



SFC Corporate publication

Annual Report and Accounts 2014-15

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Summary: SFC's audited report and accounts for 2014-15. The report contains an overview of a foreword by SFC Chair, Professor Alice Brown and a performance report from Chief Executive, Laurence Howells.

FAO: Principals and directors of Scotland's colleges and universities

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Contents

Chair's Foreword	4
Chief Executive and Accountable Officer's Report	7
Performance report	7
Sustainability Report	18
Remuneration Report for the year ended 31 March 2015	20
Management Commentary	27
Statement of Council's and Accountable Officer's responsibilities	32
Annual Governance Statement 2014-15	33
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	41
Statement of Comprehensive Net Expenditure for the year ended 31 March 2015	44
Statement of Financial Position as at 31 March 2015	45
Statement of Cash Flows	46
Statement of Changes in Taxpayers' Equity	47
Notes to the Accounts	48
1 Basis of Accounts	48
2 Accounting policies	48
3 Grants paid to institutions and other bodies	51
4 Staff costs (excluding Chief Executive)	52
5 Other operating charges	54
6 Property, plant and equipment	55
7 Intangible assets	56
8 Government grant-in-aid received	57
9 Income from ESF	57
10 Income from HEIs and colleges	58
11 Other grants	58
12 Trade and other receivables: recoverable grants	59
13 Trade and other receivables	60
14 Cash and cash equivalents	60
15 Trade and other payables	60
16 Capital and non-capital commitments	61

17	Commitments under leases	62
18	Contingent liability	63
19	Related party transactions	63
20	Intra-government balances	65
21	Fianancial Instruments	65
	Direction by the Scottish Ministers	67
	Annex 1 Analysis of funds paid to institutions and other bodies	68
	Annex 2 College regions	70
	Annex 3 Chair’s Foreword Gaelic version	71

Chair's Foreword



Last year I wrote my Foreword to the Annual Report and Accounts as the newly-arrived Chair of the Scottish Funding Council. This year, after twelve busy and progressive months for SFC, I feel privileged to have been involved in the full breadth of activities undertaken by a public body at the centre of education, innovation and opportunity in Scotland.

I have been especially pleased to see the effects of new approaches to widening access. In last year's Foreword, I referred to SFC's £10 million funding package to provide 2,000 extra university places. Around 700 of these were aimed at learners from deprived backgrounds and a further 1,000 places were for learners moving from a college to a university course. As this investment works through and complements other initiatives, our latest analysis of college and university outcome agreements clearly shows an emphasis on "inclusive growth" where barriers to learning and opportunities are being removed. Universities now recruit 30% of their students from Scotland's 40% highest areas of deprivation. College activity geared towards learners in the country's 10% most deprived postcodes has also increased. With over 70% of learning now targeted at 16-19 year olds not in employment, education or training, colleges are playing a crucial role in the success of the Scottish Government's Opportunities for All strategy.

Another highlight during the past year has been the outstanding performance of all Scottish universities in the Research Excellence Framework (REF), the periodic assessment of the quality of university research across the UK. When the REF results were published in December 2014 they identified world-leading research in all the Scottish universities which submitted. They found that Scottish universities are leading the way in areas as diverse as Physics, Modern Languages and Agriculture.

This has also been the year in which SFC and its partners have completed the establishment of Scotland's first eight innovation centres. These are pioneering partnerships through which universities, industry and public services come together to accelerate the development of new products, new services and new technologies. I was fortunate enough to attend the launch events of most of the new innovation centres and was impressed by the energy and ambition of everyone involved.

A further significant area of work for the sectors and for the Scottish Funding Council has been in delivering the priorities of the Scottish Government's Post-16 reform programme. In a ministerial Letter of Guidance to SFC, the previous Cabinet Secretary for Education and Lifelong Learning, Michael Russell MSP, recorded his thanks for the progress made, especially in college mergers.

In its leadership role for promoting Scotland's national priorities in education the Funding Council is very conscious of its responsibility to practise what it preaches. I was therefore very pleased this year to see our staff becoming involved in two projects that are addressing important issues. In October 2014 SFC became a Pioneering Partner in MCR Pathways, a mentoring programme that works to change the lives of some of Glasgow's most disadvantaged young people. Members of staff now working in Glasgow schools are bringing back insights and experiences that add new dimensions to our policy making and work in widening access. During this year SFC also signed up to Green Impact, a brilliant environmental accreditation scheme

run by the National Union of Students and already involving over 50 universities and colleges across the UK. SFC staff have risen to the challenges set by the Green Impact programme and are recycling, reusing, saving energy and even growing things spurred on by the enthusiasm and support of the inspirational team at NUS.

As you can see from the above, universities and colleges are playing a huge part in making Scotland a better place to live, study and work. I am proud of the role the Scottish Funding Council carries out in supporting them to make significant positive impacts for learners, communities and businesses and for Scottish society and the economy. Finally, I could not conclude this summary of recent achievements without acknowledging the work of SFC's tireless and dedicated board members and thanking them, along with the Funding Council's executive, for their significant contributions. There is more to do, and our new strategic plan for 2015-2018 will map out the actions we will be taking. I look forward to the difference we can continue to make by working together and in partnership with others.

A handwritten signature in black ink that reads "Alice Brown." The signature is written in a cursive, flowing style.

Professor Alice Brown CBE

Chief Executive and Accountable Officer's Report



Performance report

Who we are

The Scottish Further and Higher Education Funding Council (SFC) is the national, strategic body that is responsible for funding teaching and learning provision, research and other activities in Scotland's 25 colleges and 19 universities and higher education institutions.

SFC is a Non-Departmental Public Body (NDPB) of the Scottish Government and was established on 3 October 2005.

Purpose

We exist to improve further and higher education.

Our statutory duty is to secure coherent, high quality further and higher learning provision by colleges and universities in Scotland, and the undertaking of research.

We do this by investing in the development of a coherent college and university system which, through enhanced learning, research and knowledge exchange, leads to improved economic, educational, social, civic and cultural outcomes for the people of Scotland.

Main activities

- Manage Outcome Agreements with colleges and universities
- Support national priorities in widening access, skills, research, knowledge exchange and innovation and developing young workforce
- Promoting good governance and sustainable colleges and universities

- Deliver our statutory and other functions, including payments to colleges and universities, and efficient corporate services

We also provide resources to colleges to support students on further education programmes. Funding for students on higher education programmes is provided by another body - the Student Awards Agency for Scotland (SAAS).

Our Strategic Plan 2012-15

Our current Strategic Plan (*Delivering Ambitious Change*) covers the years 2012-15 and commits SFC to focusing its funding and its actions on the achievement of eight outcomes:

- Outcome 1: Efficient and effective regional college structures
- Outcome 2: Access for more people from the widest possible range of backgrounds
- Outcome 3: The right learning in the right place
- Outcome 4: High quality, efficient and effective learning
- Outcome 5: A developed workforce
- Outcome 6: Sustainable colleges and universities
- Outcome 7: Internationally competitive research base
- Outcome 8: University/Industry collaboration

In our plan, we have identified high-level actions that we will undertake to support the achievement of the outcomes. Our main mechanism for achieving the outcomes is through the negotiation and agreement of outcome agreements with colleges and universities.

Our Strategic Plan also commits SFC to being an organisation that delivers its strategy and functions effectively, achieves high-quality outcomes, demonstrates continuous improvement, and provides value for money.

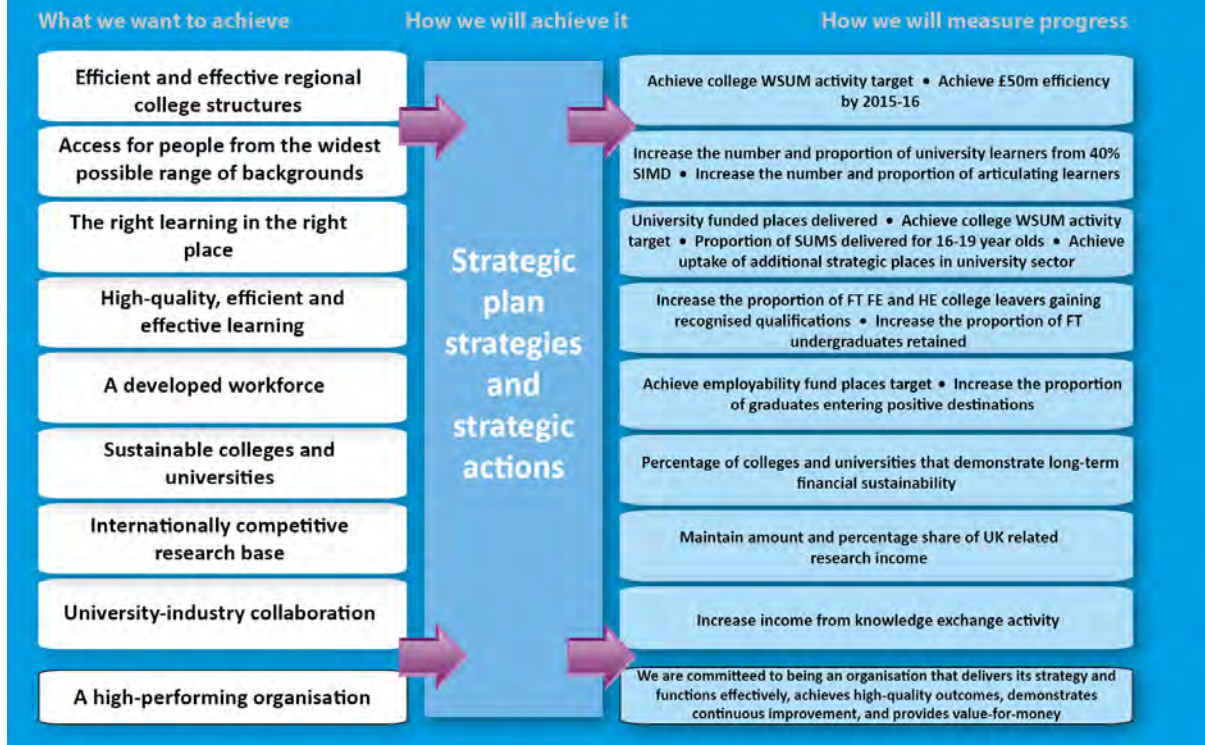
The Strategic Plan can be found on SFC's website at: www.sfc.ac.uk.

