



**Scottish Funding Council**  
Annual Report and Accounts 2015-16



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## Chair's Foreword



My Foreword is usually an opportunity to review the Scottish Funding Council's progress and achievements over the last 12 months, but this year I will begin by taking a longer perspective.

Last year marked an important milestone for SFC, with the tenth anniversary of its establishment in October 2005. At that time, the new SFC took on responsibility for the funding of both further education and higher education, which gave it a unique opportunity to think strategically about the learning system as a whole and the needs of students as they progress through their learner journey. SFC used this opportunity to embark on a major programme of change to improve the opportunities for students, including new initiatives on widening access, skills, and the quality of learning. It also sought to enhance the international competitiveness of the research base, with the launch of the 'research pooling' initiative, and promote better links between universities and business by investing in a range of initiatives, including the introduction of the 'Interface' agency.

At the same time, SFC led a major programme of capital investment in the college and university sectors. I and other colleagues at SFC were delighted therefore to attend the opening of the Riverside Campus at the City of Glasgow College last year, and to celebrate the opening of the Inverness Campus at Inverness College. These new campuses were part of SFC's programme of work over a decade to transform radically the learning environment for students in these two regions. It was a

pleasure for us to meet the students who were benefiting from the new facilities and modern learning environments, most of whom will have been young children when SFC was established.

It is events like this that remind me strongly that SFC is in the business of helping transform the opportunities for students and employers, and of supporting the excellent work of colleges and universities and their staff.

So what will the next ten years look like?

Last year, SFC's Board began work to develop its new Strategic Plan and, in doing so, set a trajectory up to 2025. The situation now is of course very different from 2005, but we are no less ambitious – and indeed some have criticised us for being too ambitious with our aim that, by 2025, Scotland will be the best place in the world to learn, to educate, to research, and to innovate.

This is because education, training, skills and research are all intrinsically linked to individual, social and economic prosperity. Over the next 10 years, we want to transform the economic and social wellbeing of individual learners and Scotland as a whole. In doing so, we will make a significant contribution to the Scottish Government's strategies for investment, innovation, inclusive growth, and internationalisation and, ultimately, its goal of creating a fairer and more successful country.

We have got off to a good start and, during 2015-16, we led new initiatives that will provide a strong foundation for the next ten years. In the college sector, we introduced a new, simplified funding method, which will allow us to target resources more effectively on areas of greatest need. This change builds on other work that we have been taking forward. For example, the college merger programme, which is one of the largest programmes of reform undertaken in the public sector in Scotland, provides tremendous opportunities for improving the planning and delivery of

learning over the next decade and beyond. We have therefore worked actively with the sector and with Skills Development Scotland (SDS) to ensure that Regional Skills Assessments are taken into account fully in our Outcome Agreements with colleges.

We have also given priority to improving the opportunities for students from disadvantaged backgrounds and worked closely with the Scottish Government to support the Commission on Widening Access. I am pleased that we are continuing to see progress, with universities now recruiting nearly 31% of their students from Scotland's 40% highest areas of deprivation. However, there is still much more to do if all our young people, whatever their background, are to have an equal opportunity to succeed in education.

In its economic strategy, the Scottish Government has highlighted the vital role that the research base and innovation will play in driving Scotland's long-term competitiveness, productivity and sustainable growth. It was a significant achievement therefore to see five Scottish universities appearing in the top 200 of the Times Higher international rankings of world research universities, more per head of population than any other country.

At SFC, we have also led an important programme of work over the year to improve the environment for innovation, particularly through our support for eight Innovation Centres in key economic sectors, and by developing our partnerships with universities, the Scottish Government, the Enterprise Agencies, and other stakeholders on the Innovation Scotland Forum. Following a major review, and consultation with our partners, we announced the introduction of a new University Innovation Fund in the Academic Year 2016-17, which will support and help universities to strengthen the innovation environment in Scotland.

These are just some examples of the wide range of initiatives that we have undertaken during 2015-16, but they underline the long-term ambition and sustained efforts that are required to transform learning, research and innovation.

As well as acknowledging the contribution of colleges, universities and our other partners to our progress over the last year, I also want to put on record my sincere thanks for the part played by SFC's Board members and staff who have worked tirelessly in a fast-moving and, at times, challenging year.

Finally, I want to pay tribute to our Chief Executive, Laurence Howells, who, towards the end of the year, announced his intention to retire in the summer of 2016.

Laurence played a major role in launching SFC over ten years ago, and was instrumental in developing many of its pivotal strategies - particularly through the *Learning for All*, *Learning for Work*, and *Learning to Improve* initiatives. He has always been the first to remind the Board and staff that, in everything we do, it is the student who should come first, and he has been a strong advocate of the student voice in education. As SFC embarks on its second decade, we wish him well for the future.

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

**Professor Alice Brown CBE**

Chair

### Chief Executive's Report



#### Introduction

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

#### Who we are

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

#### Our Strategic Plan 2015-18

We published a new Strategic Plan for the period 2015-18. Our ambition is that Scotland should be the best place in the world to learn, to educate, to research and to innovate by 2025.

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

- Developing Outcome Agreements with colleges and universities, which set out what they will deliver in return for our funding, and monitoring performance
- Being an active, creative and reliable partner with others where we have shared or overlapping goals – Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, NHS Education Scotland, Research Councils, NUS Scotland, local authorities – and many others
- Promoting improvement across the whole education system through our influence and funding but particularly in every aspect of our colleges and universities.

- Investing strategically in colleges and universities to support national initiatives, mergers or shared services.

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

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

**SFC Strategic Plan 2015-18**

Our ambition is to make Scotland the best place in the world to learn, to educate, to research, and to innovate, so that colleges and universities play a major part in Scotland's social, cultural and economic development.

**AMBITION 2025**

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

High-quality learning and teaching	World-leading research	Greater innovation in the economy
Effective use of resources		High-performing Scottish Funding Council

### Performance summary

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

We have continued to make steady progress on widening access to learning: we have made further improvements in the numbers of students enrolling at university from colleges with advanced standing; and we have made a step change in the number of pupils studying at college whilst still at school – a major contribution to delivery of the Scottish Government's *Developing the Young Workforce* policy. In addition, we have continued to invest in developing entrepreneurial skills in students through initiatives such as the Scottish Institute for Enterprise and the Converge Challenge. Colleges and universities continue to deliver excellent teaching, despite the pressure on resources, which we can see from evidence from assessments of quality carried

out on our behalf by Education Scotland and the Quality Assurance Agency for Scotland. Through all of this work, colleges and universities ensure a steady flow of over 225,000 skilled and creative people into the economy or further study every year.

On research, our long-term sustained investment in the Scottish university research has been vital to the universities world-wide success. Scotland continues to score very highly in world research rankings. For example, in 2015, the Times Higher World University Rankings included five Scottish universities in the world's top 200. We are very proud of the sustained excellence in research shown by all of our universities. Also very impressive is the impact that the research of our universities has on all aspects of society – from improving our healthcare to developing our understanding of Scotland's culture and history.

On innovation we are supporting a culture change in university-business interactions and opening up university expertise to aspirational businesses. Our planned investment of up to £120 million in Innovation Centres in key sectors of the economy, alongside the activities of Interface – the business/university 'match-making' agency – are already making a real difference. And we see further growth in the number of 'spin-out' companies from Scotland's universities in Academic Year (AY) 2014-15. These improvements are extremely welcome and show the value of our creative partnerships with the enterprise agencies, the universities and business.

In terms of our own organisation, over the last five years we have transformed SFC and its impact. We have moved our focus from funding the system of colleges and universities to promoting the delivery of better outcomes from learning and research which benefit Scottish society, culture and economic development. We are still on a journey, and are ambitious to make even more impact. We have therefore adopted the Scottish Government's 3-step improvement framework and are using this to deliver continuous improvement across the organisation.

We continue to contribute to Scotland's environmental sustainability, and we were delighted to achieve a Gold award in the National Union of Students (NUS) Green Impact Accreditation Framework, and to have exceeded the targets in our own Carbon Management Plan.

More detailed information about our performance in 2015-16 is contained in the next section of the Annual Report and Accounts.

## Key risks

During the course of Financial Year (FY) 2015-16, we have managed between 11 and 15 corporate level risks to the achievement of our strategic objectives. These risks have appeared in our corporate Risk Register and fall into the following broad categories:

- Governance in the college sector, including specific issues concerning the Glasgow Colleges Regional Board and Glasgow Clyde College, but also issues arising from historical decisions taken by some college boards of management during their merger process.
- Budgets for colleges and universities in the context of the Spending Review and the draft Scottish Budget for 2016-17.
- The achievement of student number targets in the college sector.
- The financial health of colleges and universities.
- Relationships with stakeholders and communications.
- Climate change targets and the implications for colleges and universities.
- Industrial relations in the college sector.
- SFC's internal capacity.

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

A common theme running through these risks is 'change' and the capacity of colleges and universities to respond and adapt to a rapidly changing external environment. We will continue to give priority in 2016-17 to helping colleges and universities adapt in a way that supports their sustainability and our Strategic Plan ambitions.

As well as the risks in our Corporate Risk Register, SFC has also addressed some significant issues during FY 2015-16. The significant issues are listed in the Governance Statement in Section 2 of this document.

