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Accounts Direction for Scotland's Colleges 2025–26

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Summary:	To provide SFC's 2025–26 accounts direction for Scotland's colleges.
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Accounts Direction for Scotland's Colleges 2025–26

Introduction

The Scottish Funding Council's (SFC) Accounts Direction sets out the mandatory requirements for the preparation, presentation and submission of colleges' annual report and accounts in compliance with relevant frameworks. It is the Scottish Funding Council's direction that colleges comply with the following financial accounting and reporting frameworks:

- FRS 102: FRS 102 (2022 Edition).
- Statement of Recommended Practice: Accounting for Further and Higher Education (SORP): Statement of recommended practice 2019.
- The Government Financial Reporting Manual (FReM) 2025-26 (for incorporated colleges only): Government Financial Reporting Manual for 2025-26.

In addition, colleges must comply with the Financial Memorandum (FM) with SFC (SFC Financial Memorandum with the College Sector) and this accounts direction.

Colleges should apply the requirements of FRS 102, the FE/HE SORP and, where applicable, the FReM, except where this Accounts Direction specifies additional or different requirements. In cases where there is a conflict between the FReM and the SORP, the latter will take precedence.

Compliance with this Accounts Direction is a mandatory requirement of the Financial Memorandum with SFC. Failure to do so constitutes a breach of funding conditions.

SFC requires that the annual report and accounts are prepared with a 31 July year-end. Incorporated colleges should reproduce this Accounts Direction as an appendix to the annual report and accounts.

Scottish Funding Council
17 June 2026

Deadlines

1. Incorporated and non-incorporated colleges[1] are required to provide their audited annual report and accounts, together with the associated annual audit reports, to SFC by **31 December 2026**. If you consider that your college will be unable to meet this deadline, please contact SFC at the earliest opportunity.

2. The annual report and accounts should be signed by the Chief Executive / Executive Director and by the chair, or one other member of the governing body.

3. Incorporated colleges must send two copies of their annual report and accounts to the Auditor General for Scotland by **31 December 2026**.

Changes for 2026

4. This Accounts Direction has been updated to remove duplication of other accounting frameworks. Where this Accounts Direction addresses any points relating to requirements of the FE/HE SORP or the FReM, specific paragraph references have been given but no duplication of that guidance is included.

5. **Appendix 1** paragraph 54 and **Appendix 2** paragraph 76 have been updated to reflect additional reporting requirements from SFC to Scottish Government on the remuneration across the sector. These changes take effect from 2026-27, however SFC encourages early adoption in 2025-26 considering the volume of upcoming changes already planned for 2026-27.

6. The 2025-26 FReM introduces limited changes that are relevant to colleges. These include:

    - Paragraph 6.5.27 of the FReM introduces a requirement to present comparative information for any disclosed pay ratios.
    - Paragraph 10.1.15 of the FReM clarifies assumptions regarding land area assumed for valuation purposes when using the depreciated replacement cost.
    - Paragraph 10.1.19 of the FReM clarifies the application of valuation requirements for non-investment assets following HM Treasury's thematic review of asset valuation published in June 2023. The Manual explicitly states that these clarifications are to be applied prospectively and are not subject to the requirements of IAS 8 in respect of retrospective restatement. Accordingly, colleges may continue to operate existing valuation cycles (including rolling or quinquennial valuations supported by appropriate indexation) and are not expected to accelerate or repeat valuations solely as a result of the updated guidance.

[1] The term non-incorporated college covers Newbattle Abbey College, Sabhal Mòr Ostaig, UHI Argyll, UHI Orkney and UHI Shetland. UHI Orkney forms part of Orkney Islands Council and will be included in the annual report and accounts of the local authority.

7. Incorporated colleges are now required to implement Phase 3 of the 'Task Force on Climate-related Financial Disclosures', in line with paragraphs 5.4.7-5.4.16 of the FReM. Details are included in **Appendix 1**, paragraphs 24 to 27.