We have developed an internal SFC Strategy Map which prioritises our key stakeholders, identifies what we must deliver for them, and identifies the internal processes that we must excel at within the organisation.

We have also developed an internal Strategic Performance Management Framework (SPMF) which allows the executive and the SFC Board to monitor progress towards the achievement of its Strategic Plan priorities and its Strategy Map, and allows the Board to hold the executive accountable for the delivery of its strategies. The SPMF contains key measures of success. These are shown in the following chart.

SFC Strategic Plan 2012-15

Delivering ambitious change



What progress have we made?

Using our Strategic Performance Management Framework, we report on progress at each business meeting of the SFC Board. Our progress over the last year is summarised below.

Progress against each outcome is given for the academic year for which the Council holds statistics at the time of writing this report.

Key: How well are we delivering our strategy?	
	<i>Far ahead</i>
	<i>Ahead</i>
	<i>On track</i>
	<i>Behind</i>
	<i>Far behind</i>

Outcome 1: Efficient and effective regional college structures

Measures of success	Year	Result	Trend
Achieve college WSUM (Weighted Student Unit of Measurement) activity target <i>Achieve target of 2,252,791 in 2013-14</i>	13-14	2,279,707	<i>Ahead</i>
Achieve £50m efficiency <i>Achieve target by 2015-16</i>	13-14	£30m	<i>On track</i>

Commentary

The purpose of this outcome is to deliver a system of colleges, or groups of colleges, working together with universities and other stakeholders which meet the demographic, social and economic priorities of their regions.

In the past year, we have continued to make significant progress towards the achievement of this outcome. Colleges have delivered more activity, and achieved efficiencies, whilst undergoing a major programme of structural change.

Last year was the first full academic year involving the operation of the new regional structure of ten single-college regions and three multi-college regions. We have been monitoring the impact of the college mergers through post-merger evaluations and the early signs are that challenges have been negotiated and there is now clear evidence of successful practice.

The majority of regions slightly exceeded their WSUM activity allocation for 2013-14 and the total target for the college sector was exceeded by 1.2%.

We are expecting the college sector to demonstrate savings of around £50 million by 2015-16.

Outcome 2: Access for people from the widest possible range of backgrounds

Measures of success	Academic Year	Result	Trend
Increase the number and proportion of university learners from 40% SIMD <i>Achieve target of 30% by 2016-17</i>	13-14	30%	<i>On track</i>
Increase the number and proportion of articulating learners <i>Achieve target of 4,500 by 2016-17</i>	13-14	3788	<i>On track</i>

Commentary

This outcome is intended to lead to an improvement in people's life chances, ensuring that all people in Scotland are able to access all levels of educational

provision that match their ambitions and abilities, and allow them to reach their full potential, regardless of their background.

Colleges continue to devote a significant amount of resources to meeting the needs of learners from deprived areas. The proportion of college activity directed towards those in the 10% most deprived postcode areas has increased slightly to 16.3% of all SUMs in 2013-14, and success rates among this group have been improving steadily.

In August 2014, we began a review of SFC's further education student support policies, with the aim of better aligning support with the needs of the sector and students.

In the university sector, universities are steadily making progress to increase participation from the most deprived areas of Scotland: participation from learners in the 40% most deprived postcodes has risen from 29% in 2012-13 to 30% in 2013-14.

We are also seeing progress in articulation: more students are receiving full credit and recognition for study at Higher National (HN) level and moving into a degree programme with advanced standing. The number of students articulating from college to university with advanced standing increased from 3,469 in 2012-13 to 3,788 in 2013-14.

During the year, the Scottish Government announced its intention to establish a Commission on Widening Access and an ambition of achieving even access to higher education across SIMD groups within 18 years. We will consider with the Commission the changes that we may need to make to our strategies to achieve this ambition.

Outcome 3: The right learning in the right place

Measures of success	Academic Year	Result	Trend
Achieve total number of funded places in the university sector <i>Achieve target of 125,346 in 2013-14</i>	13-14	135,990	<i>Ahead</i>
¹ Achieve uptake of additional strategically targeted places in the university sector <i>Achieve target of 5,033 FTEs in 2013-14</i>	13-14	4,786	<i>On track</i>
² Increase the proportion of SUMS delivered for 16-19 year olds in the college sector <i>Achieve target of 50% by 2013-14</i>	13-14	49%	<i>On track</i>

¹ While we are behind target, we are on track in terms of managing the situation

² While we are behind target, we are on track in terms of managing the situation

Commentary

The purpose of this outcome is to meet SFC's statutory duty to secure coherent provision and achievement of the Scottish Government's priorities for learning.

We want universities to enrol enough learners to meet or exceed the Scottish Government target for the number of places on courses. In 2013-14, they exceeded the target with the enrolment of 135,990 undergraduate and taught postgraduate students eligible for funding against a total Scottish Government target of 125,737 allocated funded places.

To deliver the Scottish Government's priorities for higher education, we have invested in a total of 5033 (FTE) places, which resulted in 4,786 (FTE) university enrolments in AY 2013-14.

Colleges are playing a crucial role in delivering *Opportunities for All*, the Scottish Government's offer of a place in education or training for all 16-19 year olds currently not in education, employment or training. The proportion of SUMS delivered to learners aged 16-19 has increased from 47.9% in 2009-10 to 49% in 2013-14, although that represented a small decline on the figure for 2012-13 (49.9%).

During the year, we introduced a new simplified 'credits' model for funding activity in the college sector, which will allow us to target funding on the basis of need.

In Glasgow, we have been working closely with the new Glasgow Colleges Regional Board on a curriculum and estates plan. The product of that work has seen significant progress in establishing a shared approach to planning across the three colleges in the region.

Outcome 4: High-quality, efficient and effective learning

Measures of success	Academic Year	Result	Trend
Increase the proportion of full-time HE learners gaining recognised qualifications <i>Achieve target of 72% by 2016-17</i>	13-14	71%	<i>On track</i>
Increase the proportion of full-time FE learners gaining recognised qualifications <i>Achieve target of 69% by 2016-17</i>	13-14	66%	<i>On track</i>
Increase the proportion of full-time undergraduates retained <i>Achieve target of 91% by 2016-17</i>	11-12	91%	<i>On track</i>

Commentary

This outcome is intended to ensure that learners experience the highest quality learning and teaching and that learner journey's through the learning system are as short, efficient and effective as possible, including improved retention and enhanced articulation (or progression) from colleges to universities.

Colleges and universities are continuing to make good progress in increasing the proportion of full-time learners gaining recognised qualifications and are on-track to meet our targets by 2016-17.

In the university sector, the target of improving the retention of all Scottish-domiciled undergraduate entrants to 91.3% by 2016-17 was achieved in 2013-14. We are now focusing efforts on maintaining the overall retention rate on improving rates for students from protected characteristic groups and SIMD20/40 postcodes.

Outcome 5: A developed workforce

Measures of success	Academic Year	Result	Trend
Achieve employability fund places target <i>Achieve target of 151,854 by 2013-14</i>	13-14	151,854	<i>Achieved</i>
Increase the proportion of graduates entering positive destinations <i>Achieve target of 90% by 2016-17</i>	12-13	94%	<i>On track</i>

Commentary

The purpose of this outcome is to ensure that learners have the skills and knowledge they need to get a job or get a better job, keep a job, and develop a career, and that colleges and universities respond to local, regional and national labour markets.

A priority over the year has been to take forward work associated with the Scottish Government's response to the recommendations from the Commission on Developing Scotland's Young Workforce. In the college sector, alongside their outcome agreements, each college region was asked to develop an implementation plan with their partner local authorities as part of the Scottish Government's youth employment strategy for Developing the Young Workforce. Our guidance outlined the expectation that college regions would commit to ambitious targets in 2015-16.

We have also given priority to addressing regional skills needs. Since 2010-11, SFC has been the national strategic body for managing the college sector's European Structural Funds (ESF). Using ESF and matched SFC funding, an extra 3,868 places have been created across the college regions for 2015-16. These additional places are targeted towards

addressing regional skills gaps and shortages associated with key employment sectors.

During the year, we have continued to improve our joint working with Skills Development Scotland (SDS) across a range of areas and have continued to progress work with Regional Skills Assessments and Skills Investment Plans (SIPS).

Universities have demonstrated a continuing commitment to increasing the proportion of students entering graduate-level occupations, enhancing skills for the work place and developing students for a competitive international labour market. The most recent measures show that the percentage of Scottish-domiciled graduates entering positive destinations increased from 93.5% in 2011-12 to 94.2% in 2012-13.

Outcome 6: Sustainable colleges and universities

Measures of success	Academic Year	Result	Trend
Percentage of colleges that demonstrate long-term financial sustainability <i>Achieve target of 100% in 2014-15</i>	2014-15	96%	<i>On track³</i>
Percentage of universities that demonstrate long-term financial sustainability <i>Achieve target of 100% in 2014-15</i>	2014-15	100%	<i>On track</i>

Commentary

Our aim is to achieve colleges and universities that are financially and environmentally sustainable in the long-term and are well-managed.

Following the decision by the Office of National Statistics (ONS) to reclassify colleges as public sector entities, a priority over the last year has been to work with colleges and Scottish Government to ensure a smooth transition to Government budgeting and accounting requirements from 1 April 2014, and provide further training and support to help colleges adjust to the new requirements and establish arms-length foundations. The changes for both colleges and SFC have been complex but, nevertheless, have been delivered successfully.

During the course of the year, we supported the work of the college and university sectors to develop their governance arrangements with the introduction of a new Scottish Code of HE Governance and a Code of Good Governance for Scotland's Colleges.

We also introduced new Financial Memoranda with colleges and universities, which update our governance and accountability requirements and, following the ONS reclassification, take account of the need for incorporated colleges to follow the provisions

³ While we are behind target we are on track in terms of managing the situation.

of the Scottish Public Finance manual (SPFM).

We assess the financial sustainability and governance of institutions through analysing their annual accounts, financial forecasts, and supporting documentation. Although there have been challenges for some specific institutions, our assessment is that the college and university sectors remain financially sustainable.

