



Scottish Funding Council
Promoting further and higher education



Scottish Funding Council

Annual Report and Accounts 2018-19

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Chair's Foreword



I am pleased to introduce the Scottish Funding Council's Annual Report and Accounts for 2018-19.

The publication of our Annual Report and Accounts is one of the ways in which the Scottish Funding Council (SFC) fulfils its duty to be open and transparent. As well as describing SFC's financial performance over the year it highlights our main activities, reports on the outcomes achieved by the colleges and universities we fund and describes SFC's performance across a range of areas, including:

137,046

Full-time Equivalent (FTE) places delivered by universities in 2017/18, exceeding student activity target by 9,602 **p. 10**



118,684

Full-time Equivalent (FTE) places delivered by colleges in 2017/18, exceeding student activity target by 2,415 **p. 10**



13.7%

Scotland's share of UK Research Council income (from 8.2% population base) **p. 17**



£500k

Provided by the Scottish Government for SFC to set up the College Innovation Fund (CIF) to support innovation in the sector between business and academia, **p.18**



£796m

University research income in 2017/18, up £22m from 2016/17, **p. 16**



4021

The number of college students progressing from college to degree-level courses with advanced standing, up 299 (8%) from 2016/17, **p.14**



I wrote in my foreword to last year's report that a future priority would be to help forge closer collaboration across the enterprise and skills system in Scotland. The culture of partnership, support and open dialogue now developing is making a tangible difference to the way we go about our work. Our joint initiative with Skills Development Scotland around national skills' alignment is proof of this, with both agencies now sharing a new joint governance structure for this key area of activity.

For 2018-19, colleges and universities were asked to intensify their impact on learning, the economy and our national priorities. The sectors responded to these increased expectations by demonstrating impressive levels of ambition within their new Outcome Agreements. Where this ambition is already taking us was demonstrated by figures from the Higher Education Statistics Authority that showed Scottish universities were just 0.4 percentage points off the 2021 widening access target set following the 2016 Commission on Widening Access.

15.6%

of first degree entrants to Scottish HEIs from 20% most deprived areas in 2017/18, **p. 12**



During the year, we undertook our search for a new Chief Executive and I was delighted that we were able to appoint Karen Watt to take up the position in January 2019. I would like to take this opportunity to thank John Kemp for his hard work and accomplishments as interim Chief Executive in the interregnum.

One of Karen's first tasks has been to lead the preparation of a new strategy for SFC. The strategy will show how SFC, its partners and the university and colleges we fund will continue to making a major contribution to Scotland's prosperity and future.

A handwritten signature in black ink, appearing to read 'Mike Cantlay'.

Mike Cantlay OBE
Chair

The Performance Report

Overview

Statutory background

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 26 colleges and 19 universities and Higher Education Institutions (HEIs). SFC is a Non-Departmental Public Body (NDPB) of the Scottish Government and was established on 3 October 2005.

Our task, as set out in our 2015-18 Strategic Plan¹, 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 national policies for learning, skills, research, and innovation.
- Implementing our policies by negotiating and agreeing Outcome Agreements through which colleges and universities set out their ambitions in return for public funding.
- Investing in the people, buildings and equipment that allow learning, teaching, research and innovation to happen in colleges and universities.
- Providing non-core programme funding to promote change in the college and university sectors, ground-breaking new initiatives, or to support mergers or shared services.
- Being an active, creative and reliable partner with others where we have shared goals: Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, NHS Education Scotland, UK Research and Innovation, NUS Scotland, local authorities and many others.
- Promoting the learner voice in education, and supporting continuous improvement in the quality of learning and governance, and in the financial sustainability of colleges and universities.
- Providing high-quality advice and evidence to the Scottish Government and others on issues affecting further and higher education and Scotland's research base, thus shaping and implementing national policy and strategy on post school education, skills, and research.

We are based in a single location in Edinburgh and employ 109 people. Our organisation is structured into four directorates:

- Access, Skills and Outcome Agreements.

¹ We published an Addendum in June 2018, which updated the Strategic Actions in our Strategic Plan for 2015-18 with additional actions for Academic Year 2018-19.

- Research and Innovation.
- Finance.
- Corporate Services.

Key strategic outcomes, issues and risks

Strategic Plan 2015-18

Our 2015-18 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 Strategic Plan has four external facing outcomes:

- High-quality teaching and learning.
- World-leading research.
- Greater innovation in the economy.
- Effective use of resources.

These outcomes provide the framework for our Outcome Agreements with colleges and universities.

Strategic Framework 2019-22

Looking forward, we will replace our current Strategic Plan with a new Strategic Framework document in 2019 covering the three-year period FY 2019-22. We have developed the Strategic Framework document in close co-operation with Scotland's other enterprise and skills agencies. We anticipate that the following issues will have a significant impact on the Council, colleges and universities in the near to medium future:

- The economy.
- Disruption from technological and other changes.
- Brexit, particularly on the recruitment of talent to colleges and universities.
- The challenge of addressing rural inequalities.
- The changing expectations of students.
- Wider UK policies for learning and research.
- Public finances.

Enterprise and Skills Strategic Board

Following the conclusion of the Scottish Government's review of enterprise and skills, a new Strategic Board was established in 2017. The purpose of the Strategic Board is to align and co-ordinate the activities of Scotland's enterprise and skills agencies: the Scottish Funding Council, Skills Development Scotland, Scottish Enterprise, Highlands and Islands Enterprise, and the new South of Scotland Enterprise.

The Strategic Board published a Strategic Plan in October 2018, which is intended to provide “...clarity around strategic direction” to the enterprise and skills agencies. The Plan included a series of proposed actions, which we are now taking forward with the other agencies through our new Strategic Framework and Operating Plan.

Looking ahead, we will continue to work closely with the other agencies to deliver the priorities of the Strategic Board and ensure that we improve the enterprise and skills system in Scotland.

Key risks

The key strategic risks for SFC are set out on page 35. Over the course of FY 2018-19, the main risks to the delivery of SFC’s strategic objectives were:

- The long-term financial health of colleges and universities.
- Budgets for colleges and universities in the context of the Spending Review and the draft Scottish Budget for FY 2019-20.
- The achievement of student number targets in the college sector, including student number targets for European Social Fund (ESF) activity.
- 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 and university sectors and the impact on learners and the reputation of the sectors.
- SFC’s internal capacity and resources in the context of increasing demands.

Basis of preparation and going concern

The Statement of Financial Position at 31 March 2019 shows net assets of £65.4 million. Funding for Financial Year (FY) 2019-20 has been approved by the Scottish Parliament and there is no reason to believe that future funding and budget approval will not be forthcoming. Accordingly, it has been considered appropriate to prepare these financial statements on a ‘going concern’ basis.

Performance summary

We introduced a Performance Framework in 2015 to help us assess progress in delivering our Strategic Plan outcomes and identify risks. Our report on performance for FY 2018-19 is provided in the Performance Analysis on pages 9 to 26.

In summary, our performance analysis shows colleges and universities:

- Widening access to learning for students from the most disadvantaged backgrounds.
- Improving the journey through the learning system for students by providing more effective and coherent pathways.

- Providing a high-quality learning experience for students.
- Delivering a flow of qualified and skilled students into the economy.
- Undertaking world-leading research.
- Increasing their links with business and their contribution to innovation in the economy.

Performance analysis

Measuring our performance

Following the introduction of our Strategic Plan in 2015, we introduced a Strategic Plan Performance Report, which measures and assesses performance. As the majority of our annual budget of £1.9 billion is invested in colleges and universities, through our Outcome Agreement funding, the measures relate mainly to outcomes which they deliver.

The Performance Report draws on qualitative and quantitative evidence, including performance indicators, and highlights any risks. We report to the SFC Board at each meeting on performance and on any significant risks to the achievement of our strategic objectives, which then inform our Risk Register. The Performance Report also contains indicators and evidence that relates to SFC's performance as a public body.

Our report on performance is summarised below.

Outcome: High-performing colleges and universities

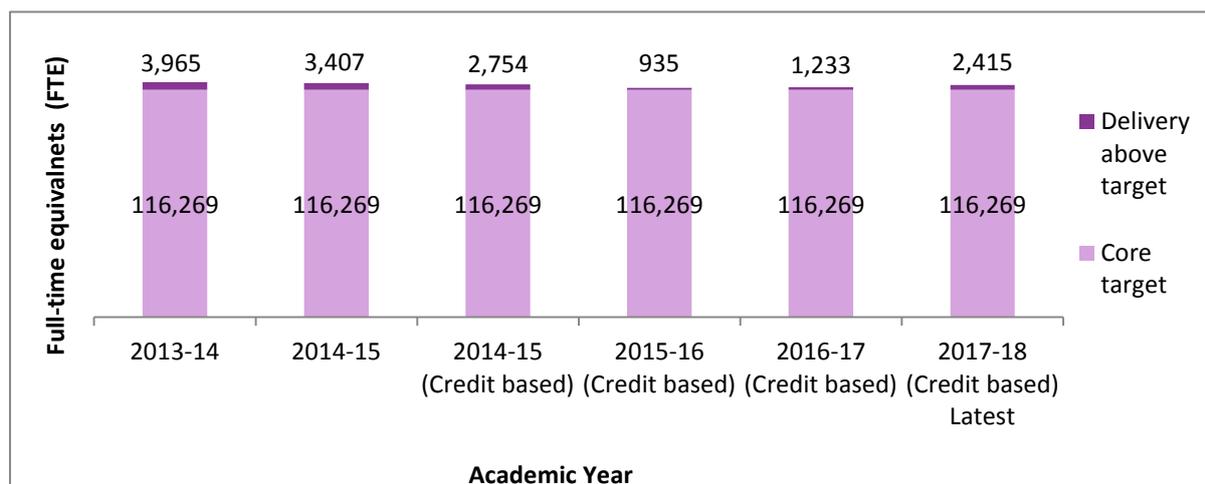
Our purpose here is to achieve a coherent system of high-performing, sustainable colleges and universities with modern, transparent and accountable governance arrangements.

Providing opportunities for students

At the national level, through our oversight of learning provision, we play a critical role in ensuring that targets for student activity in the sectors are met each year, and that participation in learning in further and higher education in Scotland remains high.

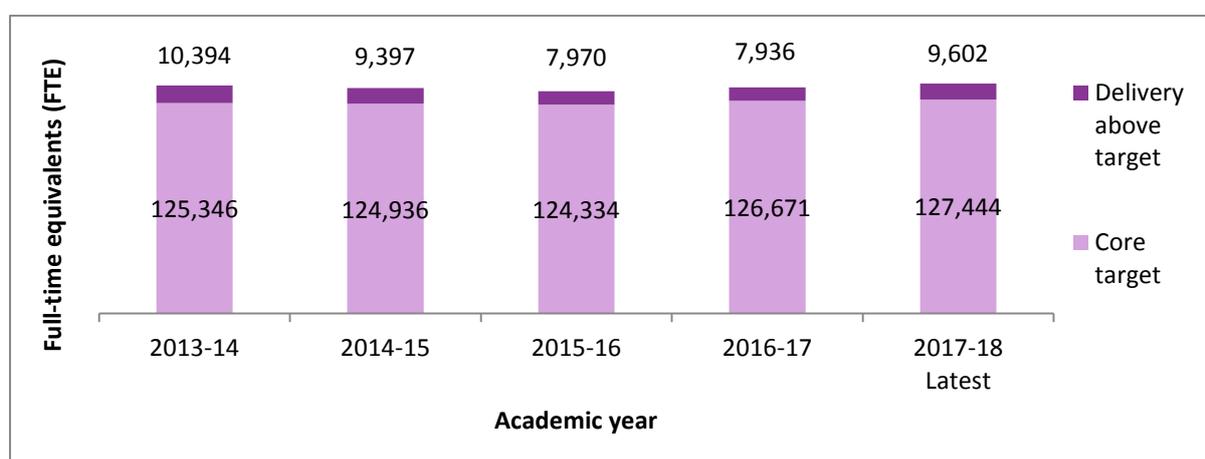
In Academic Year (AY) 2017-18 (August – July), both the college and university sectors provided more learning opportunities for students across Scotland by meeting or exceeding SFC's student activity targets. The college sector exceeded its funded activity target of 116,269 by 2,415 Full Time Equivalent (FTE) places. The university sector exceeded its funded activity target of 127,444 by 9,602 FTE places.