### Going concern

The statement of financial position at 31 March 2016 shows net assets of £9.86 million. Funding for 2016-17 has been approved by the Scottish Parliament and there is no reason to believe that future funding and budgetary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

### Final remarks

Finally, SFC is all about partnerships and I would like to thank the many thousands of colleagues in the many organisations we work with – colleges, universities, schools, the National Union of Students (Scotland), local authorities, Scottish Enterprise, Highlands & Islands Enterprise, NHS Education Scotland, Creative Scotland, Skills Development Scotland, Scottish Government, the Research Councils and many many more – as well as the staff and Board of SFC for the great work they do which make the college and university sectors the success they are. Last but not least, I would like to pay tribute to the hard work and commitment of the hundreds of thousands

of students pursuing their studies at every level – it is students that are the life blood of our colleges and universities.

A handwritten signature in black ink that reads "Laurence Howells". The script is cursive and fluid.

**Laurence Howells**  
Accountable Officer

Date: 17 June 2016

## Performance Analysis

In 2013, we introduced a new process for measuring and reporting our performance. Following the introduction of our new Strategic Plan in 2015, we began revising the process with a new framework for measuring and assessing our performance. The process draws on a range of qualitative and quantitative evidence, including performance indicators. We report to the SFC Board on our performance at least quarterly.

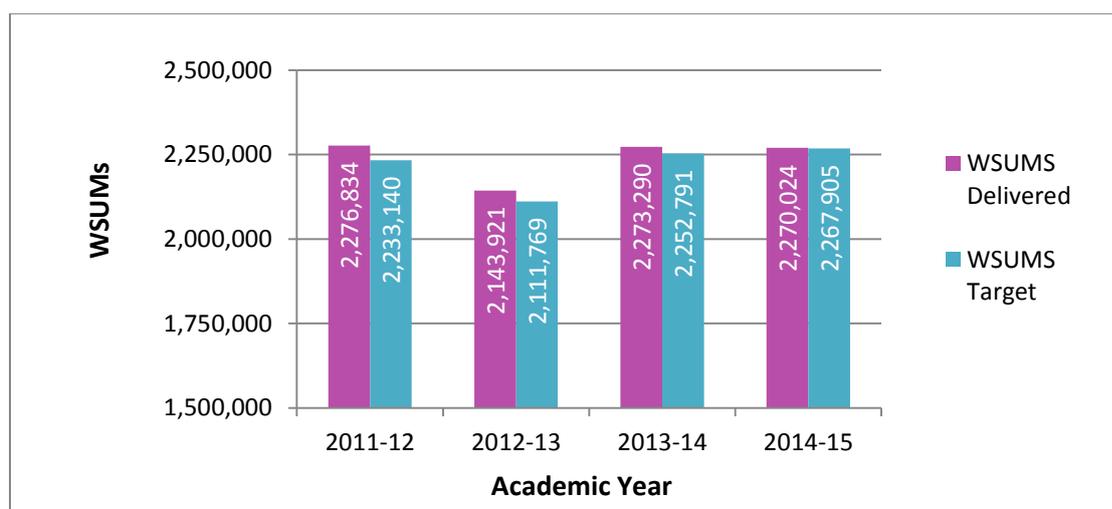
Our progress over the last year is summarised below.<sup>1</sup>

### Outcome: High-performing colleges and universities

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

### Performance indicators

Scotland's colleges: volume of WSUMs excluding ESF activity delivered against target (AY)<sup>2</sup>

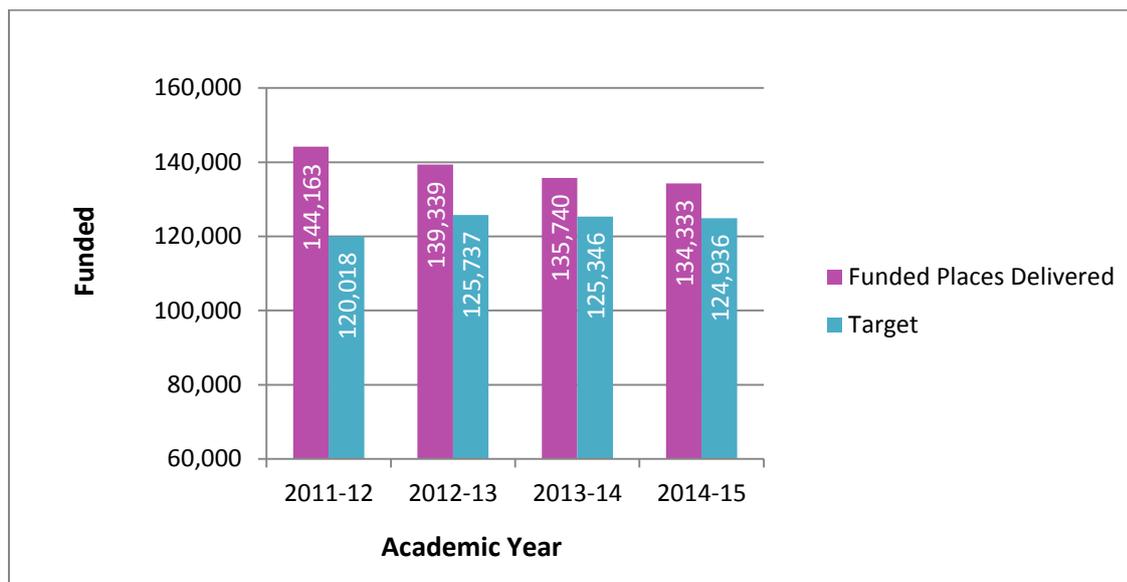


Source: SFC Further Education Statistics (FES)

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

<sup>2</sup> A SUM (Student Unit of Measurement) equates to approximately 40 hours of classroom-based attendance on a program of study. A WSUM (Weighted Student Unit of Measurement) includes a weighting applied to a SUM depending on the relative cost involved in delivering courses in different subject areas (e.g. Engineering or Construction courses are likely to be more expensive to run than Social Studies Courses).

### Scotland's universities: total funded places delivered against target (AY)<sup>3</sup>



Source: Higher Education Statistics Agency (HESA)

In the past year, both the college and university sectors provided more opportunities for learners by exceeding SFC's student activity targets for AY 2014-15.

We have continued to support the implementation of the new regional structure for colleges, including our work with regional strategic bodies. During the year, we undertook post-merger evaluations of the eight colleges that were formed by merger in AY 2013-14 and intend to complete the evaluation and analysis of the whole merger programme by summer 2016. The opening of the Riverside Campus at the City of Glasgow College and the Inverness Campus at Inverness College during 2015 marked an important stage in SFC's programme of work over a decade to transform radically the learning environment for students in these two important regions.

We have given significant attention to governance in the college sector during the course of the year. We supported Glasgow Colleges' Regional Board by providing dedicated senior support to the Board. We also provided advice to the Scottish Government in response to concerns about governance at Glasgow Clyde College, and worked intensively with the management of the college to protect the interests of students.

We worked closely with the Cabinet Secretary for Education and Lifelong Learning, Angela Constance MSP, and the College Good Governance Task Group during the year to develop our approach to governance in the college sector, including our role.

In June 2015, Audit Scotland published a report into the governance of severance arrangements for senior managers at Coatbridge College in 2013, and drew attention

<sup>3</sup> Total funded places in the university sector are measured using Full-Time Equivalents (FTEs). FTE is the full-time equivalent amount of study a student has to undertake on their course of study.

to the concerns that we had raised, and the action that we had taken at the time to protect the public interest. However, we received criticism from the Scottish Parliament's Public Audit Committee for not being more proactive in relation to the College. As a result, we reviewed comprehensively our approach to overseeing governance arrangements.

During 2015-16, we continued to develop our approach to assessing the financial health of colleges and universities, by focusing our resources and support on those institutions at greatest risk.

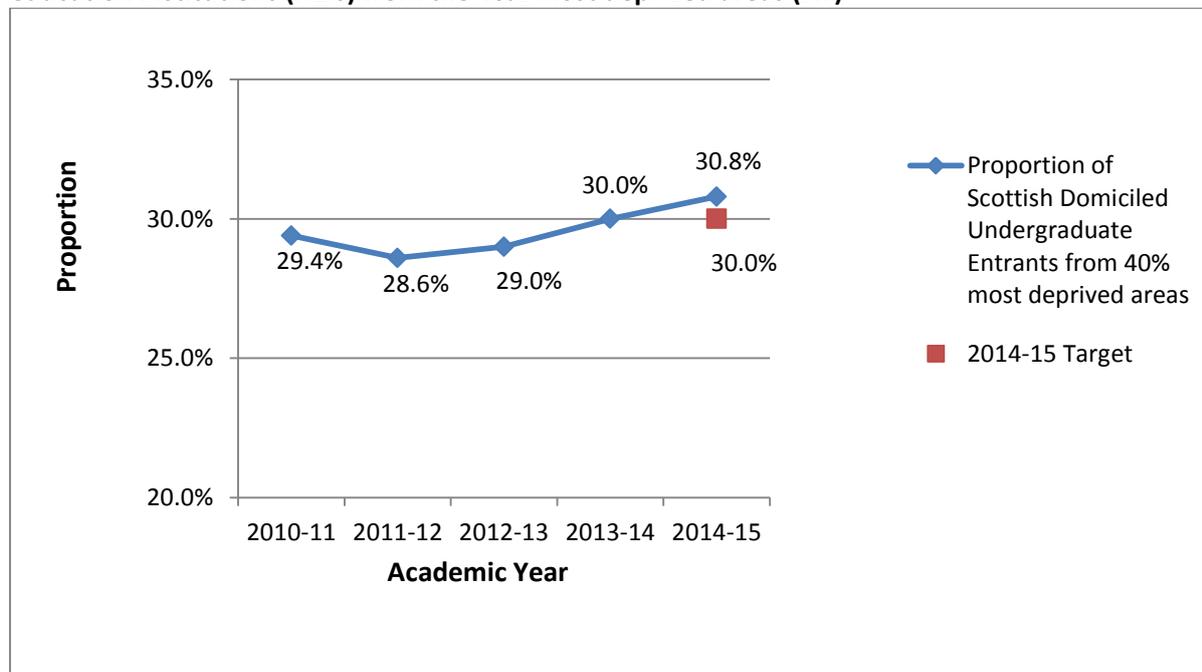
We have given priority to promoting equality and diversity in the college and university sectors and, in February 2016, published an interim report towards our first-ever gender action plan. By 2030, we aim for no subject in a Scottish university or college to have an extreme gender imbalance amongst its students – over 75% of one gender – and to reduce the gap in male and female participation rates at university.