We have continued to support and promote environmental sustainability in the sectors. The Climate Change Act (Scotland) 2009 has set an ambitious target for a 42% reduction in greenhouse gas emissions across Scotland by 2020 and 80% by 2050. The Act imposes duties on carbon reduction on public bodies. The majority of colleges and universities have signed up to the Universities and Colleges Climate Commitment for Scotland (UCCCCs) and are working at reducing their carbon footprint.

Outcome 7: Internationally competitive research base

Measures of success	Academic Year	Result	Trend
Maintain amount and percentage share of UK-related research income <i>Achieve target of 15% by 2013-14</i>	12-13	13.7%	<i>On track</i>

Commentary

The purpose of this outcome is to improve the international competitiveness of Scotland's research base.

We have continued to focus our research investment on world-leading and internationally excellent research. During the year, we undertook a review and consultation on changes to our Research Excellence Grant (REG) and Research Postgraduate Grant (RPG) with the aim of simplifying our methods of funding. The proposed changes were endorsed broadly by the university sector and will be implemented from Academic year 2015-16.

To assess the competitiveness of Scotland's research, we measure its share of UK related research income, including income from UK Research Councils, charitable sources and European funds. Scotland's universities continue to attract a share of research income well-above its population share of the UK.

The collaborative approach to research, which SFC has supported through research pooling, continues to make significant contributions to the sustained excellence of research across a wide range of disciplines in our universities. This was evidenced by the results of the UK-wide Research Excellence Framework (REF), which were published in December 2014. The results identified world-leading research in all 19 of Scotland's universities and revealed that Scottish universities are leading the UK in many areas of

research as diverse as Physics, Modern Languages and Agriculture.

The success of SFC's strategies has also been evidenced by the attraction of significant investments to Scotland during the year, such as the UK Engineering and Physical Sciences Research Council (EPSRC) Quantum Technology Hub and the International Max Planck Partnership.

Outcome 8: University-industry collaboration

Measures of success	Academic Year	Result	Trend
Increase income from knowledge exchange activity <i>Achieve target of over £450m by 2014-15</i>	13-14	£441m	<i>On track</i>

Commentary

This outcome is intended to lead to a significant improvement in Scotland in the engagement of business and industry with our universities, and increase the exploitation of research for economic and wider social benefit.

We have continued to invest in initiatives aimed at developing the infrastructure to support university-industry collaboration, including through an investment of £142m in Innovation Centres and, separately, through SFC's Innovation Voucher Scheme. The first eight Innovation Centres have been established in a six year programme: Digital Health Institute (DHI), CENSIS (sensors), Scottish Aquaculture IC, Construction Scotland IC, industrial Biotechnology IC, Stratified Medicine Scotland IC, Data lab (big data), and Oil and Gas IC (OGiC).

SFC's innovation Voucher Scheme has been very successful. The scheme supports businesses to develop new products, services, or processes by collaborating with a university for the first time. Since the launch of the Scheme in 2009, nearly 900 vouchers with a combined project value of over £4.5m have been awarded to Scottish universities and businesses.

During the course of the year, we have worked with the Enterprise Agencies, Scottish Government, Universities Scotland and other stakeholders to support the work of the Innovation Scotland Forum (ISF), which identifies opportunities to develop and enhance the relationship between employers, industry and academia.

We measure progress using the total volume of income generated by universities from knowledge exchange activity. The income has continued to rise in 2013-14.

We are committed to being an organisation that delivers its strategy and functions effectively, achieves high-quality outcomes, demonstrates continuous improvement, and provides value for money

Commentary

We have made significant progress in developing our organisation over the last year. We re-structured the organisation to more closely link our work on outcome agreements to key areas of policy and have created a dedicated team with responsibility for our work on climate change.

We have given particular effort to improving staff engagement and ran an organisation wide staff development day and two team-building and consultation days with staff, badged with the title 'Big Conversation'. We also launched a management development programme across the whole organisation in partnership with the Scottish Qualifications Authority (SQA).

Evidence of our progress can be seen in our successful re-assessment in November 2014 of 'Bronze' status by Investors in People. We also undertook a new organisation-wide staff survey which showed good progress across almost all areas. Our overall staff engagement score in the 2014 staff survey was 73% exceeding our target of 65%.

In the context of the complex changes arising from the ONS reclassification of colleges, we have continued to manage our budgets effectively and demonstrate efficiency in our operations, with running-cost expenditure remaining at 0.5% of programme cost expenditure.

Developing a new strategic plan

During the course of the year, the organisation began work to develop a new strategic plan for the period 2015-18. The plan will set out SFC's long-term ambitions for the further and higher education sectors and the organisation's strategic priorities. The plan will influence the investment of up to £4.8 billion over the period.

Subject to the approval of the Cabinet Secretary for Education and Lifelong Learning, we intend to publish the plan in July 2015.

Sustainability Report

		2014/15		2013/14	
			CO2 (tonnes per annum)		CO2 (tonnes per annum)
Energy	Scope 2	207,910kWh	113.66	209,696kWh	114.63
Waste	Scope 3	1,434 bags	6.17	2,331 bags	12.78
Travel	Scope 3	214,446 miles	32.79	199,444 miles	30.38

Energy

Overall our energy usage during 2014-2015 has reduced. Our total usage this year was 113.66 tonnes of CO2 (2013-14: 114.63). Floor level metering has been installed by the landlord and the individual tenant monitoring of consumption was provided for the first time this year. Variations in CO2 usage have resulted from the more accurate recording and we will monitor it closely in the coming year to ensure consistency of results.

Information Systems

Information Systems have virtualised our server farm, reducing our server estate from 28 physical servers to 8. They have also introduced a bank of virtual PCs for remote working, thus providing more energy savings by removing the need to have 30 or more physical PCs powered on for remote working. This migration towards a virtualised server and desktop estate continues to provide savings on power consumption and as a result, savings on CO2 emissions. Our 8 physical server hosts are located locally in our Server Room and remotely at our rack in the new Saughton Data Centre. This topology gives us a significant improvement in ICT resilience and continuity. Going forward we will be experimenting with dynamic power saving within our new virtualised environment to further reduce power consumption and CO2 emissions.

Waste

Our paper consumption in 2014-15 was 527,500 sheets. This is an increase on 2013-14 (517,500) of 1.9%. Recycling of paper in 2014-15 was 11.1 tonnes (2013-14: 4.94 tonnes). During 2014-15 we recycled 28.5kgs of aluminium cans (2013-14: 22.5kgs) and 258kgs of plastic bottles and tetra drinks cartons (2013-14: 131kgs), giving a saving on waste to landfill. Facilities are still in place to recycle glass and business cardboard, however these services are run by the landlord for all tenants of the

building and we have no data for these. Total waste for 2014-15 was 19.03 tonnes, of which 11.38 tonnes (59.8%) was recycled, an increase of 21.3% on 2013-14.

Water

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

Travel

Travel has increased 7.5% from 2013-14 due to more interactive relationships between Outcome Agreement Managers and their institutions and SFC staff being members of national policy committees.

Remuneration Report for the year ended 31 March 2015

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

Remuneration policy

A Remuneration Committee reviews and determines, on an annual basis and within the context of budgetary constraints and Scottish Government guidance, the remuneration of the Chief Executive and senior staff of the executive. The Committee also confirms the remuneration and annual increase for the Chair and Council members by implementing Scottish Government guidance.

Current membership consists of five non-executive members of the Council.

Chair and Council members

The remuneration of the Chair and Council members is reviewed annually by the Scottish Government. There is no performance-related element apart from that which may be offered to the Chief Executive. In 2013-14 Chief Executives of NDPBs were subject to a pay freeze.

Members of the Council are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of the Council's affairs. Council membership during 2014-15 is detailed on page 21.

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

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Salary and allowances	295	345
Social security costs	25	32
Other pension costs	29	36
	349	413

***Council membership for the period 1 April 2014 to 31 March 2015**

Member	Appointment start date	Appointment end date	Remuneration year ended 31 March 2015 £	Remuneration year ended 31 March 2014 £
Professor Alice Brown (Chair)	3 October 2013	2 October 2017	46,953	23,244 ⁴
John McClelland CBE (Chair)	3 October 2005	2 October 2013	-	18,104 ⁵
Laurence Howells	26 April 2013	On-going	See page 23	See page 23
Mark Batho	8 September 2008	31 July 2013	-	See page 23
Robin Crawford	3 October 2009	2 October 2017	11,672	11,556
Audrey Cumberford	3 October 2009	2 October 2017	11,672	11,556
Alison Jarvis	17 November 2008	3 October 2015	11,672	11,556
Professor Maggie Kinloch	16 March 2012	3 October 2015	11,672	11,556
Paul McKelvie OBE	10 December 2007	3 October 2015	11,672	16,425 ⁶
Lorraine McMillan	1 September 2014	2 October 2017	6,808 ⁷	-
Douglas Mundie	1 September 2014	2 October 2017	6,857 ⁸	-
Professor Anton Muscatelli	16 March 2012	3 October 2015	11,672	11,556
Dr Keith Nicholson	16 March 2012	3 October 2015	11,672	11,556
Professor Albert Rodger	3 October 2009	2 October 2017	11,672	11,556
Alan Stannett	10 December 2007	3 October 2015	11,672	11,556
Marlene Wood	16 March 2012	3 October 2015	11,672	11,556
Dr Lindsay Burley CBE	16 October 2006	15 October 2013	-	6,260 ⁹
Dr Janet Lowe CBE	3 October 2005	2 October 2013	-	5,778 ¹⁰

As at 31 March 2015 there were 14 council members of whom 6 were females and 8 were males.

Council members attendance at meetings are given on page 36.

⁴ Full year equivalent salary £46,488.

⁵ Full year equivalent salary £34,866.

⁶ Following the previous Chair's (John McClelland's) appointment to the role of Chair of Skills Development Scotland, Paul McKelvie took on some of John McClelland's engagements to allow for a small reduction in the Chair's weekly time commitment to the Council, and their remuneration was adjusted accordingly.

⁷ Lorraine McMillan remuneration is paid to East Renfrewshire Council. Full year equivalent salary £11,672.

⁸ Full year equivalent salary £11,672.

⁹ Full year equivalent salary £11,556.