Scotland's colleges: delivery against FTE targets (AY)



Source: SFC Further Education Statistics (FES)

Scotland's universities: delivery against FTE targets (AY)



Source: Higher Education Statistics Agency (HESA)

Well-led and governed and financially sustainable

We protect the interests of learners and the reputation of the sectors by promoting good governance and the long-term financial sustainability of colleges and universities. We monitor and assess governance and the financial health of colleges and universities using a risk-based assurance framework. Our framework shows that both colleges and universities continue to face underlying financial challenges in the context of a public funding environment that is likely to remain tight in the foreseeable future.

During the year, we engaged significantly with Glasgow School of Art (GSA) following a fire that destroyed the Mackintosh Building in June 2018. Our priority was to ensure that GSA was able to maintain the quality of the learning experience for students.

We undertook a lessons learned exercise with the Robert Gordon University following the exceptional set of circumstances that the University encountered in the lead up to, and following the departure of, former Principal, Professor Ferdinand von Prondzynski. The report of the exercise was published in December 2018 and provided new guidance to universities, as well as informing good practice.

Environmentally sustainable

We have given priority during the year to promoting the environmental sustainability of the sectors and the work of colleges and universities to reduce their carbon footprint. We provide funding for a range of sustainability initiatives include co-funding of organisations like the Scottish Institute for Remanufacture and the £40 million FY 2018-19 Financial Transactions programme aimed at estates upgrades and projects to reduce universities' carbon footprints.

We also provide funding for the Environmental Association of Universities and Colleges (EAUC) Scotland and this year we introduced an update to the Outcome Agreement Guidance on Leadership in Environmental and Social Sustainability, developed in partnership with EAUC Scotland, to ensure climate change targets and emissions reduction plans sit at the heart of college and universities' activity.

All colleges and universities now have Carbon Management Plans, under the Universities and Colleges Climate Commitment for Scotland (UCCCfS, which is delivered by EAUC. The commitment is a public declaration that colleges and universities acknowledge the Scottish Government's targets to reduce carbon emissions (80% by 2050), and will reduce their carbon footprints and address the challenges of climate change.

Coherent and connected

We lead and support initiatives that develop the coherence of Scotland's system of learning, particularly where this will help to improve the learner journey. In FY 2018-19, proposals to merge Shetland College, the North Atlantic Fisheries College and Train Scotland (which manages Modern Apprenticeships and other training in Scotland) progressed with the approval of Shetland Council in December 2018. Together with the University of the Highlands and Islands (UHI), we actively and critically supported the merger process, including by providing non-core programme funding.

In South West Scotland, we brokered the development of the Crichton Agreement, a collaborative Outcome Agreement involving SFC and every provider of further and higher education in Dumfries and Galloway. The agreement also brings together other bodies, including Dumfries and Galloway Council, NHS Dumfries and Galloway and the national enterprise and skills agencies. The agreement will help to retain young people in the region by providing clear and relevant pathways into local education and employment, and will help local businesses develop the workforce of the future.

Outcome: High-quality teaching and learning

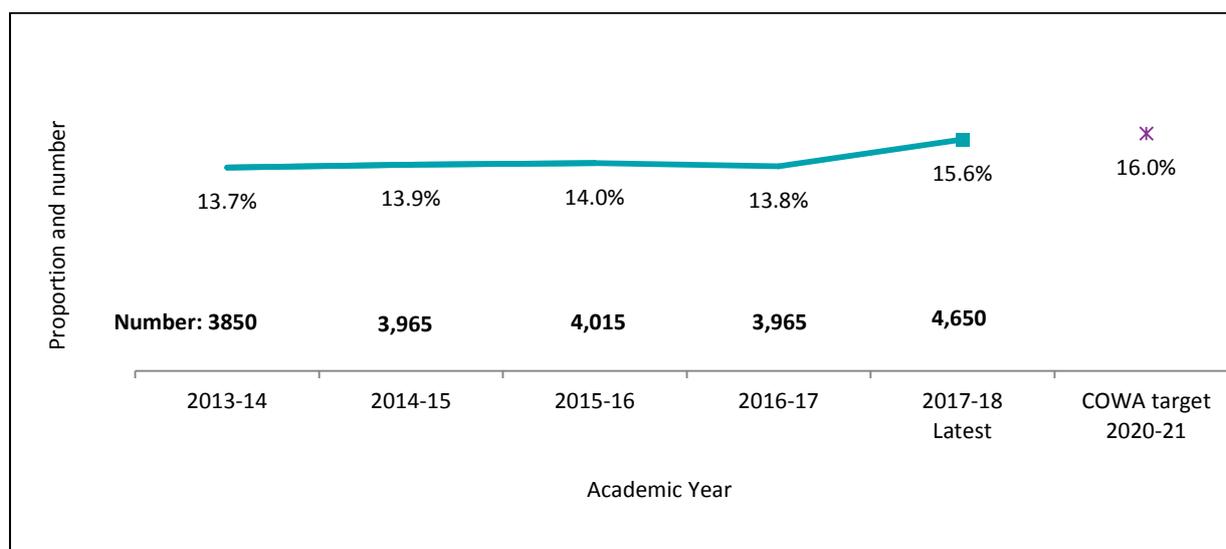
Our purpose here is to achieve an outstanding system of learning, which is accessible and diverse, and where students progress successfully with the ability, ideas and ambition to make a difference.

Access to learning

Widening access to higher education for students from deprived areas is one of our key strategic priorities. The latest data from HESA show that 15.6% of Scottish domiciled full-time first-degree entrants to Scottish HEIs were from the 20% most deprived areas in AY 2017-18. The result is just 0.4 percentage points off the 2021 target of 16%, which was set following the publication of the 2016 report of the Commission on Widening Access (COWA).

The result suggests that the greater focus that we have put on the recruitment of students from the most deprived areas of Scotland (MD20) in our Outcome Agreements since the COWA report was published is bearing fruit.

Proportion and number of Scottish domiciled full-time first-degree entrants to Scottish HEIs from the 20% most deprived areas (AY)

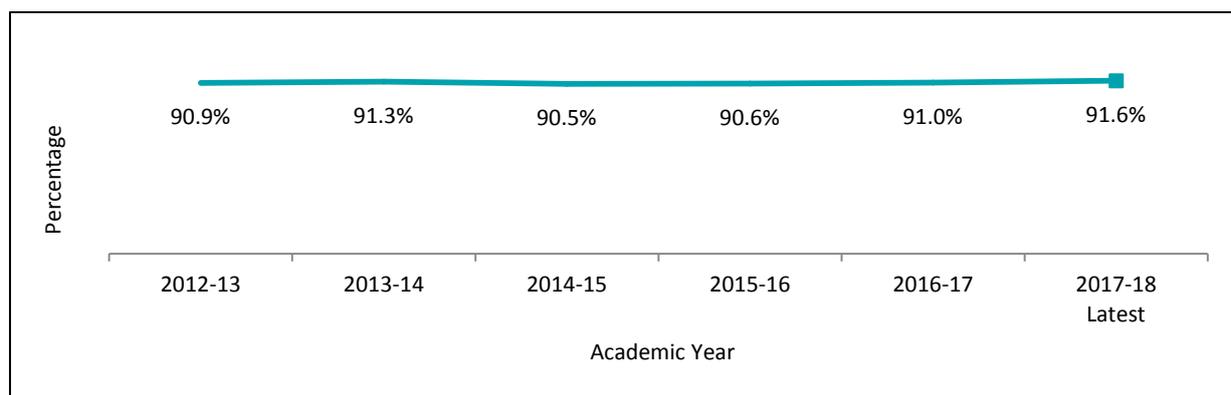


Source: Higher Education Statistics Agency (HESA)

Progression through learning

Ensuring that students have a high-quality learning experience and are able to progress successfully through their learning are also important strategic priorities for SFC. In the university sector, the latest data show a continuing increase in the retention of students in learning, with 91.6% of Scottish domiciled entrants to full-time undergraduate courses at HEIs returning to study in year two.

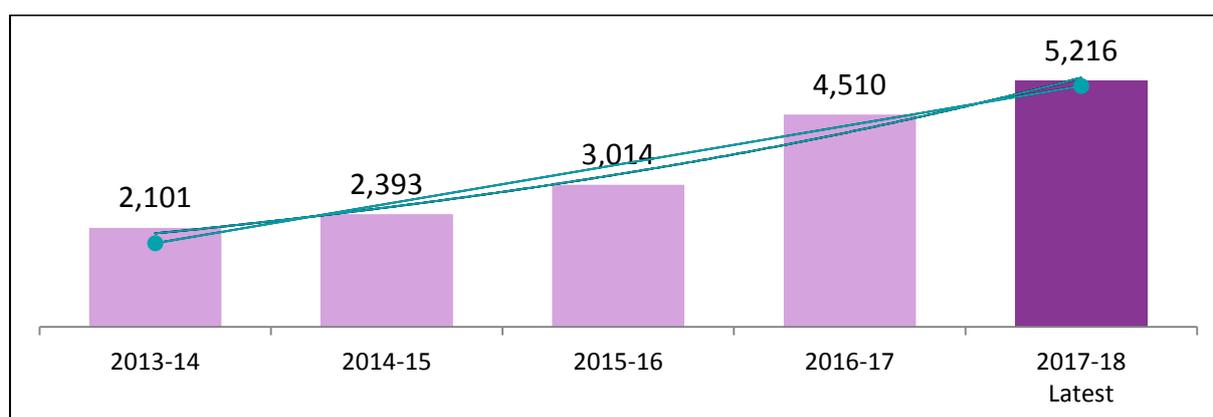
Percentage of Scottish domiciled entrants to full-time undergraduate courses at Scottish HEIs returning to study in year two (AY)



Source: Higher Education Statistics Agency (HESA)

We have supported activity aimed at improving the connections in the learning system, particularly through our work on progression from college to university (articulation) and through the important role that colleges are playing in implementing the Scottish Government’s youth employment strategy, Developing the Young Workforce (DYW). In particular, colleges have been supporting DYW by introducing new vocational learning pathways in the senior phase of Curriculum for Excellence in schools. The latest data show a continuing uptake of senior phase vocational courses delivered by colleges, rising from 2,101 in AY 2013-14 to 5,216 in AY 2017-18.

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

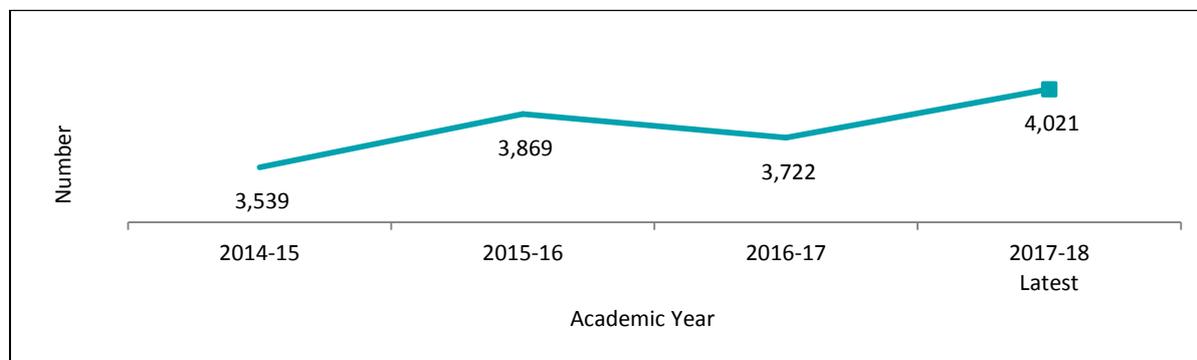


Source: SFC Further Education Statistics (FES)

Articulation is an alternative to the traditional route of progressing to year one of university from school, allowing students with Higher National Qualifications (HNQs) gained at college to progress into university degree programmes. Articulation with advanced standing allows students with the appropriate qualifications to move into the second or third year of a degree programme with no time lost.

The latest data show a continuing increase in the number of students successfully progressing from college to degree-level course with advanced standing, with an increase from 3,722 in AY 2016-17 to 4,021 in AY 2017-18.

