fair Absence Management Guidance.

The Council offers workstation assessments to assess whether these meet individual needs. The Council can call upon occupational health support to assist in making reasonable adjustments for staff with disabilities.

The Council is accredited as a Disability Confident Employer which means, amongst other things, if candidates meet the minimum criteria for a vacancy and indicate they have a disability, the Council guarantees an interview.

## Parliamentary accountability and audit report

### Regularity of expenditure

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.

The SFC suffered no losses. It made a special payment of £153,000 during financial year 2016-17 to a former employee in settlement of an injury claim and the associated legal costs (2015-16: none).

### Fees and charges

The SFC applied no fees or charges during financial year 2016-17 (2015-16: none)

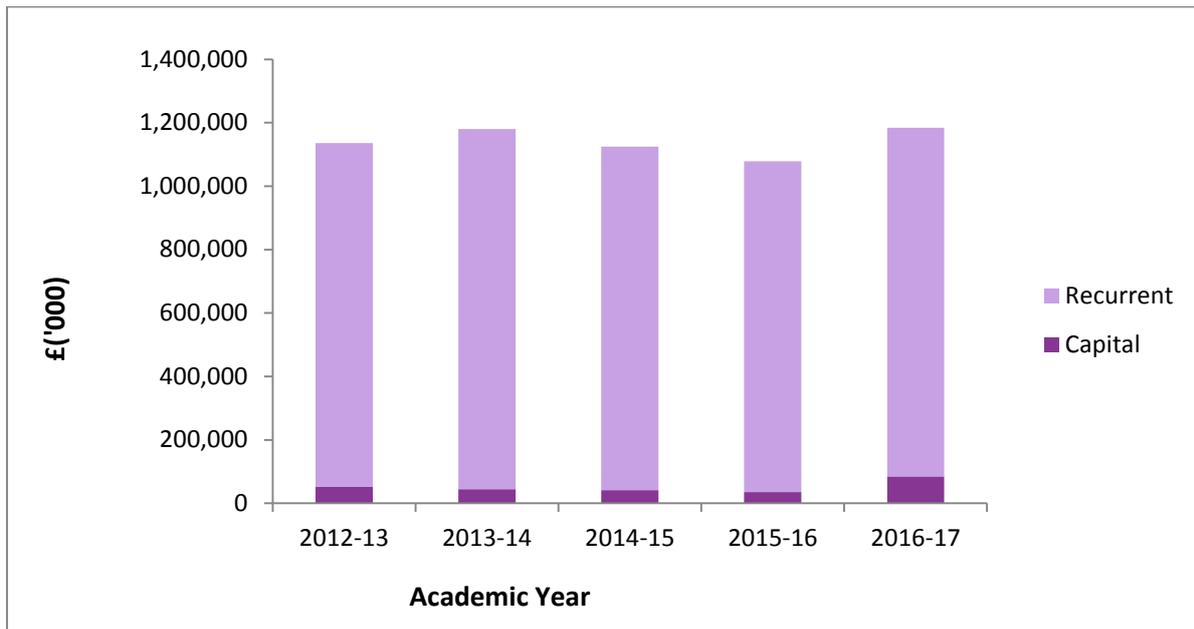
### Remote contingent liabilities

The SFC has no remote contingent liabilities.

### Long-term expenditure trends

The Statement of Comprehensive Net Expenditure shows that total grants paid to HEIs and other bodies in year was £1,184 million, an increase of 10% compared to the prior year (2015-16: £1,078 million). The year on year change shown above relates to a re-profiling between academic year and financial year ends to reflect more accurately the academic year expenditure profile and did not affect the academic year allocation to the higher education sector. The 5-year HEIs and other bodies expenditure graph on page 54 shows that expenditure was £1,136 million in 2012-13 and peaked in 2016-17 at £1,184 million.

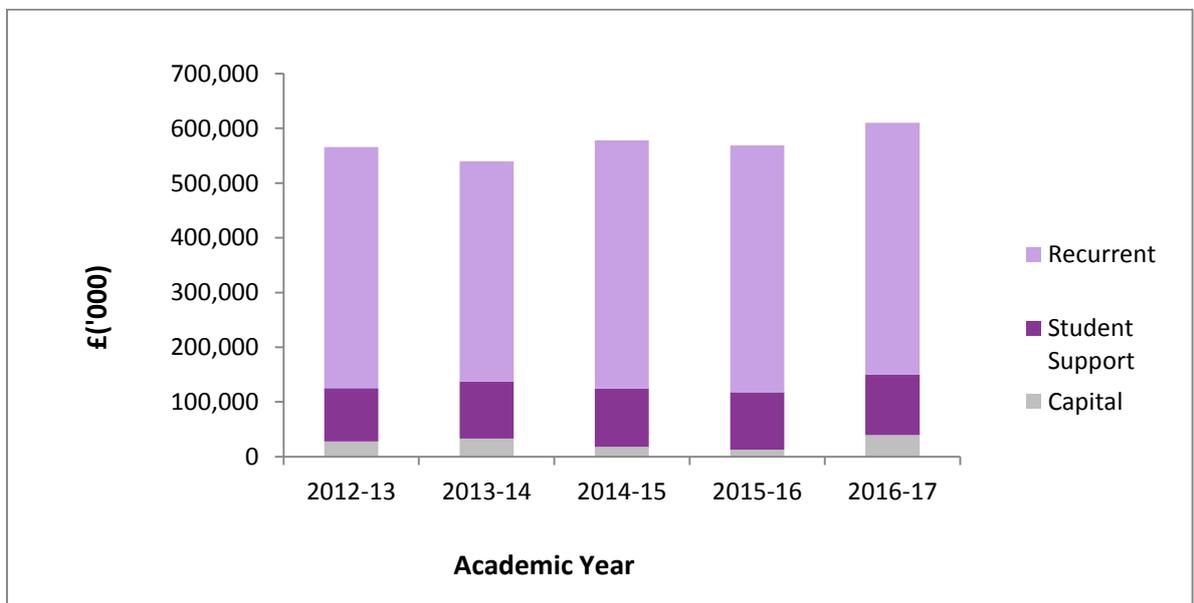
### Total grants paid to HEIs and other bodies