¹⁰ Full year equivalent salary £11,556.

Chief Executive

The Chief Executive's salary is reviewed in line with Scottish Government policy. The Chief Executive may receive a bonus recommended by the Remuneration Committee, subject to approval by the Scottish Government, which reviews performance against an annual personal responsibility plan agreed by the Chair.

Both the current Chief Executive and the former Chief Executive are ordinary members of the Principal Civil Service Pension Scheme (PCSPS). The employer's contribution to the scheme amounted to 24.3% of the Chief Executive's pensionable salary.

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)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest (£'000)) ¹¹		Total (£'000)	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Laurence Howells ¹² Chief Executive	115-120	115-120	-	-	-	-	17,000	91,000	130-135	205-210
Martin Fairbairn Senior Director	110-115	110-115	-	-	-	-	23,000	27,000	130-135	135-140
Mark Batho ¹³ Chief Executive (to 31/7/13)	-	60-65	-	-	-	-	-	-24,000	-	35-40
Band of highest paid employee's total remuneration									115-120	115-120
Median total									34,053	34,002
Ratio									3.44	3.45

¹¹ 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.

¹² Laurence Howells was appointed Interim Chief Executive from 26 April 2013 and 2013-14 salary includes an extra responsibility allowance. FTE was in the range of £110,000 to £115,000.

¹³ Mark Batho resigned as Chief Executive with effect from 31 July 2013. FTE salary for 2013-14 was in the range of £115,000 to £120,000.

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

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

	Real increase in pension and related sum at pension age	Total accrued pension at pension age as at 31 March 2015 and related lump sum	CETV at 31 March 2015	CETV at 31 March 2014 or start date	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Laurence Howells Chief Executive	0-2.5 plus lump sum of 2.5-5	51-55 plus lump sum of 150-155	1,123	1,055	15
Martin Fairbairn Senior Director	0-2.5 plus lump sum of 2.5-5	30-35 plus lump sum of 90-95	536	492	16

Senior staff of the executive are in the 'Classic Scheme', 'Classic Plus Scheme', 'Premium Scheme' or 'Nuvos', which are part of the Principal Civil Service Pension Scheme (PCSPS).

Columns 3 and 4 of the table show the members' CETVs accrued at the beginning and the end of the reporting year.

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the capital value of the pension and is worked out using guidance provided by the scheme actuary. It is an assessment of what it costs the scheme to provide these pension benefits.

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 or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement).

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements for staff employed directly by the Council and also for Scottish Government staff seconded to the Council and paid through the Council's payroll.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Council is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice.gov.uk/pensions

For 2014-15, employer's contributions of £850,276 (2013-14: £827,672) were payable to the PCSPS at one of four rates in the range of 16.7% to 24.3% of pensionable earnings, based on salary bands.

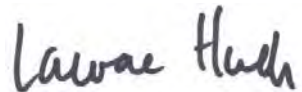
The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £3,340 (2013-14: £3,211) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £272 (2013-14: £211),

0.8% 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 £3,340 (2013-14: £3,211).

Signed on behalf of the Council

A handwritten signature in black ink, appearing to read "Laurence Howells". The signature is written in a cursive, slightly slanted style.

Laurence Howells
Accountable Officer

Date: 19 June 2015

Management Commentary

for the year ended 31 March 2015

Statement of Comprehensive Net Expenditure

The Council's funding grant disbursements and operating costs for the year ended 31 March 2015 are contained in the attached accounts, 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 (FRoM).

The Council's net expenditure for the year was £1,681,501,000 (2013-14: £1,692,604,000). Grants are disbursed and expenditure incurred in relation to the Council's Strategic Plan priorities.

The running cost expenditure of the Council for the year was £8,013,000 (2013-14: £7,817,000) being staff costs of £5,420,000 (2013-14: £5,321,000) (note 4), other operating charges of £2,394,000 (2013-14: £2,292,000), depreciation of £71,000 (2013-14: £57,000) (note 6) and amortisation costs of £127,000 (2013-14: £147,000) (note 7).

Other operating income totalled £29,566,000 (2013-14: £34,914,000). This relates to the clawback of grant income from institutions of £6,395,000 (2013-14: £17,519,000), other grant income of £22,050,000 (2013-14: £14,298,000) and European Social fund income of £1,121,000 (2013-14: £3,097,000).

The Council running cost budget is managed to allow the Council to meet the efficiency gain targets of the Scottish Government Efficient Government programme. These are monitored by the Council's sponsor department. The Council also provides progress reports on the college and university sectors' contribution to the Scottish Government Efficient Government programme to its sponsor department.

Statement of financial position

Property, plant and equipment

The Council does not own any land or buildings. Its premises in Edinburgh are leased by the Scottish Ministers (as statutory successors to the Secretary of State for the Environment) and sub-let to the Council.

Expenditure on capital assets during the year totalled £81,000 (2013-14: £30,000).

Intangible assets

The Council's intangible assets are IT software and software licences. Expenditure during the year totalled £175,000 (2013-14: £103,000).

Current Assets

Trade and other receivables decreased to £3,359,000 (2013-14: £4,891,000). This is largely the result of a change to the way in which we pay student support and other grants which are now paid out on a monthly profile rather than in a lump sum at the start of the academic year and so the related prepayment values have been reduced considerably.

Non-current assets

Recoverable grants due after one year decreased to £3,169,000 (2013-14: £3,642,000) due to repayments.

Cash balance

The SFC aims to distribute the funds received each year within that year. Our Financial Memorandum with the Scottish Government recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently, we are permitted to carry forward limited cash balances. The Statement of Financial Position as at 31 March 2015 shows a cash balance of £4,673,000 (2013-14: £5,301,000).

The SFC operated within the cash limited allocation for funds for distribution and for running costs provided by the Scottish Government.

Capital and reserves

The balance on reserves, amounting to £9,297,000 (2013-14: £11,257,000) includes a balance of £3,642,000 (2013-14: £4,473,000) on the Institution Advances Reserve. The movement on reserves arises from an excess of expenditure over income.

Funds for distribution to institutions

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

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

year. Where expenditure is less than the level of funds provided the surplus is added to reserves for distribution brought forward from the previous financial year.

Payment of creditors

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

An analysis of the Council's payment performance for the year to 31 March 2015 indicated that 96.5% (2013-14: 87%) of invoices were paid within 10 days of the presentation of a valid invoice and 99.3% (2013-14: 98.7%) of invoices were paid within 30 days.

At the year end, our trade payables balance (that is to say, the amount owing to our suppliers) was £7,066. Comparing this balance with the aggregate amount invoiced by suppliers in year (£2,318,767), and expressing this as a number of days, gives an indication of the average time we take to pay our bills: for the year ended 31 March 2015 our figure for 'creditor days' was 1.11 days (2013-14: 0.68).

Pension liabilities

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

Company directorships and other significant interests held by Board members

The register of interests for Board members of the Council can be found at [www.sfc.ac.uk/about the council/council board committees/council membership/council membership.aspx](http://www.sfc.ac.uk/about_the_council/council_board_committees/council_membership/council_membership.aspx)

Audit

The audit of the accounts of the Council has been undertaken by Grant Thornton, appointed by the Auditor General for Scotland. The audit fee from 1 April 2014 to 31 March 2015 was £68,175 (2013-14: £67,500). No non-audit services were supplied during the year.

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

Forward look

The Scottish Government's planned allocations to the Council for financial year 2015-16 are as follows:

College programme funding (£m)	College capital funding (£m)	University programme funding (£m)	University capital funding (£m)	SFC Administration (£m)
530.3	25.5	1,062.5	21.0	7.6

SFC's strategic plan 2015-18 "Ambition 2025: Scotland - the Best Place in the World to Learn, to Educate, to Research and to Innovate" is being finalised and will sets out long-term ambitions for the further and higher education sectors and strategic priorities for the next three years, which will influence SFC's investment of up to £4.8 billion. The plan focuses on three core outcomes: learning, research and innovation. It gives prominence to the role that SFC plays in the system of learning overall in Scotland, and brings together areas of work such as access, quality, and skills – focusing these on the 'learner journey'.

Partnership and collaboration are central to the ethos of SFC and its ambitions for the future. We will work with colleges and universities to make the best use of public resources, and work with other public bodies and align our investments to achieve the greatest impact. We will reform the organisation to deliver the new strategic plan, demonstrating innovation, competence and high standards of performance, with effective financial strategies to invest resources strategically to deliver on strategic priorities.

Outcome Agreements continue to be a key tool for the achievement of SFC's national ambitions for the sectors and the contribution they make to the Scottish Government's Strategic Objectives. SFC will maintain a high level of engagement with colleges and universities and will continue to work with the sectors to provide the best possible outcomes for learners, businesses and communities.

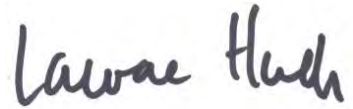
SFC will continue to support the college sector as recent changes, including regional structures and budgetary reclassification, bed down. SFC will also continue to support strong and effective governance in both sectors.

Personal data

There were no reported incidents of loss of personal data by the Council during the year (2013-14: none).

Sickness absence data

The 12-month rolling absence figure for the Council was 3.45% as at 31 March 2014 (2013-14: 3.53%). This reflects a reduction in the instance of long term sickness absence.

A handwritten signature in dark ink that reads "Laurence Howells". The signature is written in a cursive, flowing style.

Laurence Howells
Accountable Officer

Date: 19 June 2015

Statement of Council's and Accountable Officer's responsibilities

Under paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005, the Council is required to prepare a statement of accounts in respect of the year ended 31 March 2015 in the form, and on the basis, determined by Scottish Ministers. The accounts are prepared on an accruals basis and must give a true and fair view of the Council's state of affairs at 31 March 2015 and of its income and expenditure, and cash flows for the financial year.