Number of Scottish-domiciled learners articulating from college to degree-level courses with advanced standing (AY)



Source: SFC National Articulation Database

Success in learning

We have given priority during the year to improving the quality of the learner experience and the outcomes for learners.

The proportion of full-time Further Education (FE) students who were satisfied overall with their college experience remains high at 93.1% in AY 2017-18. However, the proportion of full-time Higher Education (HE) students satisfied with their college experience showed a slight decline from 83.2% in AY 2017-18 compared to 87.4% in the previous year.

In the university sector, the results of the National Student Survey showed a small decline in the percentage of students satisfied with the overall quality of their course of study from 85% in AY 2016-17 to 83% in AY 2017-18. However, through our Outcome Agreement process, we are placing a strong focus on improving student satisfaction over the period AY 2018-21.

One of the strongest indicators of learners' success in the college sector is the proportion of students who gain recognised qualifications. The latest data show a continuing increase in the proportion of full-time FE learners gaining recognised qualifications at Scotland's colleges, with an increase from 65.3% in AY 2016-17 to 66.1% in AY 2017-18. However, the proportion of full-time HE learners gaining recognised qualifications declined slightly from 71.6% to 71.3% in AY 2017-18.

Progression from learning

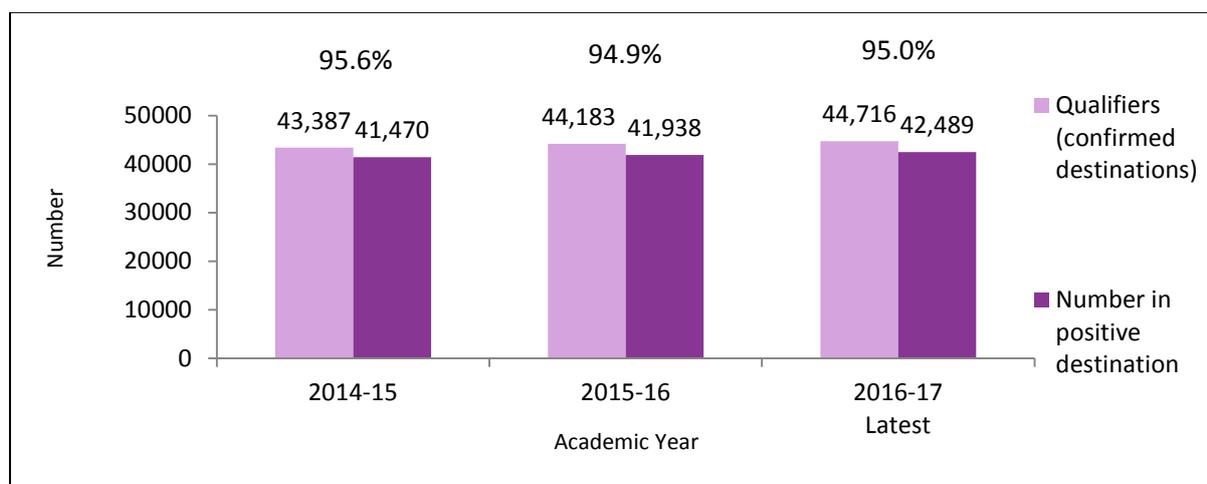
We want students to progress successfully into employment or further study with the ability, ideas and ambition to make a difference.

The latest data on the destinations of those who left college in AY 2016-17 show a steady increase in positive destinations, with a rise in both entry to employment and into further study. The results show that 95.0% of those who were confirmed as qualified in AY 2016-17 moved on to positive destinations, compared to 94.9% in the previous year.

Positive destinations for 16-24 year olds have increased by 3.1 percentage points over the last three years. Among all college leavers, the majority of those leaving college went on to employment (47.1%), followed closely by those who enrolled to study at university (41.2%). The number of those unemployed or unavailable to work due to travel or other responsibilities dropped from 12.4% to 11.7%.

For those students who remained in education at college or university, 86.3% progressed to a higher level of study on the Scottish Credit and Qualifications Framework (SCQF). The proportion of 16-24 year old students either moving up one or more SCQF levels, in training, modern apprenticeships or work was 85.3%, up from 83.9% the previous year.

The number and proportion of full-time college qualifiers in work, training and/or further study 3-6 months after qualifying



Source: SFC College Leaver Destinations publication

We have devoted significant attention during the year to supporting the work of the Strategic Board for Enterprise and Skills, which was established to improve the enterprise and skills system in Scotland, particularly by creating a system that is easier to navigate for learners and businesses.

As part of this work, we have strengthened our work with Skills Development Scotland (SDS) and have developed plans for the introduction of a 5-stage skills alignment model. This model will create a ‘one-system’ approach for learners and employers, which matches future provision with the demand for skills at regional and national levels and in different sectors of the economy.

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.

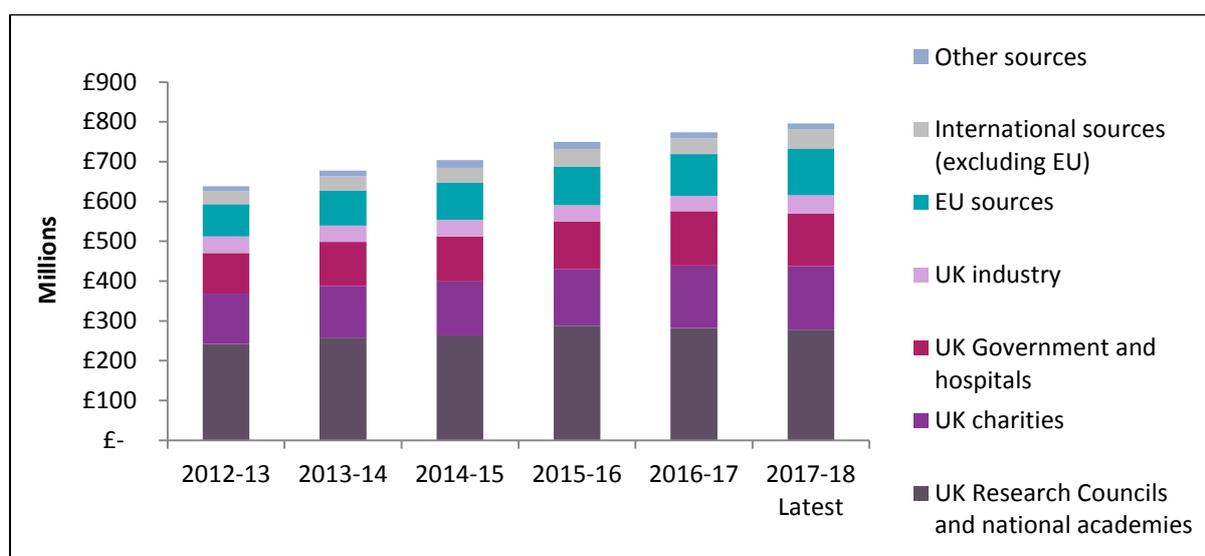
Our long-term investment in university research is helping to make a significant contribution to the reputation and profile of our universities, as well as providing a strong foundation for the development of an innovation-driven economy.

Our key performance indicators continue to show that Scotland's research base is performing well; however, the environment is becoming more challenging.

Scotland's universities increased the level of research income that they attract from industry, charities and other sources, and their recruitment of postgraduate students.

The latest data show an increase in research income from £774 million in AY 2016-17 to £796 million in AY 2017-18.

Main sources of research income for Scottish HEIs (AY)*

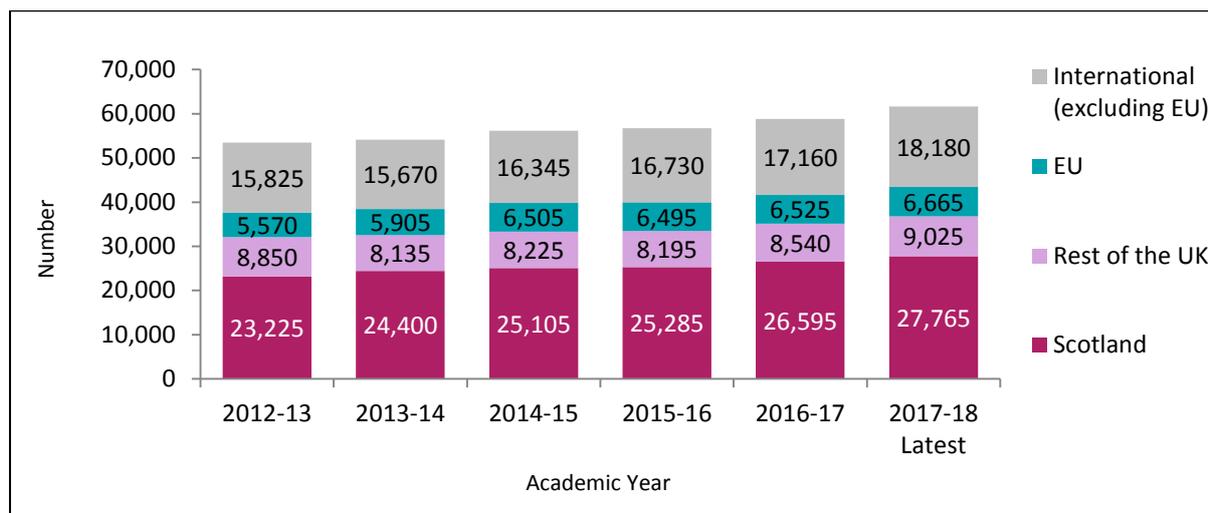


Source: Higher Education Statistics Agency (HESA)

* excludes central government tax credits for research and development expenditure.

The recruitment of postgraduate students also increased from 58,820 in AY 2016-17 to 61,635 in AY 2017-18.

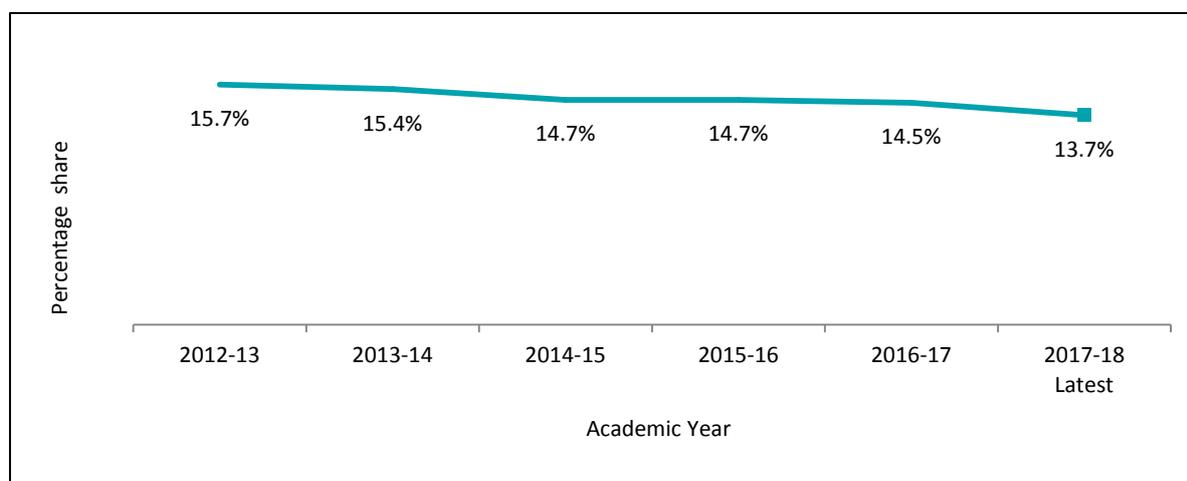
Number and domicile of postgraduate students (AY)



Source: Higher Education Statistics Agency (HESA)

In AY 2017-18, Scotland's share of UK Research Council income was 13.7%, which is well above Scotland's population share of the UK (8.2%), but a decline from 14.5% in AY 2016-17.

Share of UK Research Council income



Source: Higher Education Statistics Agency (HESA)

We have continued to focus on maintaining and developing the international competitiveness of the research base in Scotland's universities by prioritising our investment on world-leading and internationally excellent research.