Upcoming changes

8. The updated 2026 FE/HE SORP was published on 3 November 2025 and is effective from academic year (AY) 2026-27. Significant changes include accounting for leases and revenue recognition.

9. Operating leases will be brought on-balance sheet to be recognised as a right-of-use asset with a corresponding lease liability. Adoption of this new standard will include a cumulative adjustment to the opening income and expenditure reserve as at 1 August 2026.

10. Contract income will follow the revised FRS 102 five-step model, requiring clearer identification of performance obligations and timing of income recognition. This applies primarily to tuition fees and other commercial or contract-based income. Funding body grants and non-exchange income remain outwith the scope of this model. Whilst effective from AY 2026-27, comparative figures for AY 2025-26 will require restatement in line with the transition approach adopted. Colleges should undertake impact assessments now to identify affected income streams, areas where professional judgement is applied, and new disclosure requirements.

11. Other changes in the 2026 FE/HE SORP relate mainly to enhanced clarification, presentation and disclosure guidance. While colleges should review these updates carefully and ensure that disclosures and narrative reporting remain compliant with the revised SORP, no further material changes to accounting policies affecting recognition or measurement are anticipated.

12. Colleges continue to be required to comply with Scotland's Fair Work reporting criteria. From 2026-27, the five desirable criteria noted in paragraph 30 of **Appendix 1** become mandatory, resulting in all seven criteria requiring demonstration of compliance within the annual report. SFC recommends that colleges include commentary on the five desirable criteria in their 2025-26 annual reports where possible and explore implementation of required changes to activity in 2026-27, ahead of the formal change to mandatory compliance from April 2027.

2022 Code of Good Governance for Scotland's Colleges

13. The latest version of the Scottish Code of Good Governance was published in September 2022: Institutional governance – Scottish Funding Council (sfc.ac.uk). Colleges are asked to comply with the 2022 Code.

Mandatory and Corporate Governance Disclosures

14. We draw your attention to the specific mandatory disclosures for incorporated colleges in **Appendix 1** and for non-incorporated colleges in **Appendix 2**.

15. University of the Highlands and Islands as the Regional Strategic Body for the Highlands and Islands should ensure that partner colleges align disclosures to those outlined in **Appendix 1** and **Appendix 2** as applicable.

16. The guidance notes issued alongside this Accounts Direction include example disclosures for core income and expenditure, as well as any specific example disclosures or additional guidance.

Appendix 1: Mandatory Disclosures – Incorporated Colleges

Purpose of this Appendix

17. This appendix sets out the minimum disclosures that must be included in the annual report and accounts of incorporated colleges. It is intended as a practical direction, not a restatement of the FE/HE SORP, FRS 102 or the Government Financial Reporting Manual 2025-26 ("the FReM").

18. Colleges should continue to apply professional judgement and refer to the FE/HE SORP, the FReM and FRS 102 where more detailed guidance is required.

The Performance Report

19. Colleges must include a Performance Report within the annual report and accounts in accordance with Chapter 5 of the FReM. This section sets out SFC's expectations for the content and focus of the Performance Report for Scotland's colleges and does not restate the detailed requirements of the FReM or the FE/HE SORP.

20. The Performance Report should be clear, concise and college specific, and must provide a fair, balanced and understandable analysis of the college's performance, including both positive and negative aspects, and what this means for future sustainability of the college. Colleges should avoid generic disclosures. The Performance Report must include a Performance Overview and a Performance Analysis.

21. The Performance Report must be signed and dated by the College Principal or Executive Director.

22. The requirements of the Performance Overview are outlined in Chapter 5 of the FReM. SFC, through this direction, additionally requires:

    - That the statement from the Principal or Executive Director provides their perspective on the performance of the institution over the period, including an explanation of the impact of current inflationary pressures and geopolitical issues on the college's performance.

    - That the statement of purposes and activities specifically includes details of estates management strategies in addition to a description of the business model and environment, organisational structure, objectives and strategies, and principal risks and mitigations.