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

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

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

Annual Governance Statement 2014-15

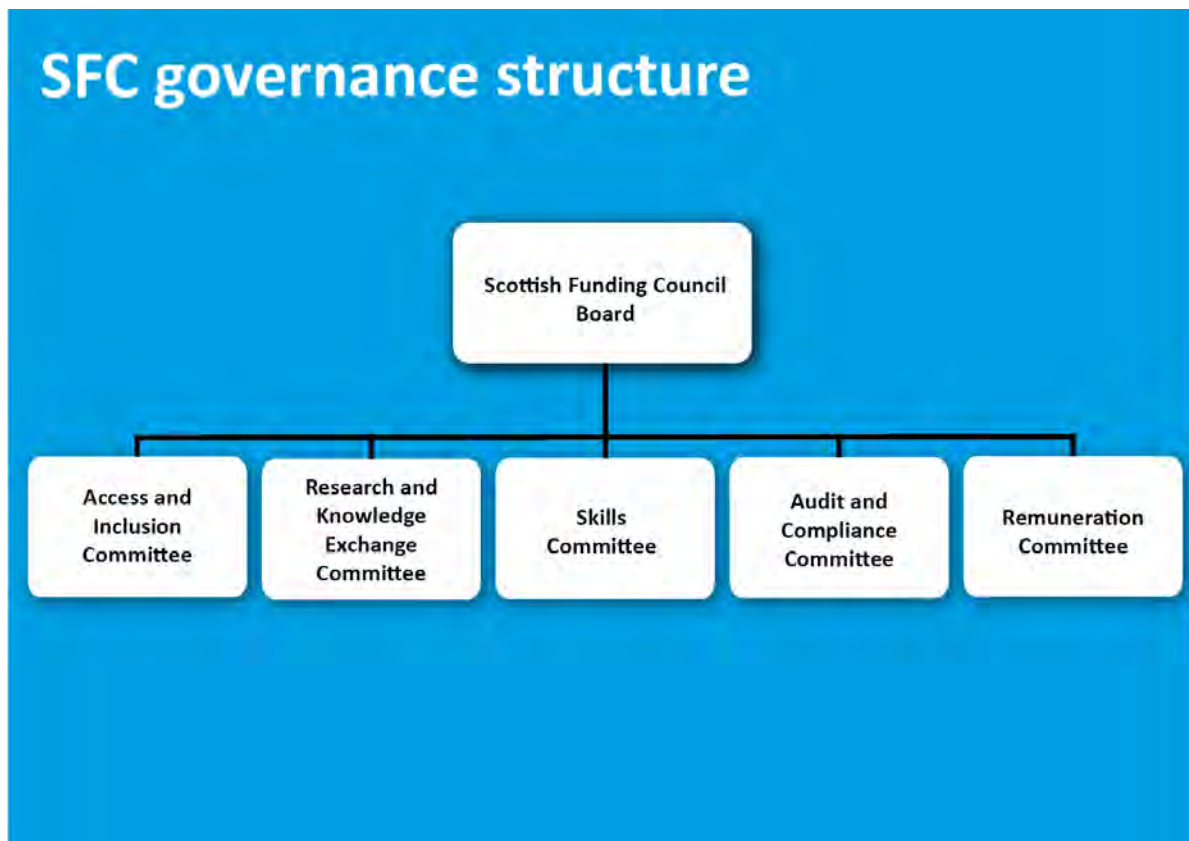
Introduction

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

The Annual Governance Statement is designed to supplement the information provided in the financial statements. It sets out the governance structures, risk management and internal control processes that have been operating in the Scottish Funding Council during the year 2014-15 and reports my assessment of the effectiveness of these arrangements.

Governance framework

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



Skills Committee is a joint committee with Skills Development Scotland.

Members of the Council's Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of the Council's affairs. Members have full and timely access to all relevant information to enable them to perform their roles effectively. Members' roles and responsibilities are described in the *Code of Conduct for members of the Scottish Further and Higher Education Funding Council*. A register of members' interests is available on the Council's website at [www.sfc.ac.uk/about the council/council board committees/council membership/council membership.aspx](http://www.sfc.ac.uk/about_the_council/council_board_committees/council_membership/council_membership.aspx)

Board effectiveness

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

In 2014-15, the Council commissioned Polley Solutions Ltd to undertake an externally facilitated review of the Board's effectiveness and identify areas for improvement and development. The results of the review will be considered by the Board in early 2015-16.

Committees of Council

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

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

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

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

The **Research and Knowledge Exchange Committee** has a role to respond to, recommend, and advise the Council on research and knowledge exchange strategy, policy and funding issues relevant to the development of outcome agreements with

Scottish universities and colleges (taking into account the international dimension). The Committee's main areas of advice include strengths, weaknesses, opportunities and threats in research and innovation, and advice on the prioritisation in the use of the Council's resources. The Committee also works with the national enterprise agencies and other stakeholders to give Council advice on innovation and support of knowledge exchange, which contributes to sustainable economic growth.

The Council is advised on finance, risk, internal control and governance matters by its **Audit and Compliance Committee**. The Committee's responsibilities include: overseeing the Council's financial monitoring of institutions; 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; consideration of the Council's Annual Report and Accounts, and oversight of the management of the Council's compliance with legislation and regulation.

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

Each committee provides an annual report to the Council on their activities and their effectiveness during the year. For 2014-15 each committee reported that it had met the terms of its remit and performed effectively.

Further details of the remits and memberships of all the Council committees are published on the Council's website at [www.sfc.ac.uk/about the council/council board committees/council committees/council committees.aspx](http://www.sfc.ac.uk/about_the_council/council_board_committees/council_committees/council_committees.aspx).

Council members' attendance at Board and committee meetings in 2014-15 is shown below

Council members attending Council and Committee meetings	Council 10 in year	Audit and Compliance 4 in year	Research and Knowledge Exchange 4 in year	Skills 4 in year	Remuneration 4 in year	Access and Inclusion 4 in year
Professor Alice Brown	10c				3c of 3	
Laurence Howells	10					
Robin Crawford	10	4c			1c of 1	
Audrey Cumberford	8			2 of 3		3
Alison Jarvis	10				2 of 2	4c
Professor Maggie Kinloch	5				2 of 2	3
Professor Anton Muscatelli	7			2	1 of 2	
Paul McKelvie	9			4c	2 of 2	
Lorraine McMillan	6 of 7					1 of 1
Douglas Mundie	7 of 7		2 of 2	1 of 2		
Dr Keith Nicholson	8	4	2			
Professor Albert Rodger	5		4c			
Alan Stannett	10	4			4	
Marlene Wood	9	4			3 of 4	
c = Chairperson						

In addition to the above, Council members chair other forums, serve on other working parties and attend meetings on behalf of the Council and, for some members, time spent on travel is also a significant commitment, resulting for some members in a combined time commitment of 2 to 2-5 days per meeting.

Assessment of corporate governance

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

Risk management

The Council's risk management strategy is to:

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

The Council has delegated responsibility for the on-going review of the effectiveness of our risk management arrangements to its Audit and Compliance Committee. The corporate risk register is reviewed at each meeting by the Audit and Compliance Committee and biannually by the Council Board. The Council Board also holds an annual workshop on risk management. Major progress has been made and we are exceeding best practice.

The Senior Director, Institutions and Corporate Services, is the Senior Information Risk Owner (SIRO). Day-to-day management of information risks is the responsibility of the Head of Corporate Governance. All information assets have been identified and are recorded in the Council's Data Asset Register. There have been no breaches of data security during 2014-15.

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

Risk management is embedded in the operations of the Council. Risks are reviewed by managers each quarter as part of the Strategic Plan monitoring cycle and any changes highlighted. The Chief Executive's Group also monitors risks regularly and reviews formally the corporate Risk Register at least six times a year.

Individual projects have their own risk registers.

Risk profile

During the course of the 2014-15, the executive revised significantly the format of the risk register to improve the identification, monitoring and management of risks

Throughout the year, the Council has managed between 9 and 11 corporate level risks. These risks fall into the following broad categories:

- Implementation of the Government's regionalisation reforms across FE colleges
- Implementation of the changes resulting from the ONS reclassification of incorporated FE colleges
- Achievement of student numbers in FE and HE and implementation of changes to the funding models in the college and university sectors
- On-going development of outcome agreements
- Institutional governance and sustainability
- Meeting climate change targets
- The impact on universities of the results from the Research Excellence Framework
- Internal capacity.

The thread running through these risks is 'change' and capacity of institutions and the Council to successfully manage what has been, and will continue to be significant change management programme. The effective management of these risks has underpinned delivery of the Council's key objectives over the year.

We expect the implementation of the regionalisation reforms across FE colleges, ONS reclassification of incorporated FE colleges, institutional governance and sustainability, and meeting climate change targets will all continue to be significant risks in 2015-16.

Internal audit

Internal audit is a key independent source of assurance. The strategic and annual planning of internal audit reviews is risk based, meaning their work is targeted to the areas identified as greatest risk and strategic importance. Internal audit carried out seven reviews in 2014-15, 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. With a few minor exceptions, all internal audit recommendations have been implemented.

Significant issues

There are no significant issues to report.

Review of the effectiveness of the system of internal control

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

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

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

My review of internal control is informed by:

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

- The line management process within the organisation
- Regular meetings between Council staff and our sponsor directorate at the Scottish Government to review the risk register and our process for risk management
- The work of the internal auditors, contracted to Scott-Moncrieff for the year to 31 March 2015, who submit to the Council's Audit and Compliance Committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement
- Comments made by external auditors in their management letters and other 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 2015, the Head of Internal Audit reported completion of all reviews in the Audit Plan. Internal Audit was of the opinion that the Council's systems provided a reasonable basis for maintaining control and that the control framework provided reasonable assurance regarding the effective and efficient achievement of the Council's objectives. This opinion is based on recommendations in the audit reports being satisfactorily implemented.

On the basis of the assurances provided from the sources of assurance outlined above, I can confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the SPFM, have operated for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts.



Laurence Howells
Accountable Officer

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

We have audited the financial statements of the Scottish Further and Higher Education Council (the Council) for the year ended 31 March 2015 under the Further and Higher Education (Scotland) Act 2005. The financial statements comprise Statement of Financial Position, the Statement of Comprehensive Net Expenditure, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report

and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the 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 2015 and of its net operating cost 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 2014/15 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.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

- The part of the Remuneration Report to be audited has been properly 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 Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- Adequate accounting records have not been kept; or
- The financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or

- We have not received all the information and explanations we require for our audit; or
- The Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

A handwritten signature in black ink that reads "Robin Baker". The signature is written in a cursive style with a large initial 'R' and 'B'.