Evidence from international rankings of research universities shows a strong performance from Scotland. In 2018, Scotland had more universities ranked in the top 200 in the world per head of population than any other country except Luxembourg. In the QS World University Rankings 2018, three Scottish universities appeared in the top 100.

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.

We invest in strategic initiatives aimed at stimulating greater business innovation by improving the interactions between colleges and universities, and businesses. Our major strategic initiatives include investments in:

- Innovation Centres in key sectors of the economy.
- Our Innovation voucher scheme, aimed at supporting interactions with small and medium sized businesses (SMEs).
- Our College and University Innovation Funds.
- The Converge Challenge Entrepreneurship Development Programme.

We have worked closely with the Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, the Enterprise and Skills Strategic Board and other stakeholders to develop our approach nationally to innovation. This work is ensuring a coherent approach to developing support for innovation in Scotland, and is achieving the cultural and other changes that are needed to make it sustainable.

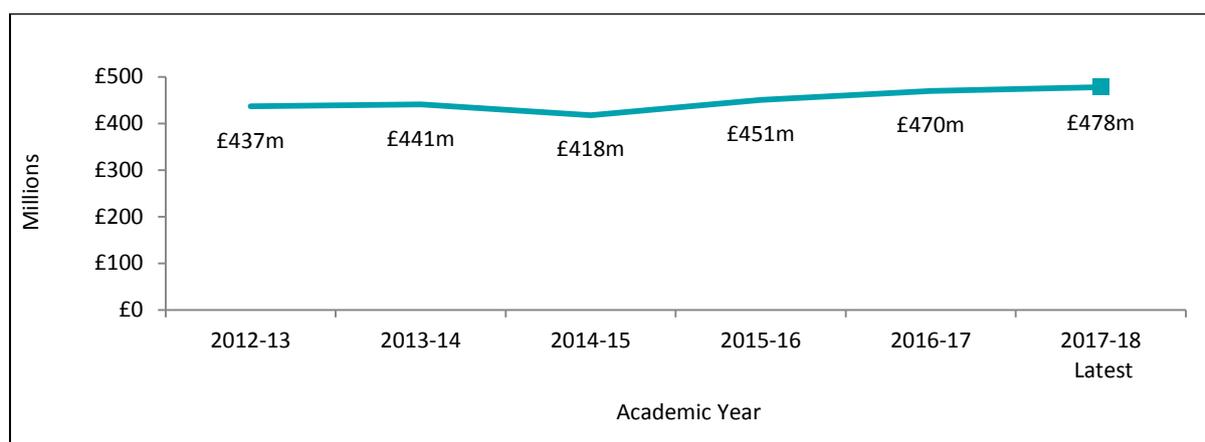
We have given priority during the year to developing the role that businesses can play in supporting innovation-driven growth, particularly through their links with small businesses. Paul Wheelhouse MSP, Minister for Business, Innovation and Energy, launched our £500,000 College Innovation Fund at West College Scotland on 29 May 2018.

We also provided support from our Industry/Academic Links Fund for projects in FY 2018-19 to ensure that our universities were well-placed to attract significant investment from UK Industrial Strategy funding. The projects are supporting key sectors of the economy, including in quantum technology, robotics and Artificial Intelligence, satellites, drug development and optical imaging.

With the national enterprise agencies, we approved joint funding to support 'Interface', the national agency that connects businesses and organisations to all of Scotland's universities, research institutes and colleges. The First Minister, Nicola Sturgeon MSP, made the announcement of the £5 million investment at the official opening of the Roslin Innovation Centre on 6 November 2018.

Our key performance indicators show evidence of increasing links between universities and businesses: for example, income to universities from knowledge exchange activity showed a modest increase from £470 million in AY 2016-17 to £478 million in AY 2017-18.

Increase income from knowledge exchange activity (AY)



Source: Higher Education Statistics Agency (HESA)

There has also been a modest increase in the number of active spin-out and start-up companies from universities, which have survived at least three years.

At a broader level, statistics published by the Scottish Government during the year show that Gross Expenditure on Research and Development (GERD) in 2017 – one of the key measures of innovation – showed expenditure on innovation of around £2.5 billion, predominantly by businesses and higher education institutions. This is very positive and is indicative of improvements in the performance of Scotland's innovation system, in which SFC's investments are a part.

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 FY 2018-19 was working strategically with the Scottish Government on preparations for the FY 2019-20 Budget and our planning for the publication of our Outcome Agreement funding for colleges and universities for AY 2019-20. Following the publication of the draft Scottish Budget, we published successfully our indicative funding allocations for colleges and universities for AY 2019-20 in February 2019.

Despite a challenging public sector funding environment, we were able to retain teaching and research grants across the university sector at the same level as AY 2018-19 (in cash terms), while increasing funding for the college sector to meet the costs of national bargaining for lecturers and support staff (excluding cost of living increases). We also provided an increase in funding for student support, enabling us to implement the recommendations of the Scottish Government's Review of Student Support.

In terms of our own operational budget, the data show that SFC continues to be an efficient organisation, with a running cost budget, which represents 0.5% of total funding.

Corporate and Social Responsibility

Environmental

Energy

Our energy usage has dropped from 75.29 tonnes of CO₂ pa to 61.41 tonnes of CO₂ pa, which represents an 8.85% reduction on FY 2017-18.

Information technology

Our information technology services use a combination of cloud, virtualisation and co-location services, as recommended in the Data Hosting and Data Centre Strategy for the Scottish Public Sector. This will allow us to look at ways to further reduce our ICT carbon footprint.

We continue to liaise with the Scottish Futures Trust Smarter Workplace Forum to share our experience of the agile-working office environment and looks for ways to enhance and improve our own agile-working methods.

Waste

Our total waste for FY 2018-19 was 3.02 tonnes, a decrease of 81% on the previous year (FY 2017-18: 16.00 tonnes). The volume of waste in FY 2017-18 was particularly high as we had a significant amount of waste (primarily confidential waste that was recycled) as we cleared out our old offices ready to move to a single floor. As a consequence of this our FY 2018-19 recycling at source (mixed recycling and confidential waste) was 2.4 tonnes – a significant reduction on the 12.30 tonnes recycled at source in FY 2017-18.

Percentage of total waste recycled at source was 79.47%, an increase of 2.6% on the prior year (FY 2017-18: 76.87%), although this was achieved on an overall lower volume of waste.

	2018-19 Tonnes	2017-18 Tonnes
Total waste	3.02	16.00
Waste to landfill	0.62	3.7
Waste recycled at source	2.4	12.30
Percentage of total waste recycled at source	79.47	76.87

The reporting for FY 2018-19 is the first full year in our new office and is not fully comparable with FY 2017-18 (where we moved, 7 months into the financial year

(November 2017), from two floors to a refurbished single floor in Haymarket Terrace). FY 2018-19 sets the new baseline for our office going forward.

Travel

Our overall travel related CO₂ tonnes has increased by 29.44% to 28.93 tonnes of CO₂ in FY 2018-19.

Key activities

Our staff-led Environmental Group has promoted a range of sustainability-related activities this year. Events and initiatives promoted this year include:

- The Great British Beach Clean.
- Litter clean-up day around the Union Canal.
- Climate Week 2018 – including Car-Free Day and Green Lunches.
- Pass It On Week - of Pass it on Week, an initiative supported by the EU and the Scottish Government (info here) to swap/gift things no longer needed to promote sustainable living.
- The Scottish Workplace Journey Challenge. Having clocked 9,714 miles, SFC finished 4th in category with 848 journeys logged. Collectively the organisation saved £760, 382kg of CO₂, and burned 76,021 calories through increased use of public transport or walking.

Social

Through staff awareness campaigns, we encourage staff to support environmental and social responsibility initiatives. Staff are also offered up to three volunteering days each year to use their business skills to help charities.

During FY 2018-19, SFC staff have continued to participate in the Paired Reading Scheme run by Business in the Community Scotland. The scheme is aimed at developing and improving literacy and reading skills amongst primary-aged children and staff support a locally based school.

We continue to support MCR Pathways, a mentoring programme, which works to change the lives of some of Glasgow's most disadvantaged young people.

We use local charity 'Social Bite' for catering and staff volunteered to fund raise for the charity in the 'Big Sleepout'.

Public service

Our staff seek to conduct themselves to the highest standards of public service. A Code of Conduct is in place that governs conflicts of interest, promotes integrity, impartiality and honesty, and ensures compliance with relevant legislation dealing with human rights, bribery, and corruption.

Financial Position

SFC's funding grant disbursements and operating costs for the year ended 31 March 2019 are contained in the Financial Statements. 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).

Performance against Departmental Expenditure Limits (DEL) in FY 2018-19

The financial performance against Departmental Expenditure Limits (DEL) is summarised below:

Performance	Final budget £'000	Actual outturn £'000	(Overspend)/ underspend £'000
Resource DEL	1,681,833	1,681,895	(62)
NPD unitary charge	29,300	29,780	(480)
Capital additions funded by financial transactions	40,000	40,000	-
Capital DEL	116,455	111,500	4,955
Total DEL	1,867,588	1,863,185	4,403

We underspent our DEL budget by £4.4 million in FY 2018-19 (FY 2017-18: £21.6 million). The underspend mainly comprises:

- £5 million from underspend from colleges repaying loans entered into before April 2014 which do not score as resource expenditure.
- £0.5 million overspend on the ring-fenced NPD unitary charge budget.

We monitor the financial position for further and higher education throughout the year through resource returns to the Scottish Government. We manage our budget through an annual re-profiling exercise to reallocate funds between the further education, higher education and running costs budgets.

The Scottish Government approved total re-profiling of £29.8 million (FY 2017-18: £18.3 million) which equates to 1.6% (FY 2017-18: 1%) of the total Grant-in-Aid budget from the Scottish Government.

Statement of Financial Position

Our net expenditure for the year was £1,847 million (FY 2017-18: £1,760 million). Grants are disbursed and expenditure incurred in relation to our Strategic Plan priorities.

Grant funding to institutions

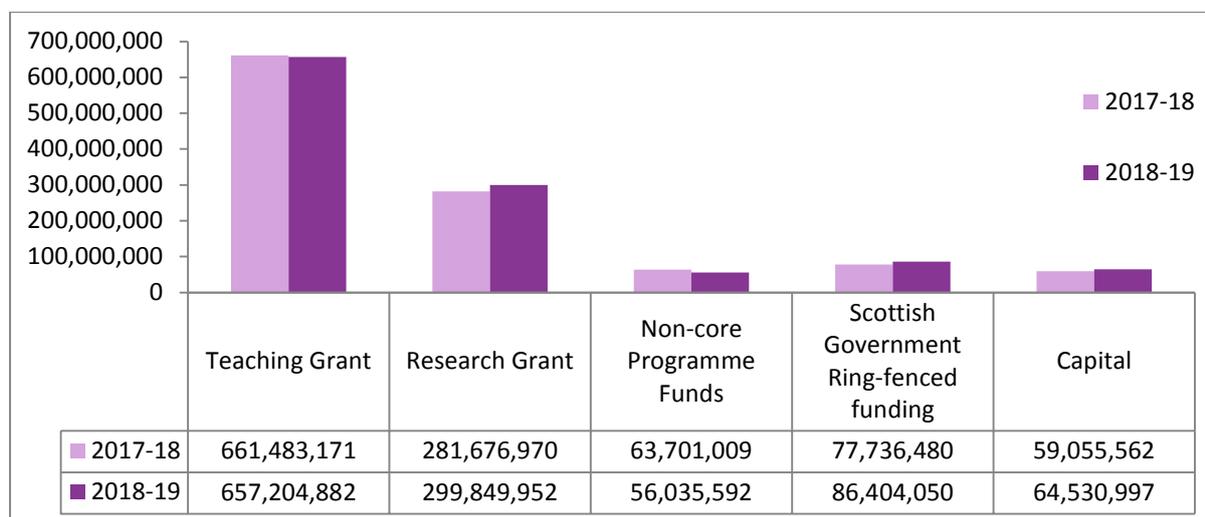
SFC is funded on a Financial Year (April to March) basis but distributes funds to institutions on an Academic Year (August to July) basis. Expenditure in any Financial Year can be higher or lower than the level of funding provided for that year.

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.