    - That the explanation of the adoption of the going concern basis includes details of mitigating actions taken as a result of inflationary impacts.

    - Sustainability disclosures aligned to the Taskforce on Climate-related Financial Disclosures framework (see below).

    - Fair Work First disclosures (see below).

- Disclosures on adjusted operating position (see below).
- A statement describing the payment practice code or policy adopted on payment of suppliers and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998, or a statement that there were no matters to disclose.

23. The requirements of the Performance Analysis are outlined in Chapter 5 of the FReM. All aspects of this section of the FreM apply, with the exception of paragraphs 5.4.4e, 5.4.4h and 5.4.4l which do not apply in Scotland. In addition to the mandatory FReM requirements, SFC also requires:

- A high-level description of how the college has had due regard to the public sector equality duties under the Equality Act 2010, with cross references to separately published equality reports where appropriate.

Sustainability

24. Colleges must now comply with Phase 3 of the 'Task Force on Climate-related Financial Disclosures (TCFD)' framework, as outlined in Chapter 5.4 of the FReM.

25. Disclosures should align to the four thematic pillars of the framework:

- Governance.
- Strategy.
- Risk Management.
- Metrics and Targets.

26. Data should already be available through Sustainability Scotland Network reports that colleges are required to complete annually. Colleges should refer to Audit Scotland's Good Practice Note on the preparation of the TCFD-aligned disclosures, published in November 2024: Audit Scotland Climate Change Disclosures - Good Practice Note.

27. Further guidance is included in the guidance notes issued alongside this direction.

Fair Work First

28. Colleges must include in the annual report and accounts commentary outlining the Fair Work First practices and the progress they have made in their implementation. As per best practice, colleges should make every endeavour to do this in agreement with their workforce, such as the relevant trade union where one is present, or workers' representative(s) where there is no union present.

29. The commentary must demonstrate how the college complies with the following mandatory criteria:

- Pay at least the Real Living Wage.

- Provide appropriate channels for effective workers' voice, i.e. collectively (e.g. through trade union recognition) and individually (e.g. through staff surveys).

30. Recipients of public sector grants are also expected to commit to working towards the remaining five desirable criteria:

    - Investment in workforce development.
    - No inappropriate use of zero-hour contracts.
    - Address workplace inequalities, including pay and employment gaps for disabled people, racialised minorities, women and workers aged over 50.
    - Offer flexible and family-friendly working practices for all workers from day one of employment.
    - Oppose the use of fire and rehire practice.

31. Guidance on adhering to the criteria along with examples are available in Fair Work First – Guidance, updated in November 2024. A link to an existing statement on the college's website demonstrating compliance with the Fair Work First requirements would also be acceptable. Such a statement should be reviewed annually. SFC will review these commentaries/statements annually, follow up with colleges as appropriate and report to Scottish Government on the sector's adherence to the Fair Work First criteria.

32. From 2026-27 the five desirable criteria become mandatory, resulting in all seven criteria requiring demonstration of compliance within the annual report. SFC recommends colleges include commentary on the five desirable criteria in their 2025-26 annual reports where possible and explore implementation of required changes to activity in 2026-27, ahead of the formal change to mandatory compliance from April 2027.

Depreciation Budget for Government-Funded Assets

33. The depreciation budget allocation cannot be reflected as income in the Statement of Comprehensive Income (SOCI) under FE/HE SORP accounting rules.

34. The requirements are:

    - A statement at the foot of the SOCI explaining the impact of the depreciation budget for government-funded assets.
    - A note to the accounts calculating the operating position on a central government accounting basis. This adds the actual depreciation budget to the SOCI surplus/(deficit) on a government accounting basis for the AY.

35. The form of wording for the statement at the foot of the SOCI and the note to the accounts is set out in the guidance notes issued alongside this direction.

Adjusted Operating Position (AOP)

36. The Performance Report must include disclosure of the Adjusted Operating Position (AOP) for AY 2025-26. The guidance notes issued alongside this direction include the template for the AOP calculation.