Source: Scottish Funding Council Accounts 2012-13 to 2016-17

Total grants paid to Colleges and other bodies was £610 million, an increase of 7% on the prior year (2015-16: £569 million).

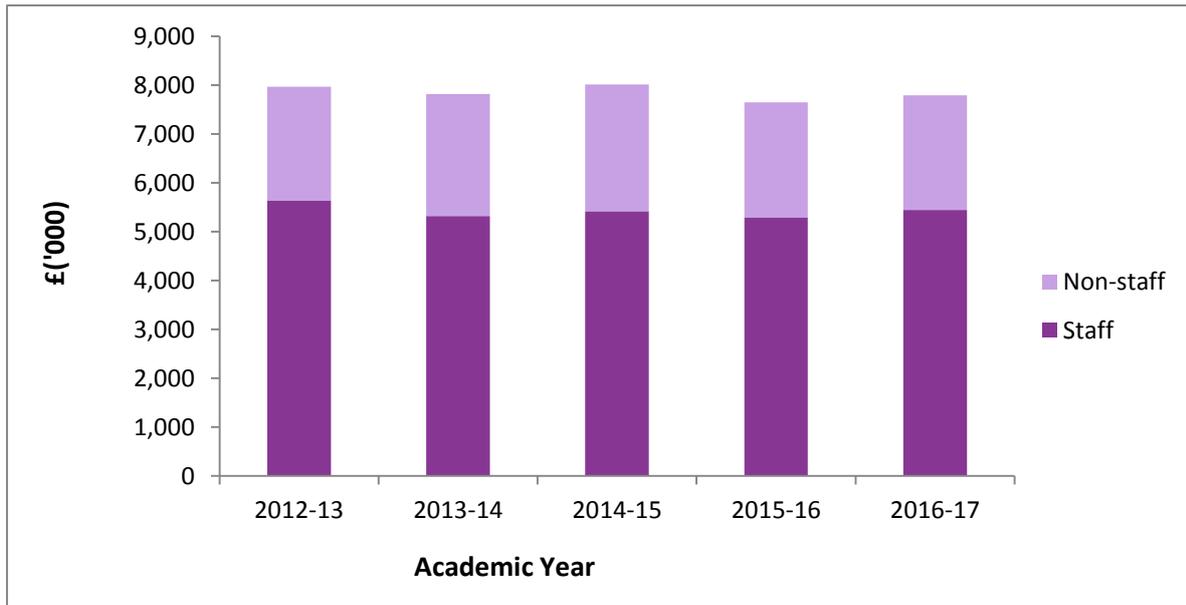
### Total grants paid to Colleges and other bodies



Source: Scottish Funding Council Accounts 2012-13 to 2016-17

SFC running costs were £7,857,000 in 2016-17. This is a decrease from £7,967,000 in 2012-13.

## SFC running costs



Source: Scottish Funding Council Accounts 2012-13 to 2016-17

**John Kemp**  
Accountable Officer

Date: 23 June 2017

## SECTION 3: INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SCOTTISH FURTHER AND HIGHER EDUCATION FUNDING COUNCIL, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

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 120 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.

### Report on the audit of the financial statements

#### Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Scottish Further and Higher Education Funding Council for the year ended 31 March 2017 under the Further and Higher Education (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the notes to the accounts, including a summary of significant accounting policies. 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, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical

Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Responsibilities of the Accountable Officer for the financial statements**

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts 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 or inconsistencies I consider the implications for my report.

## **Report on regularity of expenditure and income**

### **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.

### **Responsibilities for regularity**

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## **Report on other requirements**

### **Opinions on other prescribed matters**

I am required by the Auditor General for Scotland to express an opinion on the following matters.