During FY 2018-19, we awarded £1.2 billion to universities and other bodies (FY 2017-18: £1.1 billion), and £704 million to colleges and other bodies (FY 2017-18: £624 million).

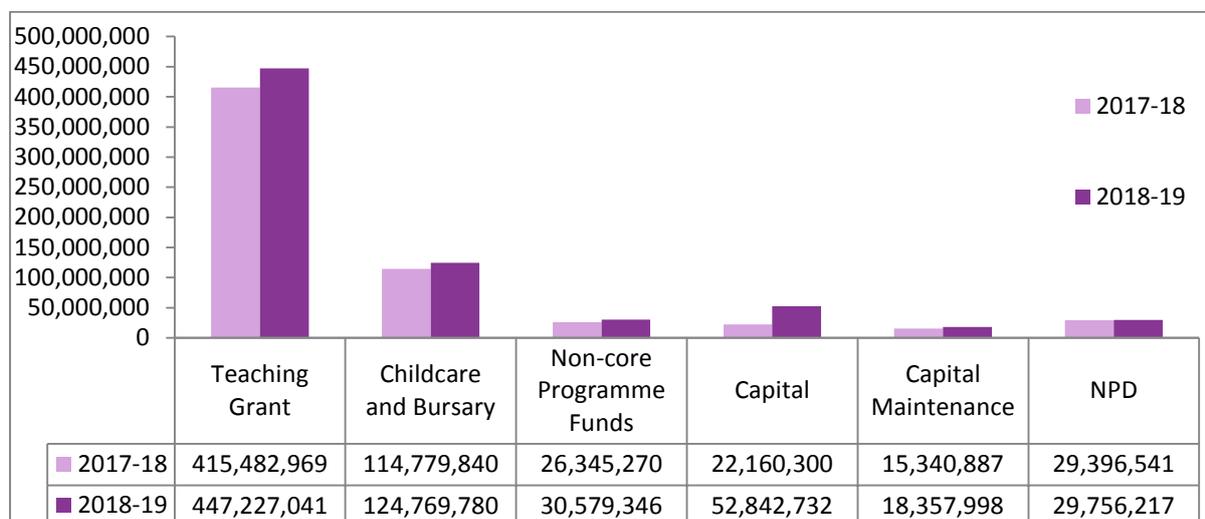
Grants paid to universities and other bodies rose by £20.4 million (1.8%) between FY 2017-18 and 2018-19. Grants paid to colleges and universities and other bodies are detailed on pages 82 and 83.

Grants paid to HEIs and other bodies



Grants paid to colleges and other bodies rose by £80 million (12.8%) between FY 2017-18 and 2018-19.

Grants paid to colleges and other bodies



Running cost expenditure

Running cost expenditure is a very small proportion of overall expenditure (at around 0.5%).

During FY 2018-19, the total running cost expenditure was £7.6 million (FY 2017-18: £8 million), comprising staff costs £5.9 million (FY 2017-18: £5.4 million) (note 3), other operating charges £1.6 million (FY 2017-18: £2.5 million) (note 6), depreciation £49,000 (FY 2017-18: £50,000) (note 4), amortisation £44,000 (FY 2017-18: £60,000) (note 5).

Payment of creditors

We observe the principles of the Government-backed Better Payment Practice Group, www.payontime.co.uk. We aim to pay 100% of invoices, including disputed invoices once settled, within ten days.

Our payment performance for the year to 31 March 2019 shows that 96.4% (FY 2017-18: 98.2%) of invoices were paid within 10 days of the presentation of a valid invoice and 99.3% (FY 2017-18: 99.2%) of invoices were paid within 30 days.

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 2018 to 31 March 2019 was £72,980 (FY 2017-18: £71,500).

No non-audit services were supplied during the year.

A handwritten signature in black ink that reads "KWatt". The signature is written in a cursive, slightly slanted style.

Karen Watt

Accountable Officer

Date: 25 June 2019

The Accountability Report

Corporate Governance Report

Directors' Report

The Chair and Board members of SFC are appointed by the Scottish Ministers in accordance with the Code of Practice for Ministerial Appointments to Public Bodies in Scotland, issued by the Commissioner for Ethical standards in Public Life in Scotland.

In FY 2018-19, membership of the SFC Board was as follows:

Chair	Dr Mike Cantlay
Chief Executive	Karen Watt: appointed 14 January 2019
Interim Chief Executive	John Kemp: term of office ended on 13 January 2019
Members	David Alexander Mhairi Harrington Professor Maggie Kinloch Paul Little Douglas Mundie Professor Sir Anton Muscatelli Dr Keith Nicholson Dr Veena O'Halloran Caroline Stuart Marlene Wood Professor Lesley Yellowlees

SFC Board meetings are attended by a representative of the Scottish Government and observers from the UK Research and Innovation (UKRI), Research England, the Higher Education Funding Council for Wales (HEFCW) and NUS Scotland.

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

Personal data related incidents

There have been no breaches of information or data security during FY 2018-19, or reported incidents of loss of personal data by SFC, which required to be reported to the UK Information Commissioner.

Statement of Accountable Officer's Responsibilities

Under paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005, SFC is required to prepare a statement of accounts in respect of the year ended 31 March 2019 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 SFC's state of affairs at 31 March 2019 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 Accountable Officer is required to comply with the requirements of the *Government Financial Reporting Manual (FReM)* 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 SFC. 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 herself 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 she takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The Governance Statement

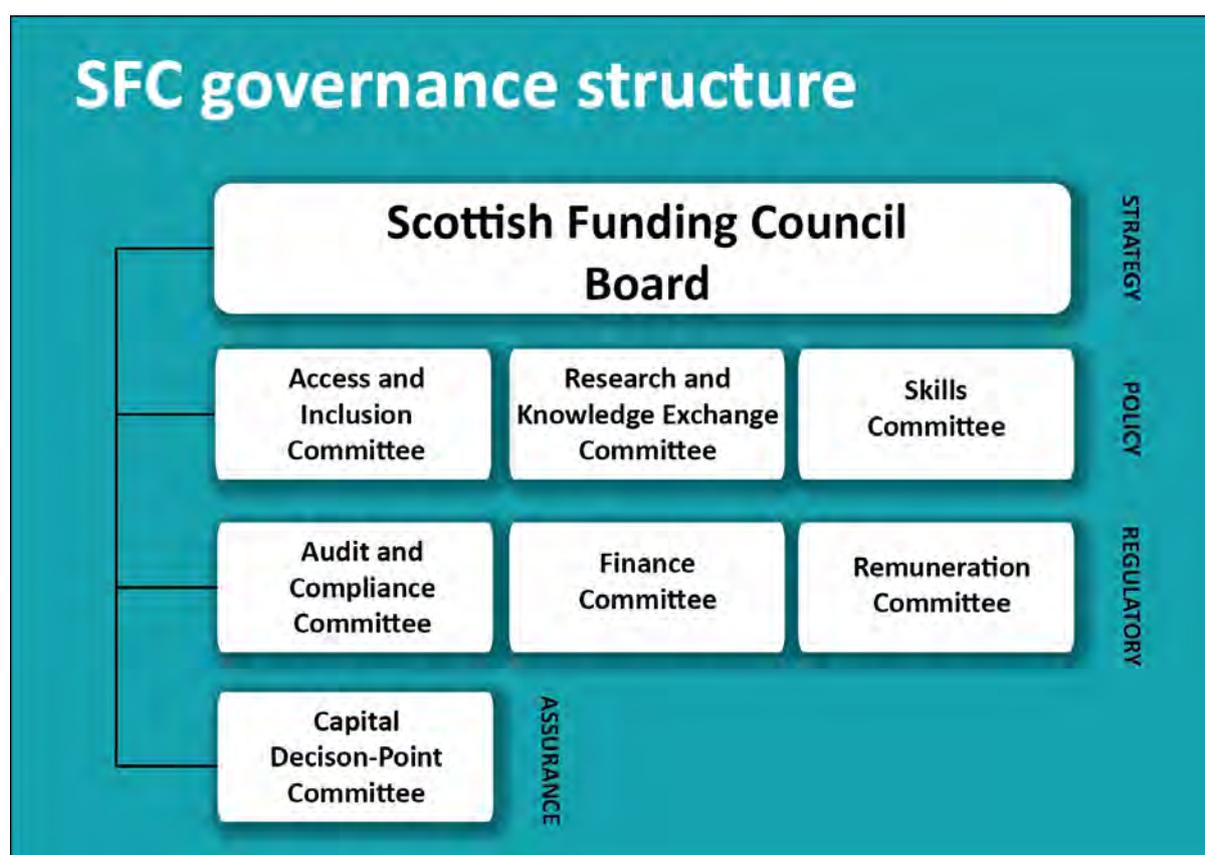
Introduction

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 2018-19 and reports my assessment of the effectiveness of these arrangements.

Governance framework

SFC's governance framework is based on the legislative powers of the organisation and its Framework Document with Scottish Government. The following diagram outlines the governance structure in place during FY 2018-19.



SFC 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 Board

The SFC Board is responsible for providing leadership, direction, support and guidance, and in ensuring that SFC delivers its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers.

Members of the SFC Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of SFC'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 SFC website at [Council Board](#).

Board effectiveness

The SFC Board reviews its performance annually and uses the outcomes to implement improvements and enhance its effectiveness. Normally, every three years this exercise is externally facilitated.

Standing Committees

The SFC Board has established seven committees to advise it on specific responsibilities or undertake specific functions. Three of the committees have responsibility mainly for policy, strategy, and funding in relation to Outcome Agreements with colleges and universities:

- Access and Inclusion Committee.
- Skills Committee.
- Research and Knowledge Exchange Committee.

The Skills Committee and the Research and Knowledge Exchange Committee are established under statute.

Three committees are responsible mainly for organisational or regulatory matters:

- Audit and Compliance Committee.
- Finance Committee.
- Remuneration Committee.

The seventh Committee provides the Board with assurance on capital issues:

- Capital Decision Point Committee.

The **Access and Inclusion Committee** advises the SFC Board on access and inclusion matters and on the implementation of the recommendations from the Commission

on Widening Access (COWA) – including monitoring the progress of key targets – and Scottish Government priorities for access to learning.

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. Recent meetings have been suspended while SFC and SDS consider the implications for the Committee of the new priorities of the national Strategic Board for Enterprise and Skills.

The **Research and Knowledge Exchange Committee** has a role to respond to, recommend, and advise the SFC Board on research and knowledge exchange strategy, and 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 SFC's resources. The Committee also works with the national enterprise agencies and other stakeholders to give the SFC Board advice on innovation and support of knowledge exchange, which contributes to sustainable economic growth.

The SFC Board 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 SFC's financial strategy, oversee the governance and financial monitoring of institutions, scrutinise the annual budgets for programme funds, scrutinise SFC's financial position, 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. In consultation with the Chief Executive, it also determines the broad framework and level of remuneration for directors and 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.

The remit of the **Capital Decision-Point Committee** is to ensure that there is appropriate governance arrangements, proper scrutiny, and due diligence of major capital projects funded by SFC.

The remits and memberships of all the SFC committees are published on SFC's website at:

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

During the course of the Financial Year, the SFC Board agreed to establish a Learning Enhancement Committee to provide advice and guidance on strategies for ensuring that students receive an inspiring, high quality education, which equips them with the knowledge and skills to participate effectively to Scotland's economic, social and cultural success.

The SFC Board members' attendance at Board and committee meetings in FY 2018-19 is shown in the table on page 33.

SFC Board members' attendance at meetings

Council members attending Council and Committee meetings (c = Chairperson)	Council 6 meetings	Access and Inclusion 3 meetings	Audit and Compliance 3 meetings	Capital Decision Point 2 meetings	Finance 6 meetings	Remuneration 4 meetings	Research and Knowledge Exchange 5 meetings
Dr Mike Cantlay (Chair)	6 (c)						
Karen Watt (Chief Executive)	1 of 1		0 of 1		1 of 2		
John Kemp (Interim Chief Executive)	5 of 5				4 of 4		
David Alexander	6		3 (c)				
Mhairi Harrington	6						4
Professor Maggie Kinloch	5	2 (c)					
Paul Little	5		3				
Professor Sir Anton Muscatelli	2				3		1 of 3
Douglas Mundie	6			2 (c)	6	4 (c)	5
Dr Keith Nicholson	4		0				2
Dr Veena O'Halloran	6	2 (c for 1)				4	
Caroline Stuart	5		3				
Marlene Wood	6			2	6 (c)	4	
Professor Lesley Yellowlees	6						5 (c)

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

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 Framework Agreement with Scottish Government, and associated guidance and good practice guidance.