### Outcome: high-quality teaching and learning

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

### Performance indicators

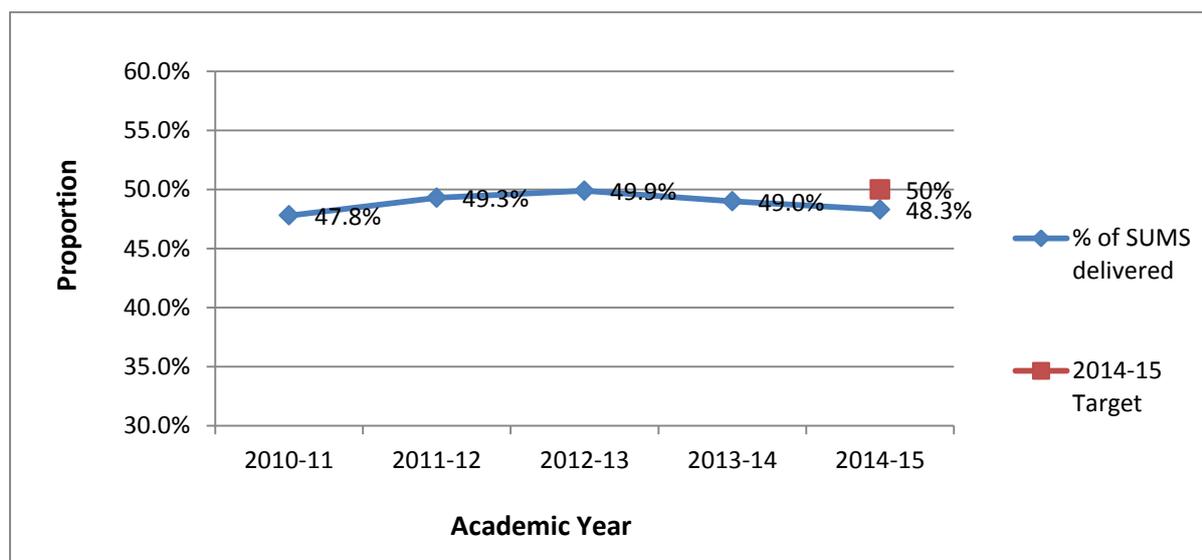
#### Increase the proportion of Scottish domiciled undergraduate entrants to Scottish higher education institutions (HEIs) from the 40% most deprived areas (AY) <sup>4</sup>



<sup>4</sup> No target has been provided beyond 2014-15 because of the expectation that the Scottish Government will set a new target in line with the recommendations from the Commission for Widening Access.

Source: HESA

### Increase the proportion of SUMS delivered to learners aged 16-19 by Scotland's colleges (AY)<sup>5</sup>



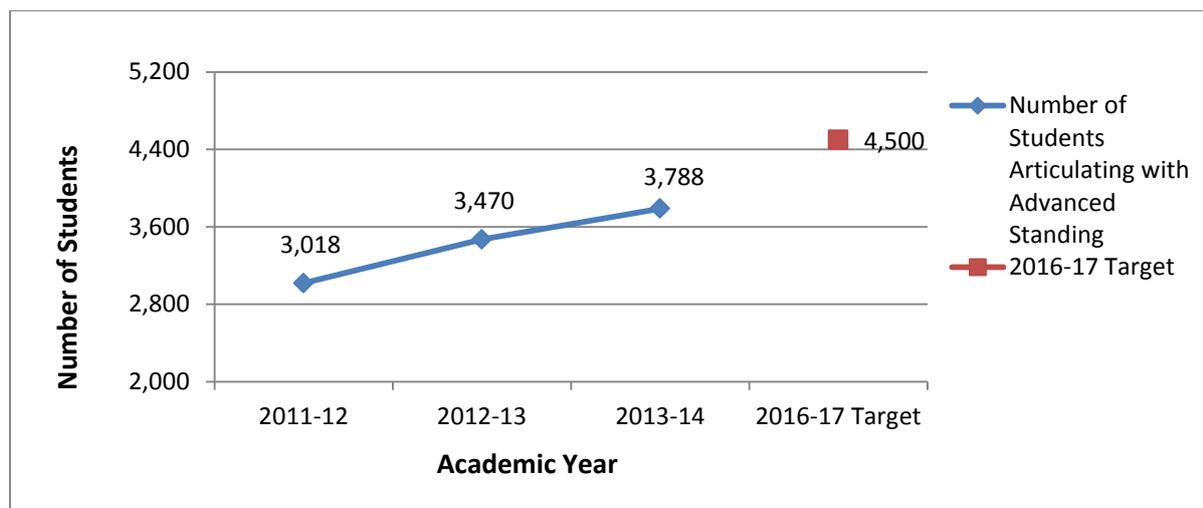
Source: SFC Further Education Statistics (FES)

Colleges and universities have devoted significant attention to meeting the needs of learners from deprived areas, and there is continued improvement. In particular, the data for AY 2014-15 shows an increase in the proportion of learners from the most deprived areas entering university. There has been a decline in the proportion of activity – as measured by SUMS – delivered to learners aged 16-19 by Scotland's colleges; however, this is due largely to a decline in the population of this age group and increased staying-on rates at school.

During the year, we worked closely with the Scottish Government to support the Commission on Widening Access (COWA), which published its proposals in March 2016. The recommendations in the final report from COWA will require continued progress to ensure that, by 2030, students from the 20% most deprived areas make up 20% of entrants to higher education.

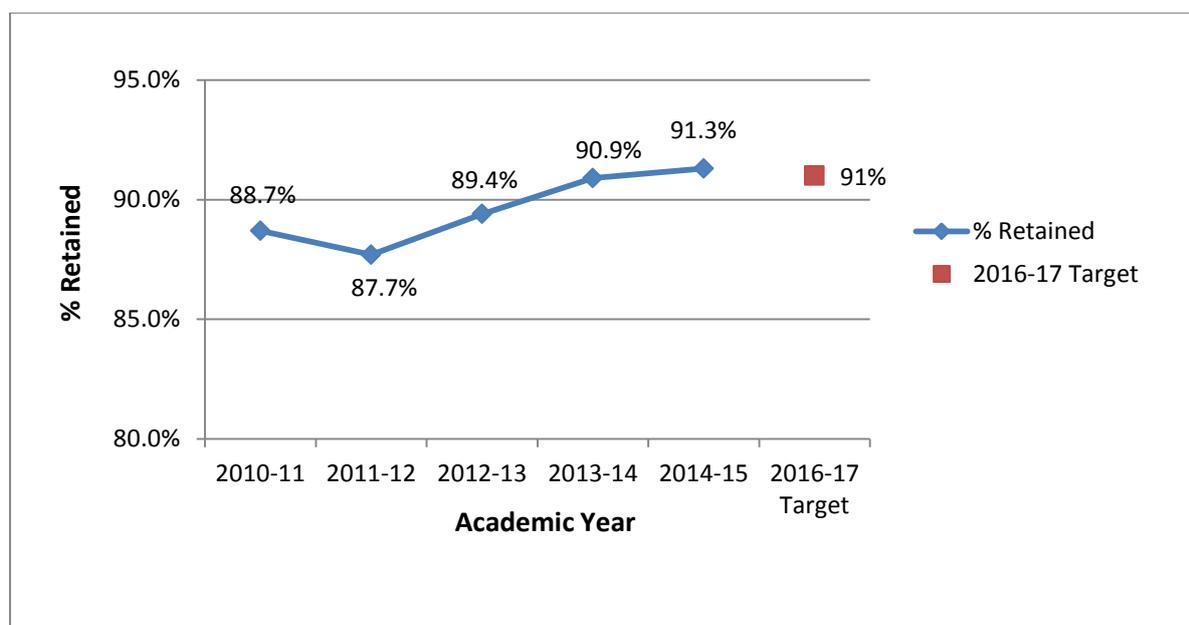
<sup>5</sup> No target has been set beyond AY 2014-15 as we plan to discontinue this indicator.