In my opinion, the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

## Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Gordon Smail  
Assistant Director  
Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

27 June 2017

## SECTION 4: THE FINANCIAL STATEMENTS

### Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<b>Expenditure</b>			
Grants paid to HEIs and other bodies	2	1,183,864	1,078,016
Grants paid to colleges and other bodies	2	610,211	568,630
Staff costs	3	5,514	5,293
Depreciation	4	26	35
Amortisation	5	105	117
Other operating charges	6	2,635	2,314
		<b>1,802,355</b>	<b>1,654,405</b>
<b>Income</b>			
European Social Fund income – colleges	8	-	(5,189)
European Social Fund income – SFC	8	(50)	(46)
Income from HEIs and colleges	9	(9,289)	(4,399)
Other grants	10	(26,540)	(972)
Other income	11	(2,012)	-
		<b>(37,891)</b>	<b>(10,606)</b>
<b>Net expenditure</b>		<b>1,764,464</b>	<b>1,643,799</b>
<b>Total comprehensive net expenditure for the year</b>		<b>1,764,464</b>	<b>1,643,799</b>
<b>Funded by:</b>			
Grant-in-aid	7	1,745,812	1,627,056
Other Scottish Government grants	7	1,180	1,180
Other Government grants	7	16,760	16,125
		<b>1,763,752</b>	<b>1,644,361</b>
(Deficit)/surplus transferred to reserves		(712)	562
		<b>1,764,464</b>	<b>1,643,799</b>

There are no recognised gains and losses other than those recorded above.  
The notes on pages 64 to 83 form part of these accounts.

**Statement of Financial Position  
as at 31 March 2017**

	Notes	31 March 2017 £'000	31 March 2016 £'000
<b>Non-current assets</b>			
Property, plant and equipment	4	3	29
Intangible assets	5	69	108
Trade and other receivables	12	2,685	2,843
Total non-current assets		<u>2,757</u>	<u>2,980</u>
<b>Current assets</b>			
Trade and other receivables	12&13	3,746	3,993
Cash and cash equivalents	14	4,715	4,663
Total current assets		<u>8,461</u>	<u>8,656</u>
<b>Total assets</b>		<b>11,218</b>	11,636
<b>Current liabilities</b>			
Trade and other payables	15	7	3
Other liabilities	15	2,063	1,773
<b>Total current liabilities</b>		<u>2,070</u>	<u>1,776</u>
<b>Assets less liabilities</b>		<u>9,148</u>	<u>9,860</u>
<b>Taxpayers' equity</b>		<u>9,148</u>	<u>9,860</u>

The financial statements on pages 60 to 63 were approved by Council on 23 June 2017 and signed on its behalf by:



John Kemp  
Interim Accountable Officer



Alice Brown  
Chair

Date: 23 June 2017

Date: 23 June 2017

The Accountable Officer authorised these financial statements for issue on 23 June 2017.

The notes on pages 64 to 83 form part of these accounts.

**Statement of Cash Flows**  
for the year ended 31 March 2017

	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<b>Cash flows from operating activities</b>			
Net operating costs		(1,764,464)	(1,643,799)
Adjustments for non cash transactions			
Depreciation and amortisation charges	4&5	131	152
Decrease in long term debtors	12	158	326
Movements in working capital			
Decrease/(increase) in trade and other receivables	13	247	(634)
Increase/(decrease) in trade and other payables	15	294	(342)
<b>Net cash outflow from operating activities</b>		<u><b>(1,763,634)</b></u>	<u><b>(1,644,297)</b></u>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	5	<u>(66)</u>	<u>(74)</u>
<b>Net cash outflow from investing activities</b>		<u><b>(66)</b></u>	<u><b>(74)</b></u>
<b>Cash flows from financing activities</b>			
Grant-in-aid	7	1,745,812	1,627,056
Other Scottish Government grants	7	1,180	1,180
Other Government grants	7	16,760	16,125
<b>Net cash inflow from financing activities</b>		<u><b>1,763,752</b></u>	<u><b>1,644,361</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>52</b></u>	<u><b>(10)</b></u>
<b>Cash and cash equivalents at 1 April 2016</b>	14	<b>4,663</b>	4,673
<b>Cash and cash equivalents at 31 March 2017</b>	14	<b>4,715</b>	4,663
<b>Net increase/(decrease) in cash</b>		<u><b>52</b></u>	<u><b>(10)</b></u>

The notes on pages 64 to 83 form part of these accounts

**Statement of Changes in Taxpayers' Equity**  
for the year ended 31 March 2017

	<b>Note</b>	<b>Year ended 31 March 2017 £'000</b>
<b>Changes in Taxpayers' Equity 2016-17</b>		
Balance as at 1 April 2016		9,860
Net expenditure		(1,764,464)
Scottish Government grant-in-aid funding	7	1,745,812
Other Scottish Government grants	7	1,180
Other Government grants	7	16,760
<b>Balance at 31 March 2017</b>		<b><u>9,148</u></b>
Changes in Taxpayers' Equity 2015-16		
Balance as at 1 April 2015		9,297
Net expenditure		(1,643,799)
Scottish Government grant-in-aid funding	7	1,627,056
Other Scottish Government grants	7	1,180
Other Government grants	7	16,125
 Balance at 31 March 2016		 <u>9,860</u>

The Taxpayers' Equity balance includes £2,843,000 (2016: £3,169,000) in respect of recoverable grants advanced to institutions (note 12)

The notes on pages 64 to 83 form part of these accounts.