37. Colleges should:

- Clearly explain the purpose of the adjusted operating position calculation and how it differs from the surplus or deficit reported under the FE/HE SORP.
- Provide a concise explanation of each material adjustment, explaining why the adjustment has been made.
- Ensure that all adjusted items are visible (i.e. separately disclosed) in the SOCI or notes as appropriate and cross-referenced to this calculation.
- Ensure that AOP narrative is consistent with the wider Performance Report.

38. SFC issues a separate request for AOP calculation and supporting data. Colleges should submit the AOP calculation, together with draft accounts, to SFC for review prior to the accounts being signed off. Colleges are encouraged to submit the AOP as early as possible to allow time for review.

The Accountability Report

39. Requirements for the Accountability report are set out in Chapter 6 of the FReM. This section sets out SFC's expectations for the content and focus of that report for Scotland's colleges and does not restate the detailed requirements of the FReM or the FE/HE SORP.

40. The Accountability Report must be signed and dated by the College Principal or Executive Director.

41. The Accountability Report must have three sections:

- Corporate Governance report.
- Remuneration and Staff report.
- Parliamentary Accountability report.

Corporate Governance Report

42. As a minimum, the Corporate Governance report must include:

- A Directors' report.
- A statement of the Board of Management / Board responsibilities.
- A governance statement.

Director's Report

43. Requirements for the Directors' report are outlined in paragraph 6.4.3 of the FReM. SFC has no further requirements or direction.

Statement of Board of Management/Board Responsibilities

44. Paragraphs 6.4.4 – 6.4.6 of the FReM require government bodies to provide a Statement of Accounting Officer's responsibilities. The SFC Chief Executive provides a governance certificate of assurance covering all colleges to the Principal Accountable Officer of the Scottish Government, based upon certificates of assurance provided by colleges.[2] In light of this unique arrangement, colleges are required to provide a Statement of Board's responsibilities within their Corporate Governance report.

Governance Statement

45. Paragraph 6.4.8 of the FReM sets out the minimum information that a Governance Statement should include. In preparing the Governance Statement, colleges must comply with the FReM and with the guidance set out in the Governance Statement section of the Scottish Public Finance Manual (SPFM).

46. In line with the Financial Memorandum requirements, SFC additionally requires:

    - That colleges include a statement confirming compliance with the 2022 Code of Good Governance for Scotland's Colleges ("the Scottish Code") on a comply or explain basis. An explanation should be provided in the event that the college's practices are not consistent with particular principles. A form of wording for the compliance statement is included in **Appendix 3**.

    - That colleges outline and explain the changes to the governance framework and any other governance implications arising from the exceptional inflationary pressures exerted on the sector.

47. Further guidance is available in the Audit Scotland 'Good practice note on improving the quality of college annual report and accounts - Governance statements', published in May 2019.

Remuneration and Staff Report

48. Colleges must include a Remuneration and Staff Report within the annual report and accounts in accordance with Chapter 6.5 of the FReM. This section sets out SFC's expectations for the content and focus of that report for Scotland's colleges and does not restate the detailed requirements of the FReM or the FE/HE SORP.

[2] University of the Highlands and Islands (UHI) provides a certificate of assurance to SFC based upon certificates of assurance provided by the partner colleges.

49. Colleges should note that, as per paragraph 6.5.27 of the 2025-26 FReM, prior-year comparatives are now mandatory for fair pay disclosures.

50. Colleges should also refer to further guidance contained in Employers Pension Notice 746: EPN746 – Civil Service Pension Scheme and Employer Pension Notice 747: EPN747 – Civil Service Pension Scheme. This guidance contains a standard format for disclosures compliant with the FReM that colleges should adhere to.

51. An example Remuneration report is included within the guidance notes, issued alongside this direction. Colleges should adhere to the FReM guidance in Chapter 6.5, including the requirement to inform individuals in advance of disclosing their personal information within the report.

52. Requirements for the staff report are included within the FReM from paragraph 6.5.31. SFC have no further requirements with regard to the content included within this report.