**Increase the number and proportion of students articulating to Scottish HEIs with Advanced Standing (AY)**



Source: National Articulation Database

**Increase the proportion of full-time undergraduates retained (AY)**

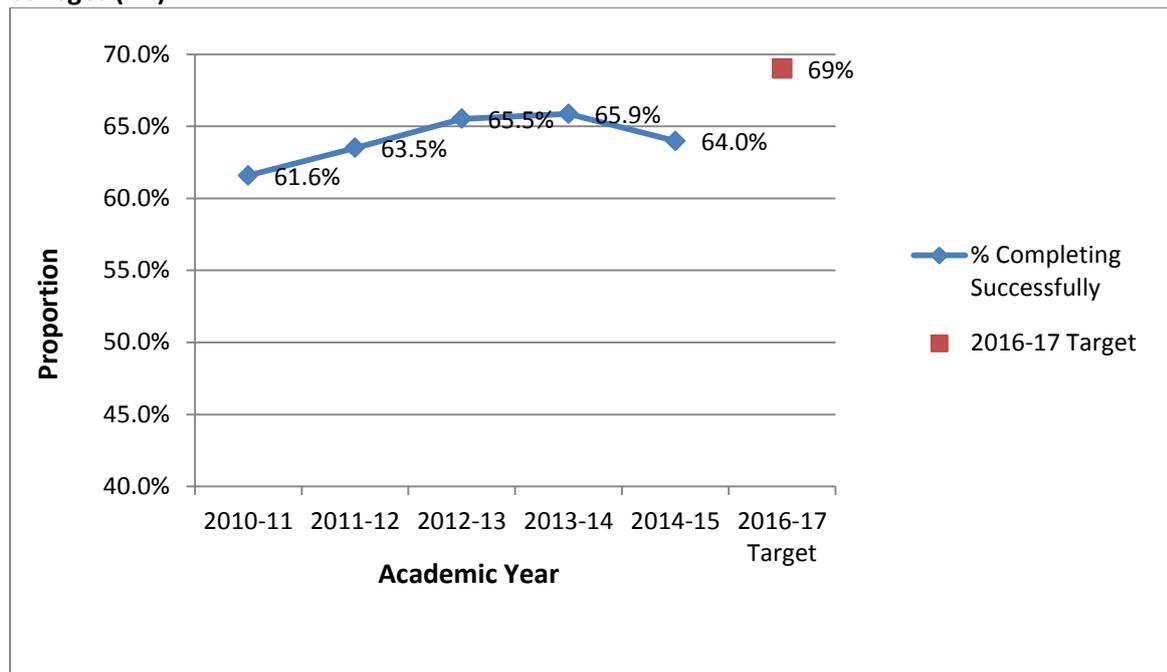


Source: Higher Education Statistics Agency (HESA)

Ensuring that students have a high-quality learning experience and are able to progress successfully through their learning are also important priorities for SFC. We have improved the connections in the learning system through our work on progression from college to university (articulation) and on developing the young workforce. Building on this activity, in discussions with stakeholders, we are advocating system change to improve the learner journey even further.

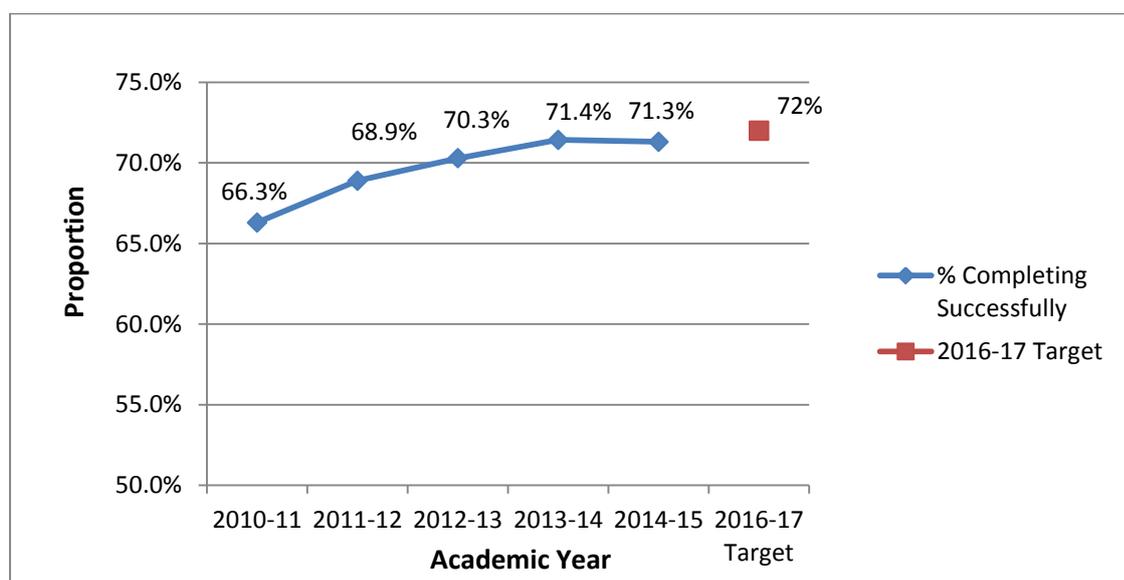
We are seeing progress in articulation: more students are receiving full credit and recognition for study at Higher National (HN) level and are moving into a degree programme at university with advanced standing.

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



Source: SFC Further Education Statistics (FES)

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



Source: SFC Further Education Statistics (FES)

Colleges and universities have also continued to provide high-quality learning in 2015-16, as evidenced by assessments of quality undertaken on our behalf by Education Scotland and the Quality Assurance Agency for Scotland (QAA).

There has been a further increase in the proportion of full-time learners in higher education gaining recognised qualifications, although there has been a small decline in the proportion of full-time FE learners achieving their qualification successfully.

On the latter point, we have provided advice to the Scottish Government on how we can improve success rates and the learner journey.

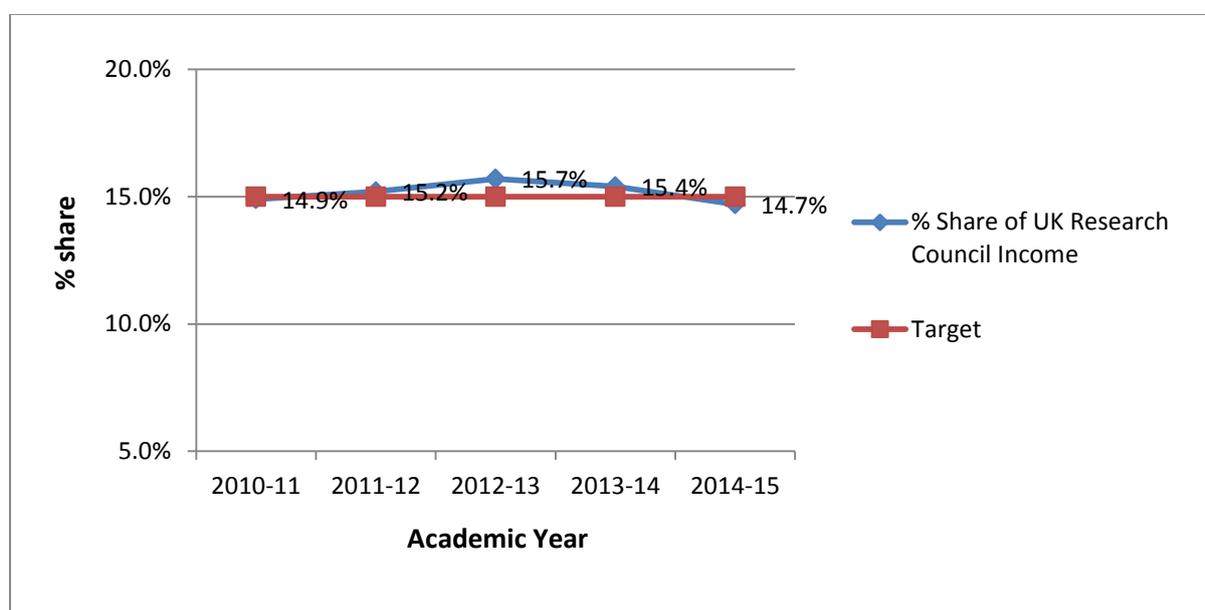
We want students to progress successfully into employment or further study with the ability, ideas, and ambition to make a difference. We have therefore given particular priority in 2015-16 to developing our partnership with Skills Development Scotland (SDS), and we have seen improvements across a range of areas. As a result, SDS's Regional Skills Assessments are now being taken into account more systematically in our Outcome Agreements with colleges and universities. We are also continuing to work closely with SDS on researching Skills Investment Plans, which aim to assess the economic and labour market situation in different sectors of the economy.

### Outcome: world-leading research

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

### Performance indicators

#### Maintain the share of UK Research Council income above 15% (AY)



Source: Higher Education Statistics Agency (HESA)

We have continued to focus our research investment on world-leading and internationally excellent research and, following the publication of the Scottish Government's draft Budget for FY 2016-17, announced our decision to maintain the level of future investment through the SFC Research Excellence Grant (REG).

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

Evidence from international rankings of research universities continues to show a strong performance from Scotland. In 2015, the Times Higher World University Rankings included five Scottish universities in the world’s top 200, more per head of population than any other country, and an improvement on the previous year where four Scottish universities appeared. The university sector also continues to maintain its share of UK Research Council income at a level that is well above Scotland’s population share of the UK, albeit showing a small decline in AY 2014-15.