Robin Baker, (for and on behalf of Grant Thornton UK LLP)
7 Exchange Crescent
Edinburgh
EH3 8AN

19 June 2015

**Statement of Comprehensive Net Expenditure
for the year ended 31 March 2015**


	Notes	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Expenditure			
Grants paid to HEIs and other bodies	3	1,124,986	1,179,946
Grants paid to colleges and other bodies	3	577,866	539,499
Staff costs	4	5,420	5,321
Depreciation	6	71	57
Amortisation	7	128	147
Other operating charges	5	2,596	2,548
		<u>1,711,067</u>	<u>1,727,518</u>
Income			
European Social Fund income – colleges	9	(1,053)	(3,012)
European Social Fund income – SFC	9	(68)	(85)
Income from HEIs and colleges	10	(6,395)	(17,519)
Other grants	11	(22,050)	(14,298)
		<u>(29,566)</u>	<u>(34,914)</u>
Net expenditure		1,681,501	1,692,604
Total comprehensive expenditure for the year		<u>1,681,501</u>	<u>1,692,604</u>
Funded by:			
Grant-in-aid	8	1,666,722	1,675,216
Other Scottish Government grants	8	1,180	1,180
Other Government grants	8	11,639	10,339
		<u>1,679,541</u>	<u>1,686,735</u>
(Deficit)transferred to reserves		<u>(1,960)</u>	<u>(5,869)</u>
		<u>1,681,501</u>	<u>1,692,604</u>

There are no recognised gains and losses other than those recorded above
The notes on pages 48 to 66 form part of these accounts

**Statement of Financial Position
as at 31 March 2015**

	Notes	31 March 2015	31 March 2014
		£'000	£'000
Non-current assets			
Property, plant and equipment	6	64	54
Intangible assets	7	151	104
Trade and other receivables	12	<u>3,169</u>	<u>3,642</u>
Total non-current assets		3,384	3,800
Current assets			
Trade and other receivables	12&13	3,359	4,891
Cash and cash equivalents	14	<u>4,673</u>	<u>5,301</u>
Total current assets		8,032	10,192
Total assets		11,416	13,992
Current liabilities			
Trade and other payables	15	7	4
Other liabilities	15	<u>2,112</u>	<u>2,731</u>
Total current liabilities		2,119	2,735
Assets less liabilities		9,297	11,257
Taxpayers' equity		<u>9,297</u>	<u>11,257</u>

The financial statements on pages 44 to 47 were approved by Council on 19 June 2015 and signed on its behalf by:



Laurence Howells
Accountable Officer



Alice Brown
Chair

Date: 19 June 2015

Date: 19 June 2015

Authorised for issue on 19 June 2015

The notes on pages 48 to 66 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2015

	Notes	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Cash flows from operating activities			
Net operating costs		(1,681,501)	(1,692,604)
Depreciation and amortisation charges	6&7	199	204
(Decrease)/increase in long term debtors	12	473	1,481
Decrease in trade and other receivables	13	1,532	5,305
Increase/(decrease) in trade and other payables	15	(616)	1,951
Net cash outflow from operating activities		(1,679,913)	(1,683,663)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(81)	(30)
Purchase of intangible assets	7	(175)	(103)
Net cash outflow from investing activities		(256)	(133)
Cash flows from financing activities			
Grant-in-aid	8	1,666,722	1,675,216
Other Scottish Government grants	11	1,180	1,180
Other Government grants	8	11,639	10,339
Net cash inflow from financing activities		1,679,541	1,686,735
Net (decrease)/increase in cash and cash equivalents		(628)	2,939
Cash and cash equivalents at 1 April 2014	14	5,301	2,362
Cash and cash equivalents at 31 March 2015	14	4,673	5,301
Net (decrease)/increase in cash		(628)	2,939

The notes on pages 48 to 66 form part of these accounts

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2015

	Note	Year ended 31 March 2015 £'000
Changes in Taxpayers' Equity 2014-15		
Balance as at 1 April 2014		11,257
Net expenditure		(1,681,501)
Scottish Government grant-in-aid funding	8	1,666,722
Other Scottish Government grants	11	1,180
Other Government grants	8	<u>11,639</u>
Balance at 31 March 2015		<u>9,297</u>
Changes in Taxpayers' Equity 2013-14		
Balance as at 1 April 2013		17,126
Net expenditure		(1,692,604)
Scottish Government grant-in-aid funding	8	1,675,216
Other Scottish Government grants	11	1,180
Other Government grants	8	<u>10,339</u>
Balance at 31 March 2014		<u>11,257</u>

General reserves include £3,642,000 (2014: £4,472,000) in respect of recoverable grants advanced to institutions (note 12)

The notes on pages 48 to 66 form part of these accounts.

Notes to the Accounts

for the year ended 31 March 2015

1 Basis of Accounts

As the Scottish Funding Council is an NDPB the format of its accounts is covered by the 2013-14 *Government Financial Reporting Manual* (FReM) and the *Scottish Public Finance Manual*. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Council for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Council are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

2 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention in a form determined by the 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.

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

The Council is a body corporate and is liable to corporation tax. 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. Corporation tax is only assessable on interest received and any capital gains made. The Council is not VAT registered, therefore, irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

Grants and loans

Grants receivable

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

ESF and ERDF income are treated on an accruals basis.

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

Grants payable

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

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

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

Loans

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

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

Statement of comprehensive net expenditure

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

Operating lease charges

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

Pension costs and other post-retirement benefits

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

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

Short-term employee benefits

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

Financial guarantees

In accordance with IAS 39, financial guarantees are considered for recognition as liabilities. See note 20.

3 Grants paid to institutions and other bodies

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

The most recently available accounts for HEIs and non-incorporated and UHI colleges are to 31 July 2014 and for other incorporated colleges to 31 March 2014. Grants to institutions for the period up to 31 March 2015 are yet to be verified by institutions and their auditors that grant-in-aid receipts from the Council have been used for their intended purpose. Any material differences arising, which are related to the regularity of grant-in-aid for the period covered by these accounts, will be subject to adjustment in subsequent financial years. Subject to the above, grant-in-aid receipts received from the sponsor department have been applied for their intended purpose.

- b) Grants to institutions to finance capital expenditure may be subject to repayment in full, or in part, if the assets purchased are disposed of at a later date. The Council has discretion to allow the proceeds or part of the proceeds of such sales to be retained by the relevant institution to finance new capital projects.

c) **Distribution of funds from Scottish Government**

Grants paid to HEIs and other bodies	Year ended	Year ended
	31 March	31 March
	2015	2014
	£'000	£'000
Recurrent grants	1,083,238	1,135,154
Capital grants	41,748	44,792
	<u>1,124,986</u>	<u>1,179,946</u>

Grants paid to colleges and other bodies

Recurrent grants	453,377	401,946
Bursary and student support payments	106,397	104,128
Capital and major works	18,092	33,425
	<u>577,866</u>	<u>539,499</u>

4 Staff costs (excluding Chief Executive)

a) **Salaries and related costs**

	Year ended 31 March 2015			2014
	Directly	Seconded	Total	Total
	employed	and		
	staff	agency		
	£'000	£'000	£'000	£'000
Cost of employing staff:				
Wages and salaries	4,071	227	4,298	4,190
Social security costs	331	2	333	342
Other pension costs	783	6	789	789
	<u>5,185</u>	<u>235</u>	<u>5,420</u>	<u>5,321</u>
Average number of FTE employees	<u>98</u>	<u>5</u>	<u>103</u>	<u>101</u>

The Council employed 66 females and 46 males as at 31 March 2015. Both the Chief Executive and the Senior Director are male employees.

b) Loans

Interest free loans are payable to staff for the purchase of season travel tickets and bicycles. The loans are repayable through the Council's payroll over the period of the duration of the ticket or, in the case of bicycles, 12 months. As at 31 March 2015, £7,336.25 (2013-14: £9,739) was outstanding and this related to 10 members of staff. This amount is included in the trade receivables figure in note 13.

c) Disclosure of exit packages

There were no exit packages paid in financial year 2014-15 (2013-14: £none).

5 Other operating charges

	Year ended 31 March 2015			2014
	Running	Sectoral	Total	Total
	cost	expenditure		
	£'000	£'000	£'000	£'000
Operating leases – property rental	470		470	470
Accommodation costs	437		437	400
Council members' remuneration	349		349	413
Other support costs	587		587	519
Publication costs	24		24	25
Staff recruitment and training	144		144	200
Travel and subsistence				
– Council members	10		10	10
– Staff	82		82	79
Legal costs	127		127	71
External Audit fee	27	41	68	68
Professional services	36	161	197	215
Equipment and consumables	49		49	51
Hospitality costs				
– Council members	4		4	2
– Staff	14		14	10
Conference expenditure	23		23	4
Committee costs	11		11	11
	2,394	202	2,596	2,548

Sectoral expenditure has been used to meet operating charges where the benefit is to institutions within the Scottish further and higher education sectors. £161,000 (2013-14: £215,000) of this expenditure relates to professional services and their associated costs. These professional services are commissioned in accordance with the conditions of an agreement between the Council and its sponsor department that covers the use of funds for distribution to acquire consultancy and professional services.