53. Audit Scotland published a Good Practice Note on the preparation of the Remuneration report in May 2023 which colleges should refer to: Remuneration Report – Good Practice Note on enhancing the quality of financial reporting (audit-scotland.gov.uk).

54. In addition to the remuneration reporting requirements outlined in Chapter 6.5 of the FReM, from 2026-27 SFC will also be required to collate and report on more detailed information to the Scottish Government. Therefore, colleges will be required to ensure their remuneration report includes:

    - Total remuneration of the principal (already a requirement per paragraph 6.5.8 of the FReM).
    - Median pay in the organisation.
    - Minimum pay in the organisation.
    - 5, 25, 50, 75 and 95 percentile pay ratios (note that 25, 50 and 75 percentiles are already required by paragraph 6.5.24 of the FReM).

    SFC encourages early adoption in 2025-26 annual report and accounts.

55. The guidance notes issued alongside this direction include example disclosures.

Parliamentary Accountability Report

56. The FReM requires the inclusion of a Parliamentary Accountability Report, and, for Scottish Government bodies, the requirements are reflected in the Scottish Public Finance Manual ("SPFM").

57. It is not envisaged that the Parliamentary Accountability disclosures will need to be completed by most colleges unless they are material.

58. The Accountability report should be signed and dated by the Principal or Executive Director.

Notes to the Accounts

59. Colleges must disclose the audit fees and non-audit fees paid to external and internal auditors.

60. To comply with the SORP, colleges should also disclose:

- The actual total remuneration of the Principal or Executive Director, disclosing separately salary, bonus, employer pension contribution and taxable and non-taxable benefits in kind. Where there is a change of Principal or Executive Director during the year, details should be given separately for each person, noting the dates each was in post. Where the Principal or Executive Director has been paid salary in lieu of pension contributions, this should be explained in the note.

- The total number of higher paid staff, including senior post-holders, in bands of £10,000 above a threshold of total emoluments (excluding pension contributions and compensation for loss of office) of £60,000. The number of senior post-holders within each band should be separately identified.

- The tables in the staff cost note should be cross-referenced to the remuneration and staff report. Alternatively, if colleges prefer, the tables can be included in the remuneration and staff report and cross-referenced to the staff costs note. This will avoid duplication of the information.

National bargaining support staff and middle management job evaluation costs

61. The accounting treatment of National Bargaining support staff and middle management job evaluation exercise remains unchanged for 2025-26.

62. The full harmonisation costs of National Bargaining support staff and middle management will not be confirmed until the national Job Evaluation exercise is concluded, the outcome of which will be backdated to 1 September 2018.

63. Responsibility for Job Evaluation funding commitments rests with the Scottish Government until the process is complete.

64. As the job evaluation exercise is a past event which has led to an obligation being created that can be reliably measured and is likely to result in an outflow of benefit in future periods, the most appropriate treatment is to recognise a provision. Colleges should continue to recognise this provision in 2025-26.

65. There continues to be insufficient certainty to support recognition of revenue. The revenue element should therefore not be recognised.

66. The current year cost provision should be adjusted through the college's AOP calculation.

Appendix 2: Mandatory Disclosures – Non-incorporated Colleges

Purpose of this Appendix

67. This appendix sets out the minimum disclosures that must be included in the annual report and accounts of non-incorporated colleges. It is intended as a practical direction, not a restatement of the FE/HE SORP or FRS 102.

68. Colleges should continue to apply professional judgement and refer to the FE/HE SORP and FRS 102 where more detailed guidance is required.

69. This appendix includes disclosures additional to those required by FE/HE SORP or FRS 102 to apply consistent and transparent disclosure across the sector. The additional requirements largely align to specific requirements of the FReM.