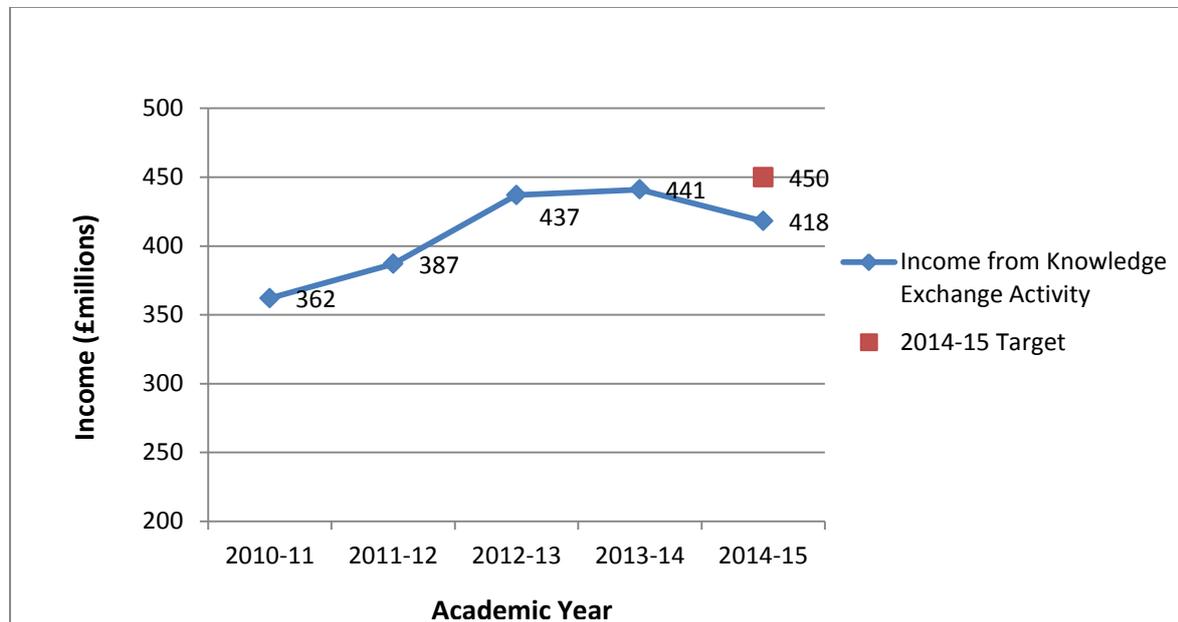
A priority during the last year has been to work with our partners across the UK to maintain the UK ‘dual support’ system for funding research, which benefits Scotland’s universities and the competitiveness of its research.

### Outcome: Greater innovation in the economy

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

#### Performance indicators

Increase income from knowledge exchange activity (AY)<sup>6</sup>



Source: Higher Education Statistics Agency (HESA)

We have continued to invest in strategic initiatives aimed at improving university-business interaction and, through that, greater business innovation: in particular,

<sup>6</sup> We intend to replace this indicator with new indicators, which better measure the contribution of universities to innovation in Scotland. We have therefore not set a target for beyond AY 2014-15.

through our planned investment of over £120 million in Innovation Centres in key sectors of the economy, and through SFC's Innovation Voucher Scheme. Our annual review of Innovation Centres in AY 2015-16, together with engagement through their first 70 industry/academia projects, shows encouraging signs of progress.

We undertook a major review of our Knowledge Transfer Grant during the year and, following consultation with universities and other stakeholders, announced the introduction of a new University Innovation Fund for AY 2016-17. The new fund is intended to help transform the innovation environment in Scotland and make it work by placing a greater focus on the achievement of successful outcomes.

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

Notwithstanding the small drop in the measure of income from knowledge exchange activity in AY 2014-15, evidence from the Higher Education Statistics Agency's survey of higher education - business interaction shows a significant improvement in 2015, with an increase of 20% in the number of 'spin-out' companies from universities in AY 2014-15. We also measure progress using a proxy measure of innovation: the total volume of income generated by universities from knowledge exchange activity. This measure continued to remain high in AY 2014-15.

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

Our purpose here is to ensure that:

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

One of our main activities in 2015-16 was working strategically with the Scottish Government on preparations for the 2015 Spending Review and our planning for the publication of our outcome agreement funding for universities for AY 2016-17. Following the publication of the draft Scottish Budget, we published successfully our indicative funding allocations for universities for AY 2016-17 in February 2016. We were able to protect, as far as possible, the core allocations for teaching and research and have allocated resources strategically on our outcome agreement priorities for teaching and learning, research, and innovation.

In the college sector, we undertook work in partnership with the leadership of the college sector to consider the impact of demography on future capacity and funding, and looked at opportunities to improve the learner journey. We provided advice to the Scottish Government on these issues in February 2016.

We also introduced successfully a new, simplified funding method for colleges in 2015-16, which allows us to target resources more effectively on areas of greatest need.

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

In terms of our own financial operations, following an organisational restructuring in October 2015, we brought together our funding, institutional finance and governance, and finance teams into the same directorate. This change ensures that we now have a single Director who is able to take an overview of all aspects of our finance and allows us to deliver better our new Strategic Plan commitment to managing our resources effectively. The change has led already to improvements in communication and collaboration across the finance area, and between the finance and the outcome agreement areas of work.

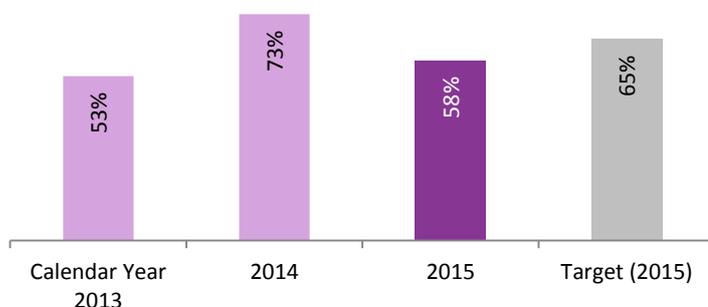
During the early part of the year, we identified a net £10 million over-commitment in our AY 2015-16 funding of universities. We worked to manage the over-commitment without detriment to the university sector and, following an internal audit, took steps to make improvements to our finance operations. One of the key changes was the introduction of a new SFC Finance Committee. The Committee is helping to improve the scrutiny of the annual budgets for programme funds and the financial position of SFC to ensure that it is able to meet its commitments and strategic objectives.

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

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

## Performance indicators

### Staff engagement<sup>7</sup>



Source: SFC

During FY 2015-16, we faced considerable pressure within the organisation on our staffing capacity as a result of a range of issues, including new work priorities, the consequences of the Office of National Statistics (ONS) reclassification of incorporated colleges, the Spending Review, and the need to respond to governance failures in the college sector. We prioritised our resources to allow us to respond to these additional demands effectively.

We have made significant progress in developing our organisation over the last year. We restructured the organisation to allow us to deliver our new Strategic Plan; in particular, we simplified the structure of the organisation and introduced larger, more coherent groups which has helped to improve communication and help staff work together more effectively across the organisation.

We have introduced the Scottish Government's 3-Step Improvement Framework into the organisation and have prioritised improvements in the way in which we use evidence, achieve change through Outcome Agreement's, and manage our money.

In the context of our work on environmental sustainability, we achieved a Gold Award in the NUS Green Impact Accreditation Framework and exceeded the targets in our Carbon Management Plan.

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<sup>7</sup> Staff engagement is calculated using data from annual surveys of staff.

We undertook a staff survey towards the end of the year. The results highlighted strong staff commitment to the work of SFC, but showed a decline in staff engagement. We have used the results as a basis for working with staff to identify ways to improve performance.

A handwritten signature in dark ink that reads "Laurence Howells". The script is cursive and fluid.

**Laurence Howells**  
Accountable Officer

Date: 17 June 2016

## Financial Performance Report

The Council's funding grant disbursements and operating costs for the year ended 31 March 2016 are contained in the financial statements in Section 3. The accounts have been prepared under a direction issued by the Scottish Ministers in accordance with paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005. The accounts comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FRM).

The Council's net expenditure for the year was £1,643,799,000 (2014-15: £1,681,501,000). Grants are disbursed and expenditure incurred in relation to the Council's Strategic Plan priorities.

The running cost expenditure of the Council for the year was £7,649,000 (2014-15: £8,013,000) being staff costs of £5,293,000 (2014-15: £5,420,000) (note 4), other operating charges of £2,204,000 (2014-15: £2,394,000) (note 7), depreciation of £35,000 (2014-15: £71,000) (note 5) and amortisation costs of £117,000 (2014-15: £128,000) (note 6).

Other operating income totalled £10,606,000 (2014-15: £29,566,000). This relates to the clawback of grant income from institutions of £4,399,000 (2014-15: £6,395,000) (note 10), other grant income of £972,000 (2014-15: £22,050,000) (note 11) and European Social fund income of £5,235,000 (2014-15: £1,121,000) (note 9).

## Statement of financial position

### *Property, plant and equipment*

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

Expenditure on capital assets during the year was £nil (2014-15: £81,000) (note 5).

### *Intangible assets*

The Council's intangible assets are IT software and software licences. Expenditure during the year totalled £74,000 (2014-15: £175,000) (note 6).

### *Non-current assets*

Recoverable grants due after one year decreased to £2,843,000 (as at 31 March 2015: £3,169,000) due to repayments.

### ***Current assets***

Trade and other receivables increased to £3,993,000 (as at 31 March 2015: £3,359,000) (note 12 and 13).

### ***Cash balance***

The SFC aims to distribute the funds received each year within that year. Our Financial Memorandum with the Scottish Government recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently, we are permitted to carry forward limited cash balances. The Statement of Financial Position as at 31 March 2016 shows a cash balance of £4,663,000 (as at 31 March 2015: £4,673,000).

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 £9,860,000 (as at 31 March 2015: £9,297,000) includes a balance of £3,169,000 (as at 31 March 2015: £3,642,000) on the Institution Advances Reserve. The movement on reserves arises from an excess of income over expenditure.