## Notes to the Accounts For the year ended 31 March 2017

### Accounting policies

#### 1. Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adapted and interpreted by FReM. The accounts have been prepared under a direction issued by Scottish Ministers in accordance with paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005. The Accounts Direction given by Scottish Ministers is produced as an appendix to these accounts.

The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Council for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Council are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### IFRS issued but not effective

International Accounting Standard (IAS) 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. At 31 March 2017 the following IFRS, none of which will be material to SFC's annual accounts, have been issued but are not effective as they are not yet applied in the Government Financial Reporting Manual (FReM):

Amendment to IAS 7 Disclosure initiative

IFRS 9 – Financial instruments – effective date 1 January 2018

IFRS 16 – Lease – effective date 1 January 2019

#### Significant judgements

In preparing these accounts the Council makes certain judgements on key areas of income, expenditure, assets and liabilities.

The Council's policy is to recognise funding adjustments as recoverable grants only when there is sufficient certainty of recovery. Recovery is made through adjustments

to institutions' future grant funding. Further details are given in Note 1 (Accounting policies) and Note 12 (Trade and other receivables: recoverable grants).

The Council has powers under the Further and Higher Education (Scotland) Act 2005 to determine amounts of grant to recover from institutions where the terms and conditions of grant have not been met. In exercising these powers the Council Executive may in some cases decide not to seek recoveries from institutions for periods prior to a certain year. In such cases the decision is taken on an individual basis with due regard to the overall financial position of the institution and the circumstances giving rise to a potential recovery.

### Property, plant and equipment

Additions to assets over £5,000 are capitalised. Using the straight-line method, depreciation is provided on all tangible non-current assets at rates calculated to write-off the cost, less estimated residual value, of each asset over its useful life. Given their low value, depreciated historic cost is used as a proxy for fair value. The useful lives are as follows:

Furniture and fittings	5 years
Information technology and other equipment	3 years

### Intangible assets

Intangible assets are carried at fair value. They are amortised on a straight-line basis over estimated useful lives of three years.

### Taxation

HM Revenue and Customs does not consider the activities of the Council to be a trade and the grant income received is not therefore liable to corporation tax. The Council is not VAT registered, therefore, irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

### Grants and loans

#### Grants receivable

Grant-in-aid received for revenue, capital and running costs purposes and other Government grants are regarded as financing and are credited to the income and expenditure reserve. Grant-in-aid received is treated on a cash basis.

European Social Fund (ESF) and European Regional Development Fund (ERDF) income are treated on a cash basis in view of the uncertainty over the level of income SFC will receive. See note 8.

Recoverable grants are recognised at the dates agreed with the organisations concerned.

### **Grants payable**

The Council pays grants on the basis of: monthly instalments which take into account the pattern of the institution's receipts and payments; or on agreed profiles; or on receipt of claims from institutions. This largely reflects the pattern of need at institutions. Funds to institutions are distributed on an academic year basis as a result of which there may be prepayments at the end of the financial year.

Clawback and penalties are recognised when the amount of the funding adjustment has been established and approved by Council.

Recoverable grants are recognised at the dates agreed with the organisations concerned.

### **Loans**

Interest free loans are payable to staff for the purchase of season travel tickets.

Any other loans are payable under the terms set out in the Further and Higher Education (Scotland) Act 2005.

### **Statement of comprehensive net expenditure**

All operating costs relate to the Council's continuing activities. There have been no acquisitions or discontinued activities during the period.

### **Operating lease charges**

Rentals payable under operating leases are charged to the Statement of Comprehensive Net Expenditure in the year to which they relate.

### **Pension costs and other post-retirement benefits**

Past and present employees are covered by the provisions of the PCSPS, which is an unfunded multi-employer defined benefit scheme, but the Council is unable to identify its share of the underlying liabilities. The scheme is accounted for as a defined contribution scheme under the multi-employer exemption permitted in IAS 19 'Employee Benefits'. The expected costs are accounted for on a systematic and rational basis over the period during which the Council benefits from employees' services by payment to the PCSPS of an amount calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Payments to the defined contribution schemes are expensed as they become payable. Early severance payment obligations are expensed in the year in which the employee leaves.

### **Short-term employee benefits**

A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits.

### **Financial guarantees**

In accordance with IAS 39, financial guarantees are considered for recognition as liabilities. The likelihood of a liability occurring is considered to be remote therefore the financial guarantees have been treated as a contingent liability in line with IAS 37 and are not recorded on the balance sheet. See note 20.

## 2. Grants paid to institutions and other bodies

- a) The Management Statement between the Scottish Government and the Council requires the Council and Chief Executive of the Council to ensure that grant-in-aid receipts were used for their intended purpose. In turn, the Financial Memorandum between the Council and the institutions that it funds requires the governing bodies of those institutions to ensure that grant-in-aid has been used for its intended purpose. Institutions' external auditors are required to verify that grant-in-aid has been properly applied and to incorporate their opinion on this matter into their audit reports.