Risk management and control

SFC's risk management strategy is to:

- Ensure that SFC'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 SFC Board 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 SFC Board.

Whilst, as Accountable Officer, I remain ultimately responsible for managing and implementing SFC'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 SFC executive, chosen for their expertise in the particular areas of risk.

Risk management is embedded in the operations of the organisation. 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 Board agreed a Statement of Risk Appetite for SFC in 2018:

“The Scottish Funding Council (SFC) recognises that it must take risks if it is to achieve fully its Strategic Plan aims and deliver these effectively. However, it will always approach risk in a controlled manner, reducing its exposure in a way deemed acceptable to the Board, the Scottish Government, and external regulators such as Audit Scotland.

SFC’s appetite for risk will vary depending on the functions of the organisation, the context, and the anticipated benefits.

In relation to its core funding of colleges and universities, and its regulatory role, it will seek to minimise the risks to SFC and to institutions, particularly where these may pose a threat to the financial sustainability of colleges and universities, or where they may create significant instability or uncertainty in the sectors.

In its negotiation of Outcome Agreements, its use of strategic funding, and its work with other partners and stakeholders, the organisation is willing to accept a higher level of risk where it identifies opportunities to achieve highly successful outcomes for SFC and the Scottish Government.

In its internal management and functions, SFC will avoid any activity that poses a threat to its budgeting, the health, safety and well-being of staff, or its ability to meet all legislative and regulatory requirements. While always striving to protect its reputation, SFC will nevertheless accept a moderate level of risk if it allows it to communicate its role, objectives, and achievements more successfully.”

During the course of FY 2018-19, we managed up to 13 key 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 long-term financial health of colleges and universities.
- Budgets for colleges and universities in the context of the Spending Review and the draft Scottish Budget for FY 2019-20.
- The achievement of student number targets in the college sector, including student number targets for European Social Fund (ESF) activity.
- Britain’s exit from the European Union and the implications for colleges and universities.

- Compliance with the Data Protection legislation and the General Data Protection Regulation.
- Climate change targets and the implications for colleges and universities.
- Communications and SFC's role and relationship with partner bodies and other stakeholders.
- The impact of the review of the national enterprise and skills on SFC and its governance.
- Industrial relations in the college and university sectors and the impact on learners and the reputation of the sectors.
- Cybersecurity and the risks to the security of SFC's data.
- SFC's internal capacity and resources in the context of increasing demands.

We have actively managed these risks throughout the year, working closely with Scottish Government, colleges, universities and other partners.

Information governance and security

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.

We are Cyber Essentials Plus accredited and continue to adopt a multi-layered, multi-vendor approach for our Cyber Resilience.

Internal audit

Internal audit is a key independent source of assurance. The strategic and annual planning of internal audit reviews is risk based, in which work is targeted to the areas identified as greatest risk and strategic importance. Internal audit carried out five reviews in FY 2018-19, 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

Significant issues are raised through the assurance framework and certificates of assurance process. During FY 2018-19, the following significant issues were brought to my attention.

Significant issue	Action
Financial health of colleges and universities	We will work strategically with the Scottish Government in preparation for the next Spending Review.
Achievement of Scottish Government targets for student numbers in the college sector.	Meeting the Scottish Government student number targets is challenging. However, we continually monitor the targets closely, identifying potential risks, and take action at an early stage to reallocate activity across Scotland so that the sector overall meets the national target.
Meeting European Social Fund (ESF) audit requirements.	We are required to meet ESF audit requirements in order to claim successfully for funding to meet the two ESF programmes for which SFC is the Lead Partner. As a result of our engagements with the ESF Managing Authority over our claims, we are conducting 100% checks on all college participant documentation and student support cost payments.
Industrial relation challenges in the college sector.	We took action to mitigate the risk of industrial relations problems in the college sector in response to the introduction of National Bargaining. We supported the National Bargaining process by validating the data that were used in negotiations and by giving a view on implications of the proposals.

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 SFC'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 SFC'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:

- SFC'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 SFC 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 2019, who submit regular reports to SFC's Audit and Compliance Committee, 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.
- Findings and recommendations 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 2019, 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 SFC'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 2019 and up to the date of approval of the Annual Report and Accounts.

Remuneration and Staff Report

Remuneration 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 SFC Board 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 SFC Board.

Chair and SFC Board members

Members of the SFC Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of SFC’s affairs. The SFC Board membership during FY 2018-19 is detailed on page 27.

* Council members’ remuneration (including Chair and Chief Executive)

	Year ended 31 March 2019 £’000	Year ended 31 March 2018 £’000
Salary and allowances	308	308
Social security costs	27	27
Other pension costs	30	30
Total	365	365

***SFC Board membership for the period 1 April 2018 to 31 March 2019**

Member	Appointment start date	Appointment end date	Remuneration year ended 31 March 2019 £	Remuneration year ended 31 March 2018 £
Dr Mike Cantlay (Chair)	3 October 2017	2 April 2021	49,002	24,189
Professor Alice Brown (Chair)	3 October 2013	2 October 2017	-	24,189
Karen Watt (Chief Executive)	14 January 2019		See page 42	-
John Kemp (Interim Chief Executive)	8 August 2016	13 January 2019	See page 42	See page 42
David Alexander*	3 October 2017	2 October 2021	12,122	6,012
Robin Crawford*	3 October 2009	2 October 2017	-	6,012
Audrey Cumberland*	3 October 2009	2 October 2017	-	6,012
Mhairi Harrington*	3 October 2017	2 October 2021	12,122	6,012
Professor Maggie Kinloch	16 March 2012	3 October 2019	12,122	12,025
Paul Little	4 October 2015	3 October 2019	12,122	12,025
Lorraine McMillan**	1 September 2014	2 October 2017	-	6,012
Douglas Mundie	1 September 2014	2 October 2021	12,122	12,025
Professor Sir Anton Muscatelli	16 March 2012	3 October 2019	12,122	12,025
Dr Keith Nicholson	16 March 2012	3 October 2019	12,122	12,025
Dr Veena O'Halloran	4 October 2015	3 October 2019	12,122	12,025
Professor Albert Rodger*	3 October 2009	2 October 2017	-	6,012
Caroline Stuart	4 October 2015	3 October 2019	12,122	12,025
Marlene Wood	16 March 2012	3 October 2019	12,122	12,025
Professor Lesley Yellowlees*	3 October 2017	2 October 2021	12,122	6,012

The Chair receives a remuneration of £471 per day for a time commitment of two days per week. All other Board members are entitled to receive a fee of £337 per day (2017-18: £334), up to a maximum total fee of £12,122 (2017-18: £12,025) per financial year. Where a Board member's membership did not include a full year, but they received a full-year equivalent salary, 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).

SFC Board members' attendance at meetings are given on page 33

As at 31 March 2019 there were 13 council members of whom seven were females and six were males.

Chief Executive

The Chief Executive is an ordinary member of the Principal Civil Service Pension Scheme (PCSPS). The employer's contribution to the scheme amounted to 24.5% of the Chief Executive's pensionable salary.

Karen Watt was appointed Chief Executive on 14 January 2019. John Kemp was Interim Chief Executive until 13 January 2019.

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 (£1000) ²)		Total (£'000)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Karen Watt (appointed Chief Executive on 14 January 2019, FYE £120k-125k)	25-30	-	52,000	-	75-80	-
John Kemp (appointed Interim Director of Policy and Strategic Development on 14 January 2019, FYE £100k-105k; Interim Chief Executive until 13 January 2019, FYE £120k-125k)	115-120	120-125	11,000	33,000	130-135	150-155
Michael Cross (Interim Director of Access, Skills and Outcome Agreements)	85-90	80-85	14,000	80,000	100-105	160-165
Martin Fairbairn (Chief Operating Officer, Protected salary ended 30 September 2018, FYE £100k-105k)	105-110	110-115	12,000	1,000	115-120	110-115
Stuart Fancey (Director of Research and Innovation)	90-95	80-85	53,000	41,000	140-145	125-130
Lorna MacDonald (Director of Finance)	100-105	95-100	40,000	39,000	140-145	135-140

There were no bonus payments or benefits in kind payments made in either FY 2018-19 or FY 2017-18.

*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 SFC in the Financial Year 2018-19 was £120,000-125,000 (FY 2017-18: £120,000-125,000). This was 3.11 times (FY 2017-18: 3.19) the median remuneration of the workforce, which was £39,372 (FY 2017-18: £36,927).

In FY 2018-19, nil (FY 2017-18: nil) employees received remuneration in excess of the highest paid director. Remuneration ranged from £16,900 to £124,857 (FY 2017-18: £21,207 to £121,437).

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.

² 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.

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

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

	Accrued pension at pension age as at 31 March 2019	Real increase in pension and related sum at pension age	CETV at 31 March 2019	CETV at 31 March 2018 or start date	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Karen Watt Chief Executive	40-45 plus a lump sum of 115-120	0-2.5 plus a lump sum of 5-7.5	898	847	45
John Kemp, Interim Director of Policy and Strategic Development	40-45	0-2.5	839	738	10
Michael Cross, Interim Director of Access, Skills and Outcome Agreements	40-45 plus a lump sum of 130-135	0-2.5 plus a lump sum of 2.5-5	1,072	968	14
Martin Fairbairn Chief Operating Officer	35-40 plus a lump sum of 105-110	0-2.5 plus a lump sum of 0-2.5	790	702	11
Stuart Fancey Director of Research and Innovation	25-30	2.5-5	463	374	35
Lorna MacDonald Director of Finance	5-10	0-2.5	106	67	22

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements for staff employed directly by SFC. 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 4.6% and 8.05% of **classic**, **premium**, **classic plus**, **nuvos** and **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% (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 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

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.

Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an un-funded multi-employer defined benefits scheme but SFC is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the resource account of the Cabinet Office: Civil Superannuation [here](#).

For 2018-19, employers' contributions of £955,279 were payable to the PCSPS (FY 2017-18: £893,380) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during FY 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1,476 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £86, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil. Contributions prepaid at that date were £nil.

***Staff numbers (excluding Chief Executive)**

	Year ended 31 March 2019			2018
	Directly employed staff	Seconded and agency staff	Total	Total
Average number of FTE employees	99	3	102	97

The Council employed 64 females and 45 males as at 31 March 2019. The Chief Executive is a female employee, and there are one female and four male Directors (includes one inward secondee from the Scottish Government). 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 no non-compulsory exits during the year 2018-19.

Staff report

Health, safety and well-being

We have a Health and Safety Committee which assesses the workplace regularly to ensure that our staff work in a safe environment which supports their well-being.

There was an increase in staff absence sickness rates in FY 2018-19: the 12-month rolling absence figure for the Council was 4.3% as at 31 March 2019 (as at 31 March 2018: 3.3%). The absence rate for public sector organisations in the same period was 3.7% (CIPD 2018 Health and wellbeing at work report).

Staff relations

We recognise the importance of good industrial relations and effective communication with our staff. We have a Joint Consultation and Negotiation Forum (JNCF), which meets regularly, and involves members of our Senior Management Team (SMT) and representatives from our staff trade union, Unite. Through this we share information, discuss issues of mutual concern, consult and, where appropriate, negotiate on policies, procedures and terms and conditions of employment. We also have a health and safety committee which includes union representatives to help ensure the safety and wellbeing of staff working at SFC.

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017 we provided the following support through paid facility time for union officials working at SFC in the period 1 April 2018 to 31 March 2019.