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

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

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

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

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

An analysis of the Council's payment performance for the year to 31 March 2016 indicated that 97.0% (2014-15: 96.5%) of invoices were paid within 10 days of the presentation of a valid invoice and 99.6% (2014-15: 99.3%) 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 2016 our figure for 'creditor days' was 0.62 days (2014-15: 1.11).

### ***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 2015 to 31 March 2016 was £67,000 (2014-15: £68,175). No non-audit services were supplied during the year.

## Sustainability Report

The following table summarises our environmental performance data.

	FY 2015-16			FY 2014-15		
		CO <sub>2</sub> tonnes per annum	Attributable expenditure (£)		CO <sub>2</sub> tonnes per annum	Attributable expenditure (£)
Emissions scope 2 (indirect) - electricity	165,395 kWh	90.42	16,247	207,910 kWh	113.66	35,203
Emissions scope 3 Waste category (a) (total waste)	985 bags	4.24	2,971	1,434 bags	6.17	1,366
Emissions scope 3 (travel)	195,209 miles	27.85	66,420	214,446 miles	32.79	62,379
<b>Total</b>		<b>122.51</b>	<b>85,638</b>		<b>152.62</b>	<b>98,948</b>

**Target for 2015-16 per SFC Carbon Management Plan:** 137.36 tonnes CO<sub>2</sub> (10% reduction on 2014-15)

### Energy

Overall our energy usage during FY 2015-16 has reduced. Our total usage this year was 90.42 tonnes of CO<sub>2</sub> (2014-15: 113.66), decrease of 20%. Floor level metering has been installed by the landlord and the individual tenant monitoring of consumption was provided for the second year, which enabled us to monitor and compare our consumption more accurately. The reduction in CO<sub>2</sub> usage is a consequence of the introduction of internal changes to the building requested by SFC and energy saving initiatives by both our Green Impact and Information Systems teams.

### Information technology

SFC has implemented its own private cloud which is hosted across SFC's local Data Centre in both its offices at Haymarket in Edinburgh and at its continuity service in the Scottish Government's Data Centre at Saughton House, Edinburgh. This deployment model fits with guidance provided in "Scotland's Digital Future: Data Hosting and Data Centre Strategy for the Scottish Public Sector" (<http://www.gov.scot/Resource/0044/00449265.pdf>).

SFC's private cloud is hosted on a virtualised infrastructure across 8 physical hosts, 4 at Saughton House and 4 in SFC's own offices. There are between 40 to 60 production virtual machines (servers) running across these hosts, thus providing significant savings over the power needed for 40 to 60 physical servers. This design also offers excellent resilience.

SFC is involved in an ongoing liaison with the Scottish Government Digital Public Services and Business Transformation Division to ensure it has access to Data Centre

best practice guidance and to annually measure the total cost of ownership of its Data Centres (Private Cloud).

## Waste

Our paper consumption in FY 2015-16 was 497,500 sheets. This is a decrease on 2014-15 (527,500) of 6%. Recycling of paper in 2015-16, which now includes cardboard, was 14.7 tonnes (2014-15: 11.1 tonnes). During 2015-16 we recycled 45.75kgs of aluminium cans (2014-15: 28.5kgs) and 411kgs of plastic bottles and tetra drinks cartons (2014-15: 258kgs). Total waste for 2015-16 was 19.39 tonnes, of which 15.15 tonnes (78%) was recycled, an increase of 18% on 2014-15.

This has been a very good year: consumption of paper and disposal of non-recyclable waste have both decreased whilst all areas of recycling have increased. Facilities are still in place to recycle glass, however these services are run by the landlord for all tenants of the building and we have no data for these.

	2015-16 Tonnes	2014-15 Tonnes
Total waste	19.39	19.03
Waste to landfill	4.24	7.65
Waste recycled at source	15.15	11.38
Percentage of total waste recycled at source	78.1	59.8

## Water

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

## Travel

Car mileage has decreased by 26%, train travel by 3% and air travel by 25% from FY 2014-15 due to staff being encouraged to make better use of phone and video conferencing facilities.

## Key activities and progress in Financial Year 2015-16

SFC sponsors the Student Engagement Award at the Green Gown Awards. Scottish colleges and universities won six “Winner” and “Highly Commended” awards at the 2015 award ceremony. The honours were shared between five institutions, with:

- Edinburgh College winning the SFC-sponsored Student Engagement award as well as a highly commended for its eCar project.
- University of Edinburgh (winner) for its sustainable laboratories initiative.
- Dundee and Angus College (winner) for carbon reduction.

- Fife College (winner) for best newcomer with its eco-salon.
- University of St Andrews (highly commended) for its Transition Towns project.

Within the organisation, we have continued to promote sustainability activity and communications to staff throughout the year in support of various national campaigns; for example, Fair Trade Fortnight, Earth Hour 2015, and Training in how to reduce food waste.

We have made significant progress in FY 2015-16:

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

### **Biodiversity and social responsibility**

Through staff awareness campaigns we encourage staff to support environmental and social responsibility initiatives. We took part in “Tree Time” in August 2015, giving time to help Edinburgh and Lothians Greenspace Trust by pulling up Himalayan Balsam, a non-native plant that invades river banks, waste land and gardens, and smothers other vegetation.

Staff are also offered two volunteering days each year to use their business skills to help charities, and we allowed staff to use flexi time to take part in Sport Relief on 22 March 2016.

During the year, we took part in the Edinburgh Jobs, Education and Training (JET) initiative, which aims to reduce youth unemployment, by providing work experience for a young person, who worked with us on Fridays during school terms from 25 September 2015 to 29 April 2016. We continue to be a Pioneering Partner in MCR Pathways, a mentoring programme that works to change the lives of some of Glasgow’s most disadvantaged young people.

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

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

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

A handwritten signature in black ink that reads "Laurence Howells". The script is cursive and fluid.

**Laurence Howells**  
Accountable Officer

Date: 17 June 2016

## SECTION 2: THE ACCOUNTABILITY REPORT

### Directors' Report

#### SFC's structure

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

In FY 2015-16, membership of the board was as follows:

<b>Chair</b>	Professor Alice Brown CBE
<b>Chief Executive</b>	Laurence Howells
<b>Members</b>	Robin Crawford Audrey Cumberford Alison Jarvis (term of office ended 3 October 2015) Professor Maggie Kinloch Paul Little (term of office started 4 October 2015) Paul McKelvie OBE (term of office ended 3 October 2015) Lorraine McMillan Douglas Mundie Professor Anton Muscatelli Dr Keith Nicholson Veena O'Halloran (term of office started 4 October 2015) Professor Albert Rodger Alan Stannett (term of office ended 3 October 2015) Caroline Stuart (term of office started 4 October 2015) Marlene Wood

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

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

SFC's executive employs 104 staff at a single location in Edinburgh. The executive is structured into four Directorates:

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

- Corporate Services

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

### **Estate strategy**

SFC leases office accommodation at 97 Haymarket Terrace in Edinburgh. The current lease ends in June 2017 and we have commenced planning to secure our future accommodation requirements.

### **Information security**

There have been no breaches of data security or reported incidents of loss of personal data by the Council during FY 2015-16.

### **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 2016 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 2016 and of its net resource outturn, application of resources, changes in taxpayers' equity, and cash flows for the financial year.

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

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

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

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

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

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

## The Governance Statement

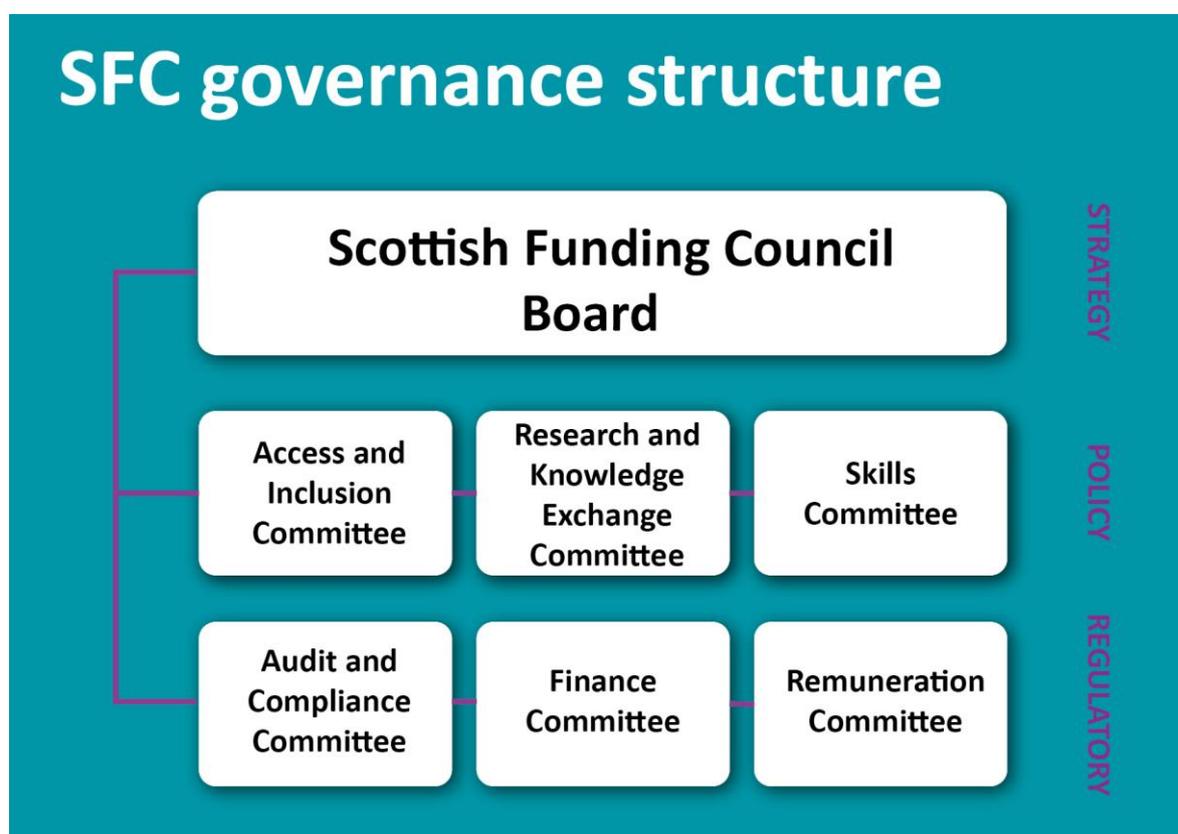
### Introduction

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

The purpose of the Governance Statement is to explain the composition and organisation of SFC's governance structures and how they support the achievement of SFC's objectives. It sets out the governance structures, risk management and internal control processes that have been operating in SFC during FY 2015-16 and reports my assessment of the effectiveness of these arrangements.