The most recently available accounts for institutions are to 31 July 2016. Grants to institutions for the period up to 31 March 2017 are yet to be verified by institutions and their auditors to ensure that grant-in-aid receipts from the Council have been used for their intended purpose. Any material differences arising, which are related to the regularity of grant-in-aid for the period covered by these accounts, will be subject to adjustment in subsequent financial years. Subject to the above, grant-in-aid receipts received from the sponsor department have been applied for their intended purpose.

- b) Grants to institutions to finance capital expenditure may be subject to repayment in full, or in part, if the assets purchased are disposed of at a later date.

### c) Distribution of funds

<b>Grants paid to HEIs and other bodies</b>	<b>Year ended 31 March 2017</b>	<b>Year ended 31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Recurrent grants	1,098,913	1,042,405
Capital grants	84,951	35,611
	<b>1,183,864</b>	<b>1,078,016</b>

<b>Grants paid to colleges and other bodies</b>	<b>Year ended 31 March 2017</b>	<b>Year ended 31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Recurrent grants	479,834	450,830
Bursary and student support payments	110,355	104,770
Capital and major works	20,022	13,030
	<b>610,211</b>	<b>568,630</b>

### 3. Staff costs (excluding Chief Executive)

#### a) Salaries and related costs

	Year ended 31 March 2017			2016
	Directly employed staff	Seconded and agency staff	Total	Total
	£'000	£'000	£'000	£'000
<b>Cost of employing staff:</b>				
Wages and salaries	4058	116	4,174	4,106
Social security costs	462	11	473	338
Other pension costs	845	22	867	849
	<b>5,365</b>	<b>149</b>	<b>5,514</b>	5,293

Staff costs are analysed in the Remuneration and staff report on page 51.

#### b) Loans

Interest free loans are payable to staff for the purchase of season travel tickets. The loans are repayable through the Council's payroll over the period of the duration of the tickets. As at 31 March 2017, £9,878 (as at 31 March 2016: £8,150) was outstanding and this related to 10 members of staff. This amount is included in the other debtors figure in note 13.

#### 4. Property, plant and equipment

	Furniture and fittings £'000	ICT £'000	Other equipment £'000	Total £'000
<b>Historic cost</b>				
At 1 April 2016	206	454	61	721
Additions	-	-	-	-
Disposals	-	(22)	-	(22)
At 31 March 2017	206	432	61	699
<b>Depreciation</b>				
At 1 April 2016	202	429	61	692
Provided during the year	2	24	-	26
Disposals	-	(22)	-	(22)
At 31 March 2017	204	431	61	696
<b>Net Book Value</b>				
<b>At 31 March 2017</b>	<b>2</b>	<b>1</b>	<b>-</b>	<b>3</b>
At 1 April 2016	4	25	-	29
<b>Historic cost</b>				
At 1 April 2015	206	490	61	757
Additions	-	-	-	-
Disposals	-	(36)	-	(36)
At 31 March 2016	206	454	61	721
<b>Depreciation</b>				
At 1 April 2015	201	431	61	693
Provided during the year	1	34	-	35
Disposals	-	(36)	-	(36)
At 31 March 2016	202	429	61	692
<b>Net Book Value</b>				
At 31 March 2016	4	25	-	29
At 1 April 2015	5	59	-	64

## 5. Intangible assets

Intangible assets comprise IT software and software licences

	<b>IT</b>	<b>Software</b>	<b>Total</b>
	<b>£'000</b>	<b>licences</b>	<b>£'000</b>
		<b>£'000</b>	
<b>Cost</b>			
At 1 April 2016	1,010	149	1,159
Additions	66	-	66
Disposals	-	-	-
At 31 March 2017	<u>1,076</u>	<u>149</u>	<u>1,225</u>
<b>Amortisation</b>			
At 1 April 2016	914	137	1,051
Provided during the year	105	-	105
Disposals	-	-	-
At 31 March 2017	<u>1,019</u>	<u>137</u>	<u>1,156</u>
<b>Net Book Value</b>			
<b>At 31 March 2017</b>	<u><b>57</b></u>	<u><b>12</b></u>	<u><b>69</b></u>
At 1 April 2016	<u>96</u>	<u>12</u>	<u>108</u>
<b>Cost</b>			
At 1 April 2015	936	149	1,085
Additions	74	-	74
Disposals	-	-	-
At 31 March 2016	<u>1,010</u>	<u>149</u>	<u>1,159</u>
<b>Amortisation</b>			
At 1 April 2015	808	126	934
Provided during the year	106	11	117
Disposals	-	-	-
At 31 March 2016	<u>914</u>	<u>137</u>	<u>1,051</u>
<b>Net Book Value</b>			
At 31 March 2016	<u>96</u>	<u>12</u>	<u>108</u>
At 1 April 2015	<u>128</u>	<u>23</u>	<u>151</u>