6 Property, plant and equipment

	Furniture and fittings £'000	ICT £'000	Other equipment £'000	Total £'000
Historic cost				
At 1 April 2014	221	480	66	767
Additions	8	73	-	81
Disposals	23	63	5	91
At 31 March 2015	206	490	61	757
Depreciation				
At 1 April 2014	190	457	66	713
Provided during the year	34	37	-	71
Disposals	23	63	5	91
At 31 March 2015	201	431	61	693
Net Book Value				
At 31 March 2015	5	59	-	64
At 1 April 2014	31	23	-	54
Historic cost				
At 1 April 2013	221	490	66	777
Additions	-	30	-	30
Disposals	-	40	-	40
At 31 March 2014	221	480	66	767
Depreciation				
At 1 April 2013	157	473	66	696
Provided during the year	33	24	-	57
Disposals	-	40	-	40
At 31 March 2014	190	457	66	713
Net Book Value				
At 31 March 2014	31	23	-	54
At 1 April 2013	64	17	-	81

7 Intangible assets

Intangible assets comprise IT software and software licences

	IT £'000	Software licences £'000	Total £'000
Cost			
At 1 April 2014	881	115	996
Additions	141	34	175
Disposals	86	-	86
At 31 March 2015	<u>936</u>	<u>149</u>	<u>1,085</u>
Amortisation			
At 1 April 2014	778	114	892
Provided during the year	116	12	128
Disposals	86	-	86
At 31 March 2015	<u>808</u>	<u>126</u>	<u>934</u>
Net Book Value			
At 31 March 2015	<u>128</u>	<u>23</u>	<u>151</u>
At 1 April 2014	<u>103</u>	<u>1</u>	<u>104</u>
Cost			
At 1 April 2013	778	115	893
Additions	103	-	103
At 31 March 2014	<u>881</u>	<u>115</u>	<u>996</u>
Amortisation			
At 1 April 2013	643	102	745
Provided during the year	135	12	147
At 31 March 2014	<u>778</u>	<u>114</u>	<u>892</u>
Net Book Value			
At 31 March 2014	<u>103</u>	<u>1</u>	<u>104</u>
At 1 April 2013	<u>135</u>	<u>13</u>	<u>148</u>

8 Government grant-in-aid received

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
a) Funds from Scottish Government for:		
HEI and other bodies	1,087,350	1,089,899
Colleges and other bodies	527,202	510,998
Capital	44,501	66,650
Council running costs	7,669	7,669
	<u>1,666,722</u>	<u>1,675,216</u>
b) Other Scottish Government Grants Sabhal Mor Ostaig	<u>1,180</u>	1,180
c) Other Government Grants Funds from Department for Business Innovation and Skills for Research Capital	<u>11,639</u>	<u>10,339</u>

9 Income from ESF

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
ESF income received – colleges	587	2,473
ERDF income received	466	539
	<u>1,053</u>	<u>3,012</u>
ESF income received - SFC	68	85
	<u>1,121</u>	<u>3,097</u>

10 Income from HEIs and colleges

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Clawback from colleges	4,367	15,372
Clawback from HEIs	2,028	2,147
	<u>6,395</u>	<u>17,519</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 estimate and actual numbers. Financial penalties may be imposed on institutions if they exceed their indicative student numbers for non-controlled priority and non-priority full-time and sandwich undergraduates by more than 10% and 7% respectively. The penalty for breaches of consolidation is the withdrawal of part of the Main Teaching Grant, up to the equivalent of the estimated fee income generated by the student numbers in excess of the 10% and 7% thresholds above the indicative numbers. Student support clawback decreased during the year.

11 Other grants

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Other grant income		
HEFCE	20,266	13,050
Other grant income	1,784	1,248
	<u>22,050</u>	<u>14,298</u>

The SFC received funds from HEFCE through the UK Research Partnership Investment Fund which allows UK HEIs to compete for funding to support investment in higher education research facilities. The successful HEIs to bid were the Universities of Dundee, Glasgow and Strathclyde. The Council participated in a small number of programmes that were jointly funded by other bodies with an interest in the higher education sector. The grant distributed by the Council to the institutions it funded in respect of these programmes was recorded as 'grants paid to institutions and other bodies' in the income statement.

12 Trade and other receivables: recoverable grants

	31 March 2015 £'000	31 March 2014 £'000
(a) Balances due within one year:		
West Lothian College	158	346
Glasgow Kelvin College	147	316
Lews Castle College	168	168
	<u>473</u>	<u>830</u>
(b) Balances due after one year:		
West Lothian College	3,001	3,159
Glasgow Kelvin College	-	147
Lews Castle College	168	336
	<u>3,169</u>	<u>3,642</u>

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

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

The Council is clawing back £2,885,000 over seven academic years from Glasgow Kelvin College because of a shortfall in delivery of eligible activity relating to Stow College. Repayment commenced December 2009.

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

13 Trade and other receivables

	31 March 2015 £'000	31 March 2014 £'000
Prepayments and accrued income	2,106	2,497
Institutions clawback	-	63
Other HEI balances	726	1,076
Other college balances	-	353
Scottish Government	-	11
Other debtors	54	61
	2,886	4,061
Balances due within one year (from note 12a)	473	830
Total balances due within one year	3,359	4,891

14 Cash and cash equivalents

	31 March 2015 £'000	31 March 2014 £'000
Funds held at Government Banking Service accounts	4,574	5,199
Funds held at commercial banks	99	102
	4,673	5,301

15 Trade and other payables

	31 March 2015 £'000	31 March 2014 £'000
Trade payables	7	4
Pension provision	18	37
Other HEI balances	1,544	1,560
Other college balances	-	786
Other liabilities	<u>550</u>	<u>348</u>
Total other liabilities	<u>2,112</u>	<u>2,731</u>
Total current liabilities	2,119	2,735

16 Capital and non-capital commitments

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

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

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

Grants committed to be paid to HEIs and other bodies	31 March 2015 £'000	31 March 2014 £'000
Grant for distribution		
Recurrent grant	387,376	322,968
Capital grants	16,432	10,191
	403,808	333,159

Grants committed to be paid to colleges and other bodies	31 March 2015 £'000	31 March 2014 £'000
Grant for distribution		
Recurrent grant	151,350	166,194
Bursary payments	37,762	33,706
Capital grants	467	1,578
	189,579	201,478

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 2015 £'000	31 March 2014 £'000
Equipment		
Not later than one year	6	12
Later than one year and not later than five years	12	10
	<u>18</u>	<u>22</u>
Buildings		
Not later than one year	470	470
Later than one year and not later than five years	470	940
	<u>940</u>	<u>1,410</u>

The premises in Edinburgh occupied by the executive are leased by the Scottish Ministers (as statutory successors to the Secretary of State for the Environment) and sub-let to the Council.

18 Contingent Liability

The Scottish Funding Council is currently subject to litigation by a former employee. The claim is due to be heard in court, starting in December 2015. Having taken legal advice, SFC is defending the claim, and it is not possible at this stage to predict the likely financial impact on running costs or timescales. SFC does not believe it is appropriate to make any provision in these financial statements.

19 Related party transactions

The Council is a NDPB sponsored by the Scottish Government.

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

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

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

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

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

- Robin Crawford was previously a member of the Court of the University of Strathclyde
- Audrey Cumberland is Principal of West College Scotland
- Professor Albert Rodger was previously Vice-Principal for External Affairs at the University of Aberdeen and previously Head of the College of Physical Sciences at the University of Aberdeen

- Professor Anton Muscatelli is Principal and Vice-Chancellor of the University of Glasgow
- Professor Maggie Kinloch is Vice-Principal of the Royal Conservatoire of Scotland
- Marlene Wood was previously Independent Chair of the Audit Committee of the University of the Highlands and Islands

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

www.sfc.ac.uk/about_the_council/council_board_committees/council_membership/council_membership.aspx

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

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

20 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
2014-15				
Balances with other Central Government bodies	-	3,169	-	-
Balances with bodies external to Government	3,359	-	2,119	-
At 31 March 2015	3,359	3,169	2,119	-

2013-14

Balances with other Central Government bodies	127	-	-	-
Balances with bodies external to Government	4,764	3,642	2,735	-
At 31 March 2014	4,891	3,642	2,735	-

21 Financial instruments

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

The Council has provided a guarantee for an amount up to £8,900,000 to underwrite the loan support liability for Coatbridge College to Lloyds Banking Group. The balance of principal outstanding on the loan at 31 March 2015 was £4.8 million (as at 31 March 2014: £5.8 million).

The Council has provided a guarantee for an amount of up to £25,000,000 to underwrite the loan support liability for The Glasgow School of Art to Barclays Bank PLC. The balance of principal outstanding on the loan at 31 March 2015 was £18.8m (as at 31 March 2014: £23.8m).

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

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

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

Annex 1: Analysis of funds paid to institutions and other bodies

Distribution of grant-in-aid from the Scottish Government

Grants paid to colleges and other bodies

College	Total Year ended 31.3.15 £'000	Total Year ended 31.3.14 £'000
Forth Valley	27,394	24,415
West Lothian	13,034	10,491
Dumfries and Galloway	11,374	10,290
Borders	9,691	8,368
Edinburgh	62,137	55,250
Inverness	11,337	9,825
Lews Castle	3,068	2,775
Moray	7,541	7,119
North Highland	8,518	7,775
Perth	8,889	8,387
Orkney	1,597	1,415
Shetland	1,857	1,724
West Highland	2,319	3,463
Ayrshire	47,438	42,650
West	53,138	51,108
Glasgow Clyde	40,438	39,999
Glasgow Kelvin	29,419	29,568
City of Glasgow	37,123	33,988
Fife	43,889	44,614
New College	46,463	41,103
South Lanarkshire	11,940	10,460
Dundee and Angus	35,654	34,920
North East	41,831	39,017
SRUC	8,716	9,210
Newbattle	892	797
Sabhal Mor Ostaig	3,631	2,144
Total grant distributed to colleges	569,328	530,876
Total grant distributed to other organisations	8,538	8,623
Total grant distributed	577,866	539,499

Analysis of funds paid to institutions and other bodies
Distribution of grant-in-aid from the Scottish Government

Grants paid to HEIs and other bodies

University or college	Total year ended 31.3.15 £'000	Total Year ended 31.3.14 £'000
Aberdeen	75,231	81,434
Abertay Dundee	19,221	21,291
Dundee	81,138	99,407
Edinburgh	191,299	202,106
Glasgow	166,148	163,058
Glasgow Caledonian	63,102	68,153
Glasgow School of Art	18,608	19,617
Heriot-Watt	45,665	43,098
Edinburgh Napier	56,901	58,346
Open University in Scotland	21,664	24,173
Queen Margaret Edinburgh	13,710	15,222
Robert Gordon	40,992	46,812
Royal Conservatoire of Scotland	9,825	9,864
St Andrews	49,440	47,264
Stirling	40,477	40,993
Strathclyde	100,311	105,440
Highlands and Islands	33,485	34,248
West of Scotland	63,710	67,797
SRUC	13,322	14,324
Total grant distributed to institutions	1,104,249	1,162,647
Total grant distributed to other organisations	20,737	17,299
Total grant distributed	1,124,986	1,179,946