Relevant union officials

Number of employees who were relevant union officials during the relevant period	<ul style="list-style-type: none"> • Six Unite Committee members (including post holders) • Two Health and Safety representatives
Full-time equivalent employee number	7.7 FTE (FY 2017-18: 7.5)

Percentage of time spent on facility time

Percentage	Number of employees
0%	-
1-50%	8 (FY 2017-18: 8)
51%-99%	-
100%	-

Percentage of pay bill spent on facility time

Total cost of facility time	£15,507 (FY 2017-18: £15,514)
Total pay bill	£5.883m (FY 2017-18: £5.375m)
Percentage of the total pay bill spent on facility time	0.3% (FY 2017-18: 0.3%)

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time hours	100%
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Staff policies applied during the financial year

We are required to disclose staff policies applied during the financial year for:

- Giving full and fair consideration to applications for employment by 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.
- Otherwise for the training, career development and promotion of disabled persons employed by the company.

The key policies which SFC can apply are:

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

We offer workstation assessments to assess whether these meet individual needs. We can call upon occupational health support and feedback from Access to Work to assist in making reasonable adjustments for staff with disabilities.

Equality and Diversity

We strive actively to improve diversity and equality. We have an Equality and Diversity Group, Chaired by a director, which monitors progress with our equality outcomes:

- We will better understand and improve equality and diversity within our workforce through improved disclosure and positive action and development initiatives
- Equality and diversity responsibilities will be clearly established in our strategic and operational planning and advanced through forward job plans and evaluation processes.

We are 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, we guarantee an interview.

We are accredited as a Carer Positive Engaged Employer by Carer Scotland.

We undertake Equality Impact Assessments on our proposed policies or funding initiatives. Our equality impact assessments now review human rights as part of the methodology applied and we have carried out assessments on a number of projects and HR policies.

Parliamentary accountability 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.

SFC suffered no losses. No special payments were made during financial year 2018-19 (FY 2017-18: £nil). No gifts were made during financial year 2018-19 (FY 2017-18: £nil).

Fees and charges

SFC applied no fees or charges during financial year 2018-19 (FY 2017-18: nil).

Remote contingent liabilities

SFC has a financial guarantee with New College Lanarkshire.



Karen Watt

Accountable Officer

Date: 25 June 2019

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

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 2019 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 notes to the financial statements, 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 2018/19 Government Financial Reporting Manual (the 2018/19 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 2019 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 2018/19 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 for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. 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 was appointed by the Auditor General on 26 May 2017. The period of total uninterrupted appointment is two years. 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 Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of 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.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain 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) 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

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, the audited part of the Remuneration and Staff Report, 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, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 matters prescribed by the Auditor General for Scotland

In my opinion, the audited 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 audited 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.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gordon Smail
Audit Director
102 West Port
Edinburgh
EH3 9DN

26 June 2019

The Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2019

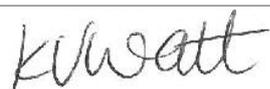
	Notes	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Expenditure			
Grants paid to HEIs and other bodies	2	1,164,026	1,143,653
Grants paid to colleges and other bodies	2	703,533	623,506
Staff costs	3	5,887	5,375
Depreciation	4	49	50
Amortisation	5	44	60
Other operating charges	6	1,773	3,035
		1,875,312	1,775,679
Income			
European Social Fund income	8	(8,941)	(41)
Income from HEIs and colleges	9	(6,740)	(8,214)
Other grants	10	(13,032)	(7,444)
Other income	11	(10)	(1)
		(28,723)	(15,700)
Net expenditure		1,846,589	1,759,979
Comprehensive net expenditure	SoCTE	1,846,589	1,759,979

There are no recognised gains and losses other than those recorded above.
The notes on pages 60 to 80 form part of these accounts.

**Statement of Financial Position
as at 31 March 2019**

	Notes	31 March 2019 £'000	31 March 2018 £'000
Non-current assets			
Property, plant and equipment	4	107	155
Intangible assets	5	36	48
Trade and other receivables	12	53,618	18,500
Total non-current assets		53,761	18,703
Current assets			
Trade and other receivables	12&13	8,387	3,862
Cash and cash equivalents	14	6,609	4,430
Total current assets		14,996	8,292
Total assets		68,757	26,995
Current liabilities			
Trade and other payables	15	57	94
Other liabilities	15	3,250	2,989
Total current liabilities		3,307	3,083
Assets less liabilities		65,450	23,912
Taxpayers' equity		65,450	23,912

The financial statements on pages 56 to 59 were approved by SFC on 25 June 2019 and signed on its behalf by:



Karen Watt
Accountable Officer

Date: 25 June 2019

The Accountable Officer authorised these Financial Statements for issue on 25 June 2019. The notes on pages 60 to 80 form part of these accounts.

Statement of Cash Flows
for the year ended 31 March 2019

	Notes	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Cash flows from operating activities			
Net operating costs		(1,846,589)	(1,759,979)
Adjustments for non-cash transactions			
Depreciation and amortisation charges	4&5	92	110
Loss on disposal of fixed assets	6	3	2
Increase in long term debtors	12	(35,118)	(15,815)
Movements in working capital			
Increase in trade and other receivables	13	(4,525)	(115)
Increase in trade and other payables	15	224	1,012
Net cash outflow from operating activities		(1,885,913)	(1,774,785)
Cash flows from investing activities			
Purchase of property, plant & equipment	4	-	(204)
Purchase of intangible assets	5	(35)	(39)
Net cash outflow from investing activities		(35)	(243)
Cash flows from financing activities			
Grant-in-aid	7	1,870,187	1,756,803
Other Scottish Government grants	7	1,180	1,180
Other Government grants	7	16,760	16,760
Net cash inflow from financing activities		1,888,127	1,774,743
Net increase/(decrease) in cash and cash equivalents		2,179	(285)
Cash and cash equivalents at 1 April 2018	14	4,430	4,715
Cash and cash equivalents at 31 March 2019	14	6,609	4,430
Net increase/(decrease) in cash		2,179	(285)

The notes on pages 60 to 80 form part of these accounts.

**Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2019**

	Note	Year ended 31 March 2019 £'000
Changes in Taxpayers' Equity 2018-19		
Balance as at 1 April 2018		23,912
Scottish Government grant-in-aid funding	7	1,870,187
Other Scottish Government grants	7	1,180
Other Government grants	7	16,760
Comprehensive net expenditure for the year		(1,846,589)
Balance at 31 March 2019		65,450
Changes in Taxpayers' Equity 2017-18		
Balance as at 1 April 2017		9,148
Scottish Government grant-in-aid funding	7	1,756,803
Other Scottish Government grants	7	1,180
Other Government grants	7	16,760
Net expenditure		(1,759,979)
Balance at 31 March 2018		23,912

The Taxpayers' Equity balance includes £58,500,000 (2017-18: £18,874,000) in respect of recoverable grants advanced to institutions (note 12).

The notes on pages 60 to 80 form part of these accounts.

Notes to the Accounts

For the year ended 31 March 2019

1. Accounting policies

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 the Government Financial Reporting Manual (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 the 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 SFC are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Adoption of FReM amendments

SFC has adopted IFRS9 and IFRS15 which has had no material impact on the financial statements. Under IFRS 9 SFC is required to measure financial assets at amortised cost based on both SFC's business model for managing financial assets and the contractual cash flow characteristics of the loans.

There have been no other significant FReM changes in 2018-19.

Going concern

The Scottish Government's estimates and forward plans include provision for SFC continuation and it is therefore appropriate to prepare these accounts on a going concern basis.

Significant judgements

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

SFC'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.

SFC 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 SFC 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.

SFC is currently registered for VAT and, although most of SFC's activities are outside the scope of VAT, tax is levied on consultancy income including staff secondments. VAT payable is included as an expense to the extent that it is not recoverable from HMRC and non-recoverable VAT is 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.

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

Grants payable

SFC 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.

Financial instruments

IFRS 7, IFRS 9 and International Accounting Standards (IAS) 32 require an organisation to present and disclose information on the possible impact of financial instruments on its financial position and performance, and on the extent of its risk exposure. As a non-departmental body (NDPB) funded by the government, SFC is not exposed to any liquidity or interest rate risks. SFC has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

Loans to institutions are charged at nominal interest rates over a period of 10 to 20 years and are repayable by deduction from future grant in aid. In accordance with IFRS 9 the loans will be initially recognised at fair value and thereafter at amortised cost. The loan cost has been used as a reasonable estimate of the carrying value of loans as the amortised cost would not be materially different. These are disclosed in note 12.

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 SFC'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 Principal Civil Service Pension Scheme (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 SFC 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 IFRS 9, 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.

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 2019 the following IFRS has been issued but is not effective as it has not yet been applied in the Government Financial Reporting Manual (FRm):

IFRS 16 – Leases. This requires lessees to recognise nearly all leases in the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. It is unlikely to be material to the SFC accounts, however, the impact has not yet been determined. This will be adopted on 1 April 2020.

2. Grants paid to institutions and other bodies

- a) The Framework Document between the Scottish Government and SFC requires SFC and its Chief Executive to ensure that grant-in-aid receipts were used for their intended purpose. In turn, the Financial Memorandum between SFC 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 2018. Grants to institutions for the period up to 31 March 2019 are yet to be verified by institutions and their auditors to ensure that grant-in-aid receipts from SFC 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

Grants paid to HEIs and other bodies	Year ended	Year ended
	31 March 2019	31 March 2018
	£'000	£'000
Recurrent grants	1,099,496	1,084,598
Capital grants	64,530	59,055
	1,164,026	1,143,653

Grants paid to colleges and other bodies	Year ended	Year ended
	31 March 2019	31 March 2018
	£'000	£'000
Recurrent grants	525,920	492,084
Bursary and student support payments	124,770	109,262
Capital and major works	52,843	22,160
	703,533	623,506

3. Staff costs (excluding Chief Executive)

a) Salaries and related costs

	Year ended 31 March 2019			2018
	Directly employed staff	Seconded and agency staff	Total	Total
	£'000	£'000	£'000	£'000
Cost of employing staff:				
Wages and salaries	4,340	192	4,532	4,087
Social security costs	442	12	454	432
Other pension costs	869	23	892	849
Apprenticeship levy	9	-	9	7
	5,660	227	5,887	5,375

Staff numbers are analysed in the Remuneration and staff report on page 47.

b) Loans

Interest free loans are payable to staff for the purchase of season travel tickets. The loans are repayable through SFC's payroll over the period of the duration of the tickets. As at 31 March 2019, £10,785 (as at 31 March 2018: £12,026) was outstanding and this related to 13 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
Historic cost				
At 1 April 2018	144	446	61	651
Additions	-	-	-	-
Disposals	-	136	34	170
At 31 March 2019	144	310	27	481
Depreciation				
At 1 April 2018	29	406	61	496
Provided during the year	28	20	-	48
Disposals	-	136	34	170
At 31 March 2019	57	290	27	374
Net Book Value				
At 31 March 2019	87	20	-	107
At 1 April 2018	115	40	-	155
Historic cost				
At 1 April 2017	206	432	61	699
Additions	144	59	-	203
Disposals	(206)	(45)	-	(251)
At 31 March 2018	144	446	61	651
Depreciation				
At 1 April 2017	204	431	61	696
Provided during the year	30	20	-	50
Disposals	(205)	(45)	-	(250)
At 31 March 2018	29	406	61	496
Net Book Value				
At 31 March 2018	115	40	-	155
At 1 April 2017	2	1	-	3

5. Intangible assets

Intangible assets comprise IT software and software licences.