## 6. Other operating charges

	Year ended 31 March 2017			2016
	Running	Sectoral	Total	Total
	cost	expenditure		
	£'000	£'000	£'000	£'000
Operating leases – property rental	470		470	470
Accommodation costs	407		407	360
Council members' remuneration	368		368	360
Other support costs	454		454	569
Professional services	-	382	382	69
Special payment	153		153	-
Refurbishment	112		112	-
Staff recruitment and training	55		55	87
Legal costs	44		44	149
Travel and subsistence				
– Council members	11		11	9
– Staff	67		67	79
External Audit fee	29	41	70	68
Equipment and consumables	16		16	33
Hospitality costs				
– Council members	1		1	4
– Staff	4		4	12
Publication Costs	13		13	31
Committee costs	8		8	14
	<b>2,212</b>	<b>423</b>	<b>2,635</b>	<b>2,314</b>

Sectoral expenditure has been used to meet operating charges where the benefit is to institutions within the Scottish further and higher education sectors. £382,000 (2015-16: £69,000) of this expenditure relates to professional services and their associated costs. These professional services are commissioned in accordance with the conditions of an agreement between the Council and Scottish Government that covers the use of funds for distribution to acquire consultancy and professional services.

## 7. Government grant-in-aid received

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
a) Funds from Scottish Government for:		
HEI and other bodies	1,070,703	1,036,863
Colleges and other bodies	574,182	545,483
Capital	93,458	36,541
Council running costs	7,469	8,169
	<u>1,745,812</u>	<u>1,627,056</u>
b) Other Scottish Government Grants Sabhal Mor Ostaig	<u>1,180</u>	<u>1,180</u>
c) Other Government Grants Funds from Department for Business Energy and Industrial Strategy (DBEIS) for Research Capital	<u>16,760</u>	<u>16,125</u>

## 8. Income from European Social Fund (ESF)

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
ESF income received – colleges	-	5,126
European Regional Development Fund income received	-	63
	<u>-</u>	<u>5,189</u>
ESF income received - SFC	50	46
	<u>50</u>	<u>5,235</u>

There are outstanding claims for the ESF programme. However, in view of uncertainty over the level of income SFC will receive we have elected to account for it on a cash basis.

## 9. Income from higher education institutions and colleges

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Clawback from colleges	6,328	2,576
Clawback from higher education institutions	2,961	1,823
	<u>9,289</u>	<u>4,399</u>

Generally, a clawback of funds arises where institutions have under-enrolled beyond threshold against funded places, with the grant paid out in one financial year and taken back in another. In addition, a clawback arises in student support where there is a variance between payment based on estimated and actual numbers. A financial penalty may be imposed on an institution if it exceeds its indicative student number for non-controlled full-time and sandwich undergraduates by more than 10% or if it exceeds its indicative number for a controlled subject area by more than 10% or 10 FTE whichever is the larger. The penalty for a breach of consolidation is the withdrawal of part of the Main Teaching Grant based on the student numbers above the indicative number in excess of the tolerance threshold. Student support clawback increased during the year.

## 10. Other grants

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Higher Education Funding Council for England (HEFCE)	23,338	-
Department for Business, Energy and Industrial Strategy (DBEIS)	2,392	-
Other grant income	810	972
	<u>26,540</u>	<u>972</u>

In 2016-17, SFC received funds from HEFCE for Edinburgh University through the UK Research Partnership Investment Fund which allows UK HEIs to compete for funding to support investment in higher education research facilities. The Council participated in a small number of programmes that were jointly funded by other bodies with an interest in the higher education sector. The grant distributed by the Council to the institutions it funded in respect of these programmes was recorded as 'grants paid to Higher Education institutions and other bodies' in the Statement of Comprehensive Net Expenditure.

## 11. Other income

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Inverness College	2,012	-
	<u>2,012</u>	<u>-</u>

Inverness College committed to return all disposal receipts to SFC which arose as a result of its non-profit distribution estate redevelopment.

## 12. Trade and other receivables: recoverable grants

	31 March 2017 £'000	31 March 2016 £'000
(a) <b>Balances due within one year:</b>		
West Lothian College	158	158
Lews Castle College	-	168
	<u>158</u>	<u>326</u>
(b) <b>Balances due after one year:</b>		
West Lothian College	2,685	2,843
	<u>2,685</u>	<u>2,843</u>
<b>Total</b>	<u>2,843</u>	<u>3,169</u>

Recoverable grants are interest-free advances to institutions which will be recovered by making reduced payments to the institutions in forthcoming years. In terms of the Council's accounts, when such advances are paid a short and long term debtor is created, taking account of the agreed payment timetable.

Arrangements for the repayment of the advances have been agreed, with the repayment period over sixteen years for West Lothian £5,540,000, repayment commenced March 2011. The repayment was renegotiated in March 2014 with the college repaying an additional £650,000 and the loan repayment term being extended to July 2034.

The Council clawed back £842,091 over five academic years from Lews Castle College because of a shortfall in delivery of strategic alignment grant. Repayment commenced August 2012.