### Governance framework

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



Members of the SFC Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of the Council's affairs. Members have full and timely access to all relevant information to enable them to perform their roles

effectively. Members' roles and responsibilities are described in the *Code of Conduct for members of the Scottish Further and Higher Education Funding Council*. A register of members' interests is available on the Council's website at [Committees and advisory groups](#).

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

### Board effectiveness

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

In FY 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. Following consideration of the results in June 2015, the Board agreed a development plan to take forward the main outcomes.

### Committees of Council

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

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

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

The **Skills Committee** is a joint committee with Skills Development Scotland (SDS), advising both Boards on skills needs of, and policies for, Scotland. The Committee collects monitors and evaluates evidence on skills needs in Scotland and on the

supply of, and demand for, learning and training solutions. Its advice informs the development of outcome agreements with colleges and universities.

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

The Council is advised on risk, internal control and governance matters by its **Audit and Compliance Committee**. The Committee's responsibilities include: 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 **Finance Committee** was established in October 2015 and has a remit to review the Council's financial strategy, scrutinise the annual budgets for programme funds, scrutinise the financial position of the Council, and review the annual report and accounts for consistency with financial information reviewed by the Committee during the year.

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

Each committee provides an annual report to the Board on their activities and their effectiveness during the year. For FY 2015-16 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 FY 2015-16 is shown in the table on page 38.

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

## Council members' attendance at meetings

<b>Council members' attendance at Council and Committee meetings</b>	<b>Council</b> <i>Nine meetings</i>	<b>Access and Inclusion</b> <i>Four meetings<sup>8</sup></i>	<b>Research and Knowledge Exchange</b> <i>Four meetings</i>	<b>Skills</b> <i>Four meetings</i>	<b>Audit and Compliance</b> <i>Four meetings</i>	<b>Finance</b> <i>Five meetings</i>	<b>Remuneration</b> <i>Four meetings</i>
Professor Alice Brown (Chair)	9c						
Laurence Howells (Chief Executive)	9						
Robin Crawford	8				2c of 2	5c	2c of 2
Audrey Cumberford	7	3					
Alison Jarvis	4 of 5	2c of 2					
Professor Maggie Kinloch	6	3 (1c)					2 of 2
Paul Little	4 of 5			1 of 1	1 of 2		
Professor Anton Muscatelli	6			2		1 of 4	1 of 2
Paul McKelvie	4 of 5			2(c) of 2			
Lorraine McMillan	7	1 of 2		4 (2c)			
Douglas Mundie	8		4	2 of 3		5	2c of 2
Dr Keith Nicholson	5		3		2		
Veena O'Halloran	3 of 4	2 of 2					2 of 2
Professor Albert Rodger	8		4c				
Alan Stannett	5 of 5				2 of 2		2 of 2
Caroline Stuart	4 of 4				2 of 2		
Marlene Wood	8				4 (2c)		2 of 3
<i>c = Chairperson</i>							

<sup>8</sup> The Access and Inclusion Committee held four meetings in 2015-16: three of these meetings were chaired by SFC Board members; one meeting was chaired by John Kemp, Director of Access, Skills and Outcome Agreements.

## Assessment of corporate governance

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

## Risk management

The Council's risk management strategy is to:

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

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

During the year, we undertook a self-assessment of our arrangements for managing risk using a 'risk maturity' model developed by Scottish Natural Heritage. The self-assessment was undertaken by a risk management group, consisting of ten members of staff from across the organisation at different levels of responsibility. A senior member of staff from the Scottish Qualifications Authority (SQA) also joined the group to provide an external perspective and a degree of 'challenge'. As a result of the self-assessment, we developed, and have been implementing, an improvement plan for risk management.

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

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

Individual projects have their own risk registers.

### **Information governance**

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

### **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 six reviews in FY 2015-16, none of which identified any major control weakness. Implementation of internal audit recommendations is closely monitored and reported to each meeting of the Audit and Compliance Committee. In addition, our internal auditor carries out an independent review of progress with implementation to validate the executive's monitoring and reporting. The majority of internal audit recommendations have been implemented.

### **Significant Issues**

The following table lists the significant issues in FY 2015-16 and the actions taken by SFC to manage the issues.

<i>Significant issue</i>	<i>Actions</i>
<p>1. <b>Governance arrangements in the college sector:</b> there were three areas of concern:</p> <ul style="list-style-type: none"> <li>• Glasgow Colleges’ Regional Board and its progress in achieving ‘fundable body’ status.</li> <li>• Governance arrangements at Glasgow Clyde College</li> <li>• Governance of severance arrangements at the former Coatbridge College in 2013 and criticisms of SFC by the Scottish Parliament Public Audit Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• We seconded a Senior Director to Glasgow Colleges’ Regional Board to provide dedicated support to help achieve faster progress.</li> <li>• We provided advice to the Scottish Government in the case of Glasgow Clyde College and worked intensively with the management of the college to protect the interests of students.</li> <li>• We worked closely with the Cabinet Secretary and the College Good Governance Task Group to develop our approach to governance in the sector. We published new College Severance Guidance in line with the requirements of the Scottish Public Finance Manual.</li> </ul>
<p>2. <b>Achievement of student number targets in the college sector:</b> Edinburgh College told us towards the end of the year that it did not expect to meet its activity target which, in turn, threatened the achievement of the sector target for AY 2015-16.</p>	<ul style="list-style-type: none"> <li>• Following consultation with colleges, we reallocated credits to other college regions in order to meet the overall sector target.</li> <li>• We continue to work closely with Edinburgh College to ensure it achieves a sustainable financial position.</li> </ul>
<p>3. <b>Instances of fraud in the sectors:</b> we received six notifications of fraud at institutions.</p>	<ul style="list-style-type: none"> <li>• We fully support the Scottish Government’s work to minimise fraud risk and fraud itself. We have experienced no frauds internal to SFC in the year. We require organisations that we fund to advise us of any frauds. We received six such notifications during the year, most of which were staff-related frauds. One was due to a cheque payee detail being amended. Losses arose in some cases and there was full cost recovery in others. In</li> </ul>

		no case did the reported incident result in a change to an institution's funding. We work with the institutions affected to manage any issues arising.
4	<b>Budgeting of higher education programme funds:</b> during the early part of the year, we identified a net £10 million over-commitment in our 2015-16 Academic Year funding of universities.	<ul style="list-style-type: none"> <li>We worked to manage the over-commitment without detriment to the university sector and, following an internal audit, took steps to make improvements to our finance operations. We also introduced a new SFC Finance Committee to improve the scrutiny of the annual budgets for programme funds.</li> </ul>
5.	<b>Internal capacity:</b> the Scottish Government's Budget for 2016-17 indicated a reduction of £400,000 in SFC's running cost budget, which requires the organisation to reduce its costs, re-prioritise its work, and ensure that it has the right skills in the right place to deliver its Strategic Plan and Scottish Government priorities.	<ul style="list-style-type: none"> <li>We have carefully reviewed all areas of our operations to identify cost-saving opportunities which can be achieved without significant impact on achievement of the Strategic Plan, the most significant reductions being in respect of information technology and office services. In the medium term we are aiming to achieve savings from our new accommodation arrangements.</li> </ul>
6.	<b>Stakeholder relationships:</b> our new Strategic Plan emphasises the priority which SFC will give to partnership working to deliver its new Strategic Plan.	<ul style="list-style-type: none"> <li>We have given significant attention to stakeholder relationships, including enhancing our relationships with Scottish Government and bodies such as Skills Development Scotland. The executive prepared a stakeholder engagement strategy, which was considered by the Board in January 2016 and is now being implemented.</li> </ul>

## 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 2016, 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 2016, 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 2016 and up to the date of approval of the annual report and accounts.



**Laurence Howells**  
Accountable Officer

Date: 17 June 2016

## Remuneration and Staff Report

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 directors 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 of the Remuneration Committee consists of three 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. In 2015-16 Scottish Government pay policy for Chief Executives of NDPBs allowed for a base pay increase of 1% and pay progression of up to 1.5%.

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 2015-16 is detailed on page 31.