	IT	Software licences	Total
	£'000	£'000	£'000
Cost			
At 1 April 2018	1,115	149	1,264
Reclassified in year	29	(29)	-
Additions	35	-	35
Disposals	105	-	105
At 31 March 2019	<u>1,074</u>	<u>120</u>	<u>1,194</u>
Amortisation			
At 1 April 2018	1,067	149	1,216
Reclassified in year	29	(29)	-
Provided during the year	44	-	44
Disposals	102	-	102
At 31 March 2019	<u>1,038</u>	<u>120</u>	<u>1,158</u>
Net Book Value			
At 31 March 2019	<u>36</u>	<u>-</u>	<u>36</u>
At 1 April 2018	<u>48</u>	<u>-</u>	<u>48</u>
Cost			
At 1 April 2017	1,076	149	1,225
Additions	39	-	39
Disposals	-	-	-
At 31 March 2018	<u>1,115</u>	<u>149</u>	<u>1,264</u>
Amortisation			
At 1 April 2017	1,019	137	1,156
Provided during the year	48	12	60
Disposals	-	-	-
At 31 March 2018	<u>1,067</u>	<u>149</u>	<u>1,216</u>
Net Book Value			
At 31 March 2018	<u>48</u>	<u>-</u>	<u>48</u>
At 1 April 2017	<u>57</u>	<u>12</u>	<u>69</u>

6. Other operating charges

	Year ended 31 March 2019			2018
	Running cost	Sectoral expenditure	Total	Total
	£'000	£'000	£'000	£'000
Operating leases – property rental	259		259	357
Accommodation costs	203		203	335
Council members' remuneration	365		365	365
Other support costs	502		502	474
Professional services	-	115	115	528
Refurbishment	9		9	705
Staff recruitment and training	73		73	30
Legal costs	17		17	23
Travel and subsistence				
– Council members	3		3	8
– Staff	90		90	66
External Audit fee	29	44	73	72
Equipment and consumables	27		27	30
Hospitality costs				
– Council members	4		4	4
– Staff	6		6	6
Publication Costs	16		16	24
Committee costs	8		8	6
Loss on disposal of assets	3		3	2
	1,614	159	1,773	3,035

Sectoral expenditure has been used to meet operating charges where the benefit is to institutions within the Scottish further and higher education sectors. £115,000 (FY 2017-18: £528,000) 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 SFC 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 2019 £'000	Year ended 31 March 2018 £'000
a) Funds from Scottish Government for:		
HEI and other bodies	1,088,015	1,070,882
Financial transactions	40,000	16,189
Colleges and other bodies	618,179	588,258
Capital	116,456	74,205
Council running costs	7,537	7,269
	<u>1,870,187</u>	<u>1,756,803</u>
b) Other Scottish Government Grants Sabhal Mòr 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>16,760</u>

8. Income from European Social Fund (ESF)

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
ESF income received – colleges programme	7,692	-
ESF income received – HEIs programme	1,157	-
	<u>8,849</u>	-
ESF income received – SFC running costs	92	41
	<u>8,941</u>	<u>41</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 2019 £'000	Year ended 31 March 2018 £'000
Clawback from colleges	6,078	7,110
Clawback from higher education institutions	662	1,104
	<u>6,740</u>	<u>8,214</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.

10. Other grants

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Higher Education Funding Council for England (HEFCE)	-	2,329
Department for Business, Energy and Industrial Strategy (DBEIS)	10,279	4,012
Other grant income	2,753	1,103
	<u>13,032</u>	<u>7,444</u>

11. Other income

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Miscellaneous income	10	1
	<u>10</u>	<u>1</u>

12. Trade and other receivables: loans

	31 March 2019 £'000	31 March 2018 £'000
(a) Balances due within one year:		
West Lothian College	158	158
University of Abertay Dundee	102	-
University of Dundee	42	11
University of Edinburgh	1,407	-
Edinburgh Napier University	464	29
Heriot-Watt University	497	104
Queen Margaret University, Edinburgh	17	11
The Robert Gordon University	108	-
University of St Andrews	710	-
University of Stirling	54	18
University of Strathclyde	250	23
SRUC	520	-
University of the Highlands & Islands	492	-
University of the West of Scotland	61	20
	4,882	374
(b) Balances due after one year:		
West Lothian College	2,369	2,527
University of Abertay Dundee	973	1,076
University of Dundee	242	284
University of Edinburgh	12,912	5,192
Edinburgh Napier University	62	526
Heriot-Watt University	3,475	1,980
Queen Margaret University, Edinburgh	89	106
The Robert Gordon University	736	394
University of St Andrews	6,571	4,981
University of Stirling	264	317
University of Strathclyde	11,679	829
SRUC	4,680	-
University of the Highlands & Islands	9,339	-
University of the West of Scotland	227	288
	53,618	18,500
Total	58,500	18,874

University loans are funds provided to institutions on an individual basis to support the costs of specific projects, which are recovered through an adjustment to their

future funding. The SFC Board has agreed the principles for providing university loans. Loans are treated as financial instruments and some are interest not bearing and some have interest charged at 0.25%. The loan cost has been used as a reasonable estimate of the amortised cost of recoverable grants as the discounted cashflows would not be materially different. Amounts provided are within the total funding for the programme approved by the Board. University loans are normally for five to ten years, but can be up to 20 years.

Arrangements for the repayment of the college advances have been agreed, with the repayment period over sixteen years for West Lothian College £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.

13. Trade and other receivables

	31 March 2019 £'000	31 March 2018 £'000
Prepayments and accrued income	662	1,860
Institutions clawback	2,603	1,587
Other HEI balances	112	-
Other debtors	128	41
	3,505	3,488
Balances due within one year (from note 12a)	4,882	374
Total balances due within one year	8,387	3,862

14. Cash and cash equivalents

	31 March 2019 £'000	31 March 2018 £'000
Funds held at Government Banking Service accounts	6,598	4,424
Funds held at commercial banks	11	6
	6,609	4,430

15. Trade and other payables

	31 March 2019 £'000	31 March 2018 £'000
Trade payables	57	94
Other HEI balances	215	2,403
Other liabilities	3,035	586
Total other liabilities	<u>3,250</u>	<u>2,989</u>
Total current liabilities	<u>3,307</u>	<u>3,083</u>

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. SFC's Financial Year runs from 1 April to 31 March each year. Grant commitments that fall outwith SFC's current Financial Year, but within the remaining period of the current Academic Year, are disclosed as contracted grant.

Grants committed to be paid to HEIs and other bodies	31 March 2019 £'000	31 March 2018 £'000
Grant for distribution		
Recurrent grant	433,671	427,345
Capital grants	-	2,553
	<u>433,671</u>	<u>429,898</u>

Grants committed to be paid to colleges and other bodies	31 March 2019 £'000	31 March 2018 £'000
Grant for distribution		
Recurrent grant	195,743	170,165
Student support payments	41,799	40,756
Capital grants	15,625	15,893
Unitary charge	9,794	9,880
	<u>262,961</u>	<u>236,694</u>

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, SFC 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.

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:

	31 March 2019 £'000	31 March 2018 £'000
Equipment		
Not later than one year	7	9
Later than one year and not later than five years	4	11
	<u>11</u>	<u>20</u>
 Buildings		
Not later than one year	259	259
Later than one year and not later than five years	1,035	1,035
Later than five years	1,833	2,092
	<u>3,127</u>	<u>3,386</u>

SFC does not own any land or buildings. Its premises in Edinburgh are leased. A lease for the ground floor of 97 Haymarket Terrace began in September 2017 and ends in April 2031.

18. Related party transactions

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

The Scottish Government Advanced Learning and Science Directorate, as the sponsor directorate, is regarded as a related party. SFC was financed by grant-in-aid from its sponsor directorate's parliamentary account. During the year SFC had a number of material transactions with the Directorate.

The universities and colleges funded by SFC are regarded as related parties. Details of the major transactions between SFC and the funded institutions are set out in Appendix 2 to the Report and Accounts. Amounts due to and from related parties are shown in notes 12, 13 and 15.

In addition, SFC 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 SFC Board members who served during the year were (or have been) related parties to institutions that the Council funds:

- David Alexander is Vice Principal Operations at West College Scotland.
- Mhairi Harrington was previously Principal and Chief Executive of West Lothian College.
- Professor Maggie Kinloch was previously Vice-Principal of the Royal Conservatoire of Scotland.
- Paul Little is Principal and Chief Executive of the City of Glasgow College.
- Douglas Mundie undertakes occasional consultancy work with universities and colleges. A company of which he is a Director worked with the University of St Andrews in the year 2018-19.
- Professor Sir Anton Muscatelli is Principal and Vice-Chancellor of the University of Glasgow.
- Veena O'Halloran is University Secretary and Compliance Officer at the University of Strathclyde.
- Caroline Stewart is a member of the Education Board of The Data Lab.

- Marlene Wood was previously Independent Chair of the Audit Committee and the Strategy Working Group of the University of the Highlands and Islands.
- Professor Lesley Yellowlees was previously Vice Principal and Head of the College of Science and Engineering at the University of Edinburgh is a lay Member of the Court of Edinburgh Napier University.

The Register of Interests for the SFC Board 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 SFC Board members has undertaken any material transactions with the Council.

There have been no material transactions during the year between SFC 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
2018-19				
Balances with other Central Government bodies	342	2,369	2,155	-
Balances with bodies external to Government	8,045	51,249	1,152	-
At 31 March 2019	8,387	53,618	3,307	-
2017-18				
Balances with other Central Government bodies	161	2,527	72	-
Balances with bodies external to Government	3,701	15,973	3,011	-
At 31 March 2018	3,862	18,500	3,083	-

20. Financial instruments

As the cash requirements of SFC 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 SFC's expected purchase and usage requirements and SFC is, therefore, exposed to little credit, liquidity or market risk.

SFC 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 2019 was £970,000 (as at 31 March 2018: £1.9 million).

SFC received agreement from the Scottish Government to issue the guarantee. The risk to SFC of realising payment is considered to be insignificant therefore there is no monetary impact in SFC's accounts.

During the course of its business, SFC may on occasion make loans to HEIs. These are disclosed in Note 12. SFC does not consider these to be a risk as repayments are deducted from future funding at source.

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 31.3.19 £'000	Total Year ended 31.3.18 £'000
Forth Valley	59,626	33,153
West Lothian	15,199	14,613
Dumfries and Galloway	13,292	11,466
Borders	11,089	10,517
Edinburgh	61,507	59,446
Highlands and Islands ³	61,456	38,411
Inverness ³	-	6,983
Lews Castle ³	-	228
Moray ³	-	1,972
North Highland ³	-	1,548
Perth ³	-	2,678
Orkney ³	-	34
Shetland ³	-	44
Ayrshire	56,592	50,539
West	55,792	54,160
Glasgow Clyde ⁴	-	39,588
Glasgow Kelvin ⁴	-	24,529
City of Glasgow ⁴	-	59,257
Glasgow Colleges' Regional Board ⁴	143,864	11,071
Fife	50,215	43,426
New College Lanarkshire Regional Board	68,352	61,591
Dundee and Angus	38,896	35,338
North East College Scotland	44,382	41,026
SRUC	12,042	11,111
Newbattle	1,083	1,452
Sabhal Mòr Ostaig	2,000	1,911
Total grant distributed to colleges	695,387	616,092
Total grant distributed to other organisations	8,146	7,414
Total grant distributed	703,533	623,506

³ From 1 April 2018, all student support funding was paid to the University of the Highlands and Islands.

⁴ From 1 March 2018, all regional funding was paid to Glasgow Colleges' Regional Board.

Grants paid to HEIs and other bodies

University or college	Total year ended 31.3.19 £'000	Total Year ended 31.3.18 £'000
Aberdeen	76,931	74,912
Abertay Dundee	20,329	20,291
Dundee	82,044	78,779
Edinburgh	186,982	185,932
Glasgow	161,379	157,658
Glasgow Caledonian	69,393	68,082
Glasgow School of Art	17,118	23,228
Heriot-Watt	49,830	46,054
Edinburgh Napier	57,506	57,373
Open University in Scotland	24,548	24,080
Queen Margaret Edinburgh	15,432	14,917
Robert Gordon	44,940	43,551
Royal Conservatoire of Scotland	11,975	11,680
St Andrews	39,519	38,366
Stirling	46,857	44,360
Strathclyde	105,031	106,729
Highlands and Islands	48,828	44,662
West of Scotland	69,883	68,281
SRUC	18,984	16,091
Ayrshire College ⁵	-	4
Borders College ⁵	-	4
Dumfries and Galloway College ⁵	24	4
Dundee and Angus College ⁵	-	9
Edinburgh College ⁵	-	4
Fife College ⁵	-	4
Forth Valley College ⁵	-	4
Glasgow Colleges' Regional Board ⁵	20	12
North East College Scotland ⁵	-	4
New College Lanarkshire ⁵	5	8
West College ⁵	-	4
West Lothian College ⁵	-	4
Total grant distributed to institutions	1,147,558	1,125,091
Total grant distributed to other organisations	16,467	18,560
Total grant distributed	1,164,026	1,143,653

⁵ College Innovation Accelerator Fund



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