Strategic Report[3]

70. Disclosures required within the strategic report include:

- A list of members of the governing body and key committees. This should cover all those who served during the period and include any changes up to the date of signing the annual report and accounts. The report should also disclose attendance of individual members at board meetings, but this can be disclosed as a percentage attendance for each member for the year.
- A statement describing the payment practice code or policy adopted on payment of suppliers and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998, or a statement that there were no matters to disclose.
- A statement on the employment of disabled persons where the average number of all persons employed in the year exceeds 250.
- Commentary on the college financial performance in the year. This should include a table setting out the adjusted operating position (AOP) for the year, in accordance with the template included the guidance notes issued alongside this direction.
- Commentary explaining the impact of current inflationary pressures and geopolitical issues on the college's financial position.
- Fair Work First disclosures (see paragraphs 28 to 32 of **Appendix 1**).

[3] Further guidance on strategic reports is given in the 2019 SORP (paragraphs 3.23 to 3.26)

Corporate Governance

71. The FE/HE SORP requires colleges to include a statement covering the responsibilities of their governing body in relation to corporate governance. This statement should indicate how the college has complied with good practice in this area. SFC additionally requires:

    - That all colleges include a statement confirming compliance with the 2022 Code of Good Governance for Scotland's Colleges ("the Scottish Code") on a comply or explain basis. An explanation should be provided in the event that the college's practices are not consistent with particular principles. A form of wording for the compliance statement is included in **Appendix 3**.

    - That colleges outline and explain the changes to the governance framework and any other governance implications arising from the exceptional inflationary pressures exerted on the sector.

72. Colleges should also refer to the Audit Scotland 'Good practice note on improving the quality of college annual report and accounts – Governance statements', published in May 2019.

Remuneration

73. In line with paragraph 25.9 of the FE/HE SORP, colleges are required to disclose the total number of higher paid staff, including senior post-holders, in bands of £10,000, above a threshold of total emoluments (excluding pension contributions and compensation for loss of office) of £60,000. The number of senior post-holders within each band should be separately identified.

74. In addition to the requirements within the FE/HE SORP, SFC requires disclosure of:

    - The actual total remuneration of the head of the college, disclosing separately salary, bonus, employer pension contribution and taxable and non-taxable benefits in kind. This should be the actual figure and not a banding. Where there is a change of head of the college during the year, details should be given separately for each person, noting the dates each was in post. Where the head of the college has been paid salary in lieu of pension contributions, this should be explained in the note.

    - The aggregate amount of any compensation for loss of office payable to the head of the college and any staff member earning in excess of £60,000 per annum, together with the number of people to whom this was payable, or where the costs of all elements of a proposed arrangement amount to more than £75,000.

75. Audit Scotland published a Good Practice Note on the preparation of the Remuneration report in May 2023 which colleges should refer to: Remuneration Report – Good Practice Note on enhancing the quality of financial reporting (audit-scotland.gov.uk).

76. In addition to the remuneration reporting requirements outlined above, from 2026-27 SFC will also be required to collate and report on more detailed information to the Scottish Government. Therefore, colleges will be required to ensure their remuneration report includes:

    - Total remuneration of the principal (as required in paragraph 74 above).
    - Median pay in the organisation.
    - Minimum pay in the organisation.
    - 5, 25, 50, 75 and 95 percentile pay ratios.

    SFC encourages early adoption in 2025-26 annual report and accounts.

77. Example disclosures are included within the guidance notes issued alongside this direction.

Notes to the Accounts

78. Colleges must disclose the audit and non-audit fees paid to external and internal auditors.

National bargaining support staff and middle management job evaluation costs

79. The current position and disclosure requirements in relation to this exercise are set out at paragraphs 61 to 66 in **Appendix 1** of this document.

Appendix 3: Template for Statement of Compliance with the 2022 Code of Good Governance for Scotland's Colleges

The college complies with all the principles of the 2022 Code of Good Governance for Scotland's Colleges, and it has complied throughout the year ended 31 July 2026.

or

The college complies with all the principles of the 2022 Code of Good Governance for Scotland's Colleges with the exception of xxxx. The college is taking action to address this by xxxx and xxxx and expects to be fully compliant by xxxx.