### 13. Trade and other receivables

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
Prepayments and accrued income	1,771	2,514
Institutions clawback	1,746	1,007
Other HEI balances	7	5
Other debtors	64	141
	<hr/> <b>3,588</b>	<hr/> 3,667
Balances due within one year (from note 12a )	<b>158</b>	326
	<hr/> <b>3,746</b>	<hr/> 3,993

### 14. Cash and cash equivalents

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
Funds held at Government Banking Service accounts	4,711	4,497
Funds held at commercial banks	4	166
	<hr/> <b>4,715</b>	<hr/> 4,663

### 15. Trade and other payables

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
Trade payables	7	3
Other HEI balances	1,191	1,196
Other liabilities	872	577
Total other liabilities	<hr/> 2,063	<hr/> 1,773
Total current liabilities	<hr/> <b>2,070</b>	<hr/> 1,776

## 16. Capital and non-capital commitments

The level of funding for academic institutions is determined on the basis of the academic year; 1 August to 31 July each year. The Council's financial year runs from 1 April to 31 March each year. Grant commitments which fall outwith the Council's current financial year, but within the remaining period of the current academic year, are disclosed as contracted grant.

Capital works grants are claims based and the amount to be paid out by the end of the academic year cannot be determined exactly. The figures shown are best estimates based on claim profiles submitted by the various institutions.

In setting its profile of grant payments each academic year, the Council takes into account Government guidance on when sums receivable by institutions for student tuition fees should be paid. The aim is to ensure that the total income stream received by institutions is in line with their expenditure requirements.

<b>Grants committed to be paid to HEIs and other bodies</b>	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
Grant for distribution		
Recurrent grant	444,346	449,174
Capital grants	10,654	3,046
	<b>455,000</b>	<b>452,220</b>

<b>Grants committed to be paid to colleges and other bodies</b>	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
Grant for distribution		
Recurrent grant	161,450	157,923
Student support payments	38,049	37,049
Capital grants	197	2,920
Unitary charge	9,594	3,101
	<b>209,290</b>	<b>200,993</b>

## 17. Commitments under leases

### Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

#### Obligations under operating leases comprise:

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
<b>Equipment</b>		
Not later than one year	11	11
Later than one year and not later than five years	24	35
	<u>35</u>	<u>46</u>
<b>Buildings</b>		
Not later than one year	-	470
Later than one year and not later than five years	-	-
	<u>-</u>	<u>470</u>

The premises in Edinburgh occupied by the executive are leased by the Scottish Ministers (as statutory successors to the Secretary of State for the Environment) and sub-let to the Council. Our lease ends in June 2017 and the Council is in the final stages of concluding a new lease.

## 18. Related party transactions

The Council is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Government.

The Scottish Government Education, Skills, and Lifelong Learning Department, as the sponsor department, is regarded as a related party. The Council was financed by grant-in-aid from its sponsor department's parliamentary account. During the year the Council had a number of material transactions with the Department.

The universities and colleges the Council funds are regarded as related parties. Details of the major transactions between the Council and the funded institutions are set out in Annex 1 to the Report and Accounts. Amounts due to and from related parties are shown in notes 13 and 15.

In addition, the Council had various material transactions with other publicly funded bodies during the period, including Education Scotland (ES), Quality Assurance Agency (QAA) and the Higher Education (HE) Academy.

The transactions with ES and QAA relate to an SLA which requires them to perform specific functions with regard to quality assurance and quality improvement of learning and teaching. Payment to the HE Academy is to support the Academy's work which is undertaken on behalf of the university sector.

The following Council members who served during the year were (or have been) related parties to institutions that the Council funds:

- Robin Crawford was previously a member of the Court of the University of Strathclyde.
- Audrey Cumberland is Principal of West College Scotland.
- Paul Little is Principal and Chief Executive of the City of Glasgow College.
- Professor Maggie Kinloch was previously Vice-Principal of the Royal Conservatoire of Scotland. Douglas Mundie is a project consultant at Fife College and St. Andrews University.
- Professor Anton Muscatelli is Principal and Vice-Chancellor of the University of Glasgow. He is a Trustee (ex officio) for Newbattle Abbey College.
- Veena O'Halloran is a Member of Court at Strathclyde University and is Director of Student Experience and Enhancement Services at the University of Strathclyde.
- Professor Albert Rodger is visiting professor at Strathclyde University and Emeritus professor at Aberdeen University. He was previously Vice-Principal for External Affairs at the University of Aberdeen and previously Head of the College of Physical Sciences at the University of Aberdeen.

- Marlene Wood was previously Independent Chair of the Audit Committee and Independent Chair of the Strategy Working Group of the University of the Highlands and Islands.

The Register of Interests for the Council Members is available on the Council website at

<http://www.sfc.ac.uk/about-sfc/council-board/council-membership/council-membership.aspx>

During the year, other than through their employment, none of the other Council members has undertaken any material transactions with the Council.

There have been no material transactions during the year between the Council and members of key management staff or other related parties other than as detailed above.