Colleges are organised around 13 regions of which 10 regions contain a single regional college, and 3 are multi college regions

	Region	Regional structure	Colleges involved	Name of College	Merger Date
1	Forth Valley	Single college	Forth Valley	Forth Valley College of Further and Higher Education	N/A
2	West Lothian	Single college	West Lothian	West Lothian College	N/A
3	Dumfries and Galloway	Single college	Dumfries and Galloway	Dumfries and Galloway College	N/A
4	Borders	Single college	Borders	Borders College	N/A
5	Edinburgh	Single college	Edinburgh's Telford Jewel and Esk Stevenson	Edinburgh College	1st October 2012
6	Highlands and Islands	Multi college	Inverness	Inverness College UHI	N/A
			Lewis Castle	Lewis Castle College UHI	
			Moray	Moray College UHI	
			North Highland	North Highland College UHI	
			Argyll College	Argyll College UHI	
			Perth	Perth College UHI	
			Orkney	Orkney College UHI	
			Shetland	Shetland College UHI	
7	Ayrshire	Single college	Ayr	Ayrshire College	1 st August 2013
			Kilmarnock		
			James Watt (North Ayrshire campuses)		
8	West	Single college	Reid Kerr	West College Scotland	1 st August 2013
			Clydebank		
			James Watt (Greenock campus)		
9	Glasgow	Multi college	Cardonald	Glasgow Clyde College	1 st August 2013
			Annie'sland		
			Langside		
			North Glasgow	Glasgow Kelvin College	1st November 2013
			Stow		
			John Wheatley	City of Glasgow College	1st September 2010
City of Glasgow					
10	Fife	Single college	Adam Smith	Fife College	1st August 2013
			Carnegie		
11	Lanarkshire	Multi college	Cumbernauld	New College Lanarkshire	1st November 2013
			Motherwell		
			Coatbridge		
			South Lanarkshire	South Lanarkshire College	1st April 2014
12	Dundee and Angus	Single college	Dundee	Dundee and Angus College	1st November 2013
			Angus		
13	North East	Single college	Aberdeen	North East Scotland College	1st November 2013
			Banff & Buchan		

1. Argyll College is not a separate fundable body and is funded through North Highland College.
2. Barony, Elmwood and Oatridge Colleges merged with the Scottish Agricultural College on 1 October 2012 to form SRUC a higher education institution focussed on rural and land-based education.
3. Newbattle Abbey College and Sabhal Mor Ostaig are funded directly by the SFC.



Ro-ràdh

Sgrìobh mi an ro-ràdh agam an-uiridh don Aithisg 's na Cunntasan Bliadhnail, 's mi air ùr-thighinn mar Chathraiche air Comhairle Maoineachaidh na h-Alba. Am-bliadhna, an dèidh dà mhìos dheug soirbheachail, trang aig SFC, tha mi a' faireachdainn sochaireach gun robh mi an sàs ann an làn leud na gnìomhachd a th' air a gabhail os làimh le buidheann poblach aig cridhe foghlaim, ùr-ghnàthachaidh agus cothrom ann an Alba.

Bha mi gu h-àraidh toilichte a bhith a' faicinn toradh nan dòighean-obrach ùra air leudachadh a' chothrom air foghlam. San ro-ràdh an-uiridh, rinn mi iomradh air an £10 millean de mhaoin bhon Chomhairle airson 2,000 àite oilthighe a bharrachd a thairgsinn. Bhathar ag iarraidh gun rachadh mu thuaiream 700 dhiubh seo a ghabhail le luchd-ionnsachaidh à teaghlaichean bochda agus bha 1,000 àite eile ann do luchd-ionnsachaidh a bha a' gluasad bho chùrsa colaiste don oilthigh. Fhad 's a tha an t-airgead-seilbhe seo a' sioladh troimhe 's a' cur ri iomairtean eile, tha an sgrùdadh as ùire a rinn sinn air aontaidhean buileachaidh nan colaistean 's nan oilthighean a' sealltainn cudrom soilleir air "fàs in-ghabhalach", far a bheil cnapan-starra mu choinneamh ionnsachaidh agus chothroman gan toirt air falbh. Tha oilthighean a-nis a' trusadh 30% de na h-oileanaich aca bho 40% de na sgìrean as bochda ann an Alba. Cuideachd, mheudaich obair nan colaistean air a tomhadh ri luchd-ionnsachaidh anns an 10% de na sgìrean còd-puist as bochda san dùthaich. Le còrr is 70% de

dh'ionnsachadh a-nis cuimsichte air daoine bho 16–19 bliadhna a dh'aois nach eil ann an cosnadh, foghlam no trèanadh, tha pàirt riatanach aig colaistean an-dràsta ann a bhith a' toirt ro-innleachd an riaghaltais, Opportunities for All, gu buil shoirbheachail.

B' e sòlas eile dhomh rè na bliadhna seo chaidh, an dèanadas barraichte aig a h-uile oilthigh Albannach a-rèir an REF (frèam-obrach airson sàr-mhathais rannsachaidh). 'S e seo measadh a bhios a' cur dearbhadh bho àm gu àm air ìre obair-rannsachaidh nan oilthighean air feadh na RA. Nuair a chaidh toraidhean an REF fhoillseachadh san Dùbhlachd 2014, dh'aithnich iad an sàr-rannsachadh eadar-nàiseanta a tha ga dhèanamh anns gach oilthigh Albannach a chuir tairgse a-steach. Fhuair iad gun robh oilthighean Albannach air ceann an rannsachaidh ann an cuspairean cho eadar-mheasgte ri Fiosaigs, Nuadh-chànanan agus Àiteachas.

'S e seo a' bhliadhna cuideachd san do chuir SFC agus na compàirtichean aice clach-mhullaich air na ciad ochd ionadan-nuadhais an Alba. 'S e compàirteachasan tùsaireach a th' anna seo far a bheil oilthighean, gnìomhachas agus seirbheisean poblach a' tighinn còmhla gus luaths a chur ann an leasachadh bathair ùire, sheirbheisean ùra agus teicneòlasan ùra. Bha mi fortanach gu leòr a bhith an làthair aig cuirmean cuir-air-bhonn nan ionadan-nuadhais ùra, agus 's ann a dhrùidh an sùrd agus an rùn mòr aig a h-uile duine a bha an sàs ann orm.

Tha obair chudromach eile ga dèanamh do na raointean 's do Chomhairle Maoineachaidh na h-Alba far a bheilear a' lìbhrigeadh nam prìomhachasan airson a' phrògram ath-leasachaidh Post-16 aig Riaghaltas na h-Alba. Ann an litir-iùil mhinistreal gu SFC, chuir seann Rùnaire a' Chaibineit airson Foghlaim agus Ionnsachaidh Fhad-bheatha, Mìcheal Ruiseal BPA, buidheachas an cèill a thaobh an adhartais a rinneadh, gu h-àraidh ann an co-aonadh nan colaistean. Fhuair sinn brosnachadh ceudna leis an aithisg as ùire aig Audit Scotland mu dheidhinn

Colaistean na h-Alba, oir dh'aithnich e an stiùireadh, taic agus dùbhlain a thugadh seachad le Comhairle Maoineachaidh na h-Alba ri àm an atharrachaidh air fad.

Mar cheann-iùil airson prìomhachasan nàiseanta na h-Alba ann am foghlam adhartachadh, tha a' Chomhairle Mhaoineachaidh ro mhothachail air a dleastanas a thaobh gnìomhan a dhèanamh mar a dh'iarradh a beul. Mar sin dheth, bha mi glè thoilichte am-bliadhna gun deach an luchd-obrach againn an sàs ann an dà phròiseact a tha a' dèiligeadh ri cùisean cudromach. San Dàmhair 2014, chaidh SFC na Compàirtiche Tùsaireach ann am MCR Pathways, prògram comhairleachaidh a tha ag obair gus beatha cuid de na daoine òga as bochda an Glaschu atharrachadh. Tha buill-obrach a-nis ag obair ann an sgoiltean Ghlaschu agus a' toirt air ais leotha lèirsinn is eòlas a chuireas taobhan eile ris na poileasaidhean a tha sinn a' dèanamh 's ris an obair againn ann an leudachadh chothroman. Am-bliadhna fhèin, chuir SFC a h-ainm ri Green Impact, sgeama barantachaidh sgoinneil airson na h-àrainneachd a th' air a ruith le Aonadh Nàiseanta nan Oileanach (NUS) agus anns a bheil còrr is 50 oilthigh is colaiste an sàs mar-thà air feadh na RA. Cha b' e ruith ach leum do luchd-obrach SFC na dùbhlain suidhichte leis a' phrògram Green Impact a ghabhail os làimh, 's iad ag ath-chuartachadh, ag ath-chleachdadh, a' caomhnadh lùth agus eadhon a' fàs rudan oir, tha iad air an togail le dealas agus taic bho sgioba bhrosnachail NUS.

Mar a chithear gu h-àrd, tha pàirt àibheiseach mòr aig oilthighean is colaistean Alba a dhèanamh nas fheàrr mar àite gus fuireach, ionnsachadh agus obair ann. Tha mi moiteil às a' phàirt aig Comhairle Maoineachaidh na h-Alba ann a bhith a' cumail taic riutha gus deagh bhuidhean brìoghmhor a thoirt do luchd-ionnsachaidh, choimhearsnachdan agus ghnothachasan, a bharrachd air comann-sòisealta agus eaconamaidh na h-Alba. San dealachadh, cha chuirinn crìoch air a' gheàrr-chunntas seo de na chaidh a choileanadh againn o chionn ghoirid gun iomradh mu obair nam ball-bùird neo-sgìth, dìcheallach aig SFC, agus gun taing a thoirt dhaibhsan, agus do

stiùireachas na Comhairle Maoineachaidh, airson nan oidhirpean tarbhach aca. Tha tuilleadh ri dhèanamh, agus bheir am plana ro-innleachdail ùr againn airson 2015-2018 dealbh soilleir air dè d'ireach a bhios sinn a' dèanamh. Tha fiughair agam ris an diofar a nì sinn fhathast le bhith ag obair còmhla ri chèile, agus ann an compàirteachas ri càch.

A handwritten signature in cursive script, reading "Alice Brown".

Professor Alice Brown CBE