Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

ACC/22/06
Agenda item 9
3 March 2022

Review of SFC accounting policies

Purpose

1. To update the Audit and Compliance Committee on the SFC's accounting policies to be applied in preparation of the 2021-22 Statement of Accounts.

Accounting Policies

2. It is a requirement of the Government Financial Reporting Manual (FReM) that the Statement of Accounts be produced in accordance with proper accounting practices. The SFC's accounting policies are the specific principles, conventions, rules and practices that are applied in preparing and presenting the annual accounts. Accounting policies need not be applied if the effect of applying them would be immaterial. These accounting policies have to be disclosed as a note to the annual accounts.

New Accounting Policies

3. There are no new accounting policies to be used in the preparation of the 2021-22 accounts. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes is set out in the Annex.

Review of current accounting policies

4. Two accounting policies are subject to review:

Financial instruments

5. We undertook a review of whether the loan cost to institutions continues to be a reasonable estimate of the carrying value of loans as the amortised cost would not be materially different (page 5). We consider that the carrying value of loans is the most appropriate policy to adopt.

Grants receivable

6. We undertook a review of whether an accruals policy should be used for ESF and ERDF income, instead of the current cash basis (page **Error! Bookmark not defined.**). The SFC Finance Committee of 25 February 2022 was updated with

further delays in settling ESF claims. As there are still significant uncertainties associated with this income we consider that the cash basis of accounting is the most appropriate policy to adopt.

Risk assessment

7. This paper is designed to mitigate the risk of misstatement of our annual accounts.

Equality and diversity assessment

8. The information in the paper refers to administrative procedures and does not adversely impact on any groups with protected characteristics.

Recommendations

9. The Committee is invited to note this paper.

Financial implications

10. There are no direct financial implications from this report.

Publication

11. This paper will be published on the Council's website following the meeting.

Further information

12. Contact: Fiona O'Neill, Assistant Director, Finance (Direct line: 0131 313 6525, email: foneill@sfc.ac.uk).

Annex

1. Accounting policies

Basis of accounting

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

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

Adoption of FReM amendments

There have been only a few changes in FReM requirements in 2021-22, mostly in respect of the Remuneration Report. For Financial Year 2020-21, SFC applied the addendum to the 2020-21 FReM which permitted organisations to omit the performance analysis section from the Performance Report. This addendum does not apply for Financial Year 2021-22 therefore SFC will produce a full Performance Report.

Going concern

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

Significant judgements and estimates

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

Recovery of grants

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

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

Financial Transactions

SFC accounts for financial transaction loans to HEIs at cost rather than amortised cost. The impact of the recognition of the loan values at 31 March 2022 correctly (if accounted for at amortised cost in line with International Reporting Standard (IFRS) 9) would be to reduce the value of the loans. This is not a material amount for the SFC annual accounts. However, we anticipate continuing to receive this form of funding from the Scottish Government and so we will keep this decision under review to determine whether adjustment would be appropriate at some future date.

European Social Fund income

SFC Policy is to recognise income from the European Social Fund on a cash basis rather than accrued income. Further details are given in note 7. Due to the continued risk and uncertainty associated with these funds and the audit of claims that support them, it is decided that the current accounting policy should be that European Social Fund (ESF) income is recognised on a cash basis, i.e. when the monies are received.

Property, plant and equipment

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

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

Intangible assets

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

Taxation

HM Revenue and Customs does not consider the activities of the SFC to be a trade and the grant income received is not therefore liable to corporation tax.

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

Grants and loans

Grants receivable

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

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

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

Grants payable

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

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

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

Financial instruments

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

Loans to institutions are charged at nominal interest rates over a period of 10 to 20 years and are repayable by deduction from future grant in aid. As a result, SFC considers there to be no impairment risk from these transactions. In accordance with IFRS 9 the loans will be initially recognised at fair value and thereafter at amortised cost. The loan cost has been used as a reasonable estimate of the carrying value of loans as the amortised cost would not be materially different. These are disclosed in note 11.

Loans

Interest free loans are payable to staff for the purchase of season travel tickets or bicycles for use in travel to work.

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 SFC's continuing activities. There have been no acquisitions or discontinued activities during the period.

Operating lease charges

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

Pension costs and other post-retirement benefits

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

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

Short-term employee benefits

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

Financial guarantees

In accordance with IFRS 9, financial guarantees are considered for recognition as liabilities. The likelihood of a liability occurring is considered to be remote therefore the financial guarantees have been treated as a contingent liability in line with IAS 37 and are not recorded on the balance sheet.

IFRS issued but not effective

International Accounting Standard (IAS) 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. At 31 March 2022 the following IFRS has been issued but is not effective as it has not yet been applied in the Government Financial Reporting Manual (FReM): *IFRS 16* – Leases. This requires lessees to recognise nearly all leases in the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. SFC has two property leases, one for its main office and a pepper corn lease with Scottish Enterprise for the right to use meeting room space. The estimated costs of recognising these lease liability at present value is £3.9 million. IFRS 16 will be adopted on 1 April 2022.