## 19. Intra-government balances

	Trade receivables: amounts falling due within one year  £'000	Trade receivables: amounts falling due after more than one year  £'000	Trade payables: amounts falling due within one year  £'000	Trade payables: amounts falling due after more than one year  £'000
<b>2016-17</b>				
Balances with other Central Government bodies	158	2,685	131	-
Balances with bodies external to Government	3,588	-	1,940	-
<b>At 31 March 2017</b>	<b>3,746</b>	<b>2,685</b>	<b>2,071</b>	<b>-</b>
<b>2015-16</b>				
Balances with other Central Government bodies	326	2,843	-	-
Balances with bodies external to Government	3,667	-	1,776	-
<b>At 31 March 2016</b>	<b>3,993</b>	<b>2,843</b>	<b>1,776</b>	<b>-</b>

## 20. Financial instruments

As the cash requirements of the Scottish Funding Council are met through grant-in-aid provided by the Scottish Government, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Council's expected purchase and usage requirements and the Council is, therefore, exposed to little credit, liquidity or market risk.

The Council has provided a guarantee for an amount up to £8,900,000 to underwrite the loan support liability for New College Lanarkshire to Lloyds Banking Group. The balance of principal outstanding on the loan at 31 March 2017 was £2.9 million (as at 31 March 2016: £3.9 million).

The Council has provided a guarantee for an amount of up to £25,000,000 to underwrite the loan support liability for The Glasgow School of Art to Barclays Bank PLC. The balance of principal outstanding on the loan at 31 March 2017 was £8.8m (as at 31 March 2016: £13.8m).

The Council afforded an indemnity to UCAS in respect of damages arising from misuse or negligence related to data to be supplied by UCAS to the Council.

The Council received agreement from the Scottish Government to issue both the guarantees and the indemnity. The risk to the Council of realising payment is considered to be insignificant therefore there is no monetary impact in the Council's accounts.

## **Appendix 1: Direction by the Scottish Ministers**

1. The Scottish Ministers, in pursuance of paragraph 17 of Schedule 1 to The Further and Higher Education (Scotland) Act 2005, hereby give the following direction.
2. The statement of accounts for the period to 31 March 2006, and for subsequent financial years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 30 September 2005 is hereby revoked.

**Aileen McKechnie**

Signed by the authority of the Scottish Ministers

Dated: 14 December 2005

## Appendix 2: Analysis of funds paid to institutions and other bodies

Distribution of grant-in-aid from the Scottish Government

### Grants paid to colleges, regions and other bodies

College/regions	Total Year ended 31.3.17 £'000	Total Year ended 31.3.16 £'000
Forth Valley	25,907	25,325
West Lothian	13,469	12,693
Dumfries and Galloway	11,080	11,054
Borders	10,592	9,686
Edinburgh	60,088	55,283
Highlands and Islands	35,865	34,860
Inverness	6,905	7,263
Lews Castle	394	455
Moray	2,112	1,668
North Highland	1,552	1,584
Perth	2,472	2,245
Orkney	26	62
Shetland	78	69
Ayrshire	49,141	45,723
West	53,140	51,739
Glasgow Clyde	41,967	39,303
Glasgow Kelvin	28,474	28,298
City of Glasgow	65,133	46,117
Fife	45,732	44,876
New College Lanarkshire <sup>11</sup>	55,938	43,564
South Lanarkshire <sup>9</sup>	5,085	12,879
Dundee and Angus	34,437	34,761
North East	41,007	40,582
SRUC	10,145	8,952
Newbattle	950	934
Sabhal Mor Ostaig	1,866	1,829
<b>Total grant distributed to colleges</b>	<b>603,555</b>	561,804
<b>Total grant distributed to other organisations</b>	<b>6,656</b>	6,826
<b>Total grant distributed</b>	<b>610,211</b>	568,630

<sup>9</sup> From 1 August 2016, all regional funding was paid to New College Lanarkshire Regional Board.

## Analysis of funds paid to institutions and other bodies

### Distribution of grant-in-aid from the Scottish Government

#### Grants paid to HEIs and other bodies

University or college	Total year ended 31.3.17  £'000	Total Year ended 31.3.16  £'000
Aberdeen	77,060	73,503
Abertay Dundee	20,503	19,675
Dundee	80,755	76,953
Edinburgh	215,385	185,453
Glasgow	161,792	152,736
Glasgow Caledonian	69,026	64,344
Glasgow School of Art	23,538	18,069
Heriot-Watt	45,811	41,602
Edinburgh Napier	58,026	55,230
Open University in Scotland	24,207	22,089
Queen Margaret Edinburgh	15,023	13,787
Robert Gordon	44,067	41,343
Royal Conservatoire of Scotland	11,067	10,193
St Andrews	39,465	38,664
Stirling	43,483	39,409
Strathclyde	105,464	92,073
Highlands and Islands	44,381	37,386
West of Scotland	69,168	64,394
SRUC	15,171	12,667
Glasgow Clyde College <sup>10</sup>	28	-
<b>Total grant distributed to institutions</b>	<b>1,163,420</b>	<b>1,059,570</b>
<b>Total grant distributed to other organisations</b>	<b>20,444</b>	<b>18,446</b>
<b>Total grant distributed</b>	<b>1,183,864</b>	<b>1,078,016</b>

<sup>10</sup> Scottish Textiles Skills grant is led by Glasgow Clyde College on behalf of the university and college sectors.