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

	Year ended 31 March 2016 £'000		Year ended 31 March 2015 £'000
Salary and allowances	306		295
Social security costs	25		25
Other pension costs	29		29
	<b>360</b>		<b>349</b>

**\*Council membership for the period 1 April 2015 to 31 March 2016**

<b>Member</b>	<b>Appointment start date</b>	<b>Appointment end date</b>	<b>Remuneration year ended 31 March 2016 £</b>	<b>Remuneration year ended 31 March 2015 £</b>
Professor Alice Brown (Chair)	3 October 2013	2 October 2017	47,424	46,953
Laurence Howells (Chief Executive)	26 April 2013	8 August 2016 <sup>9</sup>	See page 49	See page 49
Robin Crawford	3 October 2009	2 October 2017	11,789	11,672
Audrey Cumberford	3 October 2009	2 October 2017	11,789	11,672
Alison Jarvis	17 November 2008	3 October 2015	5,894*	11,672
Professor Maggie Kinloch	16 March 2012	3 October 2019	11,789	11,672
Paul Little	4 October 2015	3 October 2019	5,894*	-
Paul McKelvie OBE	10 December 2007	3 October 2015	5,894*	11,672
Lorraine McMillan**	1 September 2014	2 October 2017	11,789	6,808
Douglas Mundie	1 September 2014	2 October 2017	11,789	6,857
Professor Anton Muscatelli	16 March 2012	3 October 2019	11,789	11,672
Dr Keith Nicholson	16 March 2012	3 October 2019	11,789	11,672
Veena O'Halloran	4 October 2015	3 October 2019	5,894*	-
Professor Albert Rodger	3 October 2009	2 October 2017	11,789	11,672
Alan Stannett	10 December 2007	3 October 2015	5,894*	11,672
Caroline Stuart	4 October 2015	3 October 2019	5,894*	-
Marlene Wood	16 March 2012	3 October 2019	11,789	11,672

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

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

As at 31 March 2016 there were 14 council members of whom 7 were females and 7 were males.

Council members attendance at meetings are given on page 38.

<sup>9</sup> Laurence Howells has given notice to retire and will leave the organisation on 8 August 2016.

## Chief Executive

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

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

In February 2016, the Chief Executive gave his notice to retire and will leave the organisation on 8 August 2016.

## 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.

In May 2015, Martin Fairbairn, Senior Director and Secretary to the Council, went on secondment to Glasgow Colleges' Regional Board. A part-time secondee from Napier University joined the Council for the period 19 May to 13 November 2015 to act as Interim Secretary to the Council.

Martin Fairbairn's secondment was extended beyond the original period and, following the introduction of a new organisational structure in October 2015, arrangements were made to fill his revised post in the new structure in November 2015. This was done following interview and the role was shared 50:50 between two SFC Assistant Directors:

- Dee Bird was appointed as Interim Secretary to the Council whilst retaining 50% of her work as Assistant Director.
- Helen Gibson was appointed as Interim Chief Operating Officer for 0.5FTE and the balance of her contracted hours were retained to spend on her Assistant Director duties.

Both these interim posts were extended up to 30 April 2016 to provide a handover period while Martin Fairbairn returned to SFC during April 2016.

As a result of the organisational restructuring exercise, there was a reduction of SFC's operating groups from five directorates to four. This took effect from 1 October 2015 and the previous Chief Executive's Group, which was composed of all five group heads, the Chief Executive and additional managers, was disbanded. It was replaced by the SMT which comprises all four Directors and the Chief Executive. During the period November 2015 to 31 March 2016 there have been five members of SMT (noting that Martin Fairbairn was on secondment and his role was being filled on an interim basis through a job share).

Riona Bell, Director of Finance and Corporate Resources, retired on 30 September 2015. She was replaced by Lorna MacDonald who started on 14 September 2015.

On 30 November 2015, Paul Hagan, Director of Research and Innovation, resigned from his post. He was initially replaced by Stuart Fancey on an interim basis on 16 November 2015 and then on a permanent basis from March 2016.

## \*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) <sup>10</sup>		Total (£'000)	
	2015-16	2014-15	2014-15	2015-16	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Laurence Howells (Chief Executive)	115-120	115-120	-	-	-	-	29,000	17,000	145-150	130-135
Dee Bird (Interim Secretary to the Council) <sup>11 12</sup>	15-20	-	-	-	-	-	3,000	-	15-20	-
Martin Fairbairn (Chief Operating Officer) <sup>13</sup>	110-115	110-115	-	-	-	-	28,000	23,000	140-145	130-135
Stuart Fancey (Director of Research and Innovation) <sup>12 14</sup>	30-35	-	-	-	-	-	8,000	-	35-40	-
Helen Gibson (Interim Chief Operating Officer) <sup>12 15</sup>	15-20	-	-	-	-	-	3,000	-	15-20	-
John Kemp (Director of Access, Skills and Outcome Agreements) <sup>12</sup>	95-100	-	-	-	-	-	24,000	-	120-125	-
Lorna MacDonald (Director of Finance) <sup>12 16</sup>	50-55	-	-	-	-	-	13,000	-	65-70	-
Riona Bell (Director of Finance and Corporate Resources) <sup>12 17</sup>	35-40	-	-	-	-	-	10,000	-	45-50	-
Paul Hagan (Director of Research and Innovation) <sup>12 18</sup>	65-70	-	-	-	-	-	16,000	-	85-90	-

<sup>10</sup> The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights.

<sup>11</sup> Dee Bird was appointed as Interim Secretary to the Council on 9 November 2015 whilst retaining 50% of her work as Assistant Director her composite salary was £65-70k 0.5FTE at Director salary of £75-80k with the balance at 0.5 of her Assistant Director salary.

<sup>12</sup> There are no prior year figures given because these staff members were not part of the Senior Management Team in 2015-16.

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

<sup>14</sup> Stuart Fancey was appointed Interim Director on 16 November 2015. Full year salary £75-80k. On the 23 March 2016 he was promoted to the substantive post of Director of Research and Innovation on a salary of £75-80k.

<sup>15</sup> Helen Gibson was appointed as Interim Chief Operating Officer on 9 November 2015 for 0.5FTE and the balance of her contracted hours were retained to spend on her Assistant Director duties. Her composite salary to 31hrs per week was £55-60k (0.5 of £75-80k plus the balance at her Assistant Director salary).

<sup>16</sup> FYE £95-100k

<sup>17</sup> FYE £95-100k

<sup>18</sup> FYE £95-100k

## **Pay multiples**

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

The banded remuneration of the highest-paid director in the SFC in the financial year 2015-16 was £115-120,000 (2014-15: £115-120,000). This was 3.45 times (2014-15: 3.44) the median remuneration of the workforce, which was £34,059 (2014-15: £34,053).

In 2015-16, nil (2014-15: nil) employees received remuneration in excess of the highest paid director. Remuneration ranged from £18,750 to £117,300 (2014-15: £20,103 to £117,300).

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

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

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

	<b>Real increase in pension and related sum at pension age</b>	<b>Total accrued pension at pension age as at 31 March 2016 and related lump sum</b>	<b>CETV at 31 March 2016</b>	<b>CETV at 31 March 2015 or start date</b>	<b>Real increase in CETV</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Laurence Howells Chief Executive	0-2.5 plus lump sum of 2.5-5	50-55 plus lump sum of 155-200	1,127	1,123	26
Dee Bird Interim Secretary to the Council	0-2.5	-	37	19	10
Martin Fairbairn Chief Operating Officer	0-2.5 plus lump sum of 5-7.5	30-35 plus lump sum of 95-100	611	536	25
Stuart Fancey Director of Research and Innovation	2.5-5	15-20	238	170	51
Helen Gibson Interim Chief Operating Officer	0-2.5 plus lump sum of 2.5-5	10-15 plus lump sum of 35-40	178	142	22
John Kemp Director of Access, Skills and Outcome Agreements	0-2.5	30-35	509	449	24
Lorna MacDonald Director of Finance	0-2.5	-	14	-	10

## Civil service pensions

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

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

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

end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

### Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

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

For FY 2015-16, employer's contributions of £934,407 (2014-15: £850,276) were payable to the PCSPS at one of four rates in the range of 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 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 £2,293 (2014-15: £3,340) 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 up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £135 (2014-15: £2,272), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, 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 £2,723 (gross however this includes £135 to Cabinet Office Civil Superannuation (the mini ASLC) giving net payment to partnership pension provider of £2,588 (2014-15: £3,340). Contributions prepaid at that date were £nil.

## Staff costs (excluding Chief Executive)

Average number of FTE employees	101	3	104	103
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The Council employed 67 females and 45 males as at 31 March 2016. The Chief Executive is a male employee, and there are one female and three male Directors (one of whom was on secondment, during which time his job was undertaken by two females on a 50% part-time basis each).

## Disclosure of exit packages

Reporting of Civil Service and other compensation schemes – exit packages

SFC had one non-compulsory exit during the year 2015-16. The payment made in respect of this was in line with Civil Service Compensation Scheme rules and consisted of:

Compensation for loss of office	£25,990
Contractual notice in lieu	£12,995
Total	<b>£38,985</b>

## Sickness absence data

The 12-month rolling absence figure for the Council was 3.5% as at 31 March 2016 (as at 31 March 2015: 3.5%). The absence rate for public sector organisations in the same period was 4.1 % (CIPD Annual Survey Report 2015 – Absence Management).

## Staff policies applied during the financial year

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

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

The key policies which the SFC can apply are:

- Equalities
- The SFC Bullying and Harassment Policy which covers any negative action from staff towards staff with disabilities
- Disciplinary procedure

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

The Council is accredited as a Positive about disability employer which means if candidates meet the minimum criteria for a vacancy and indicate they have a disability, the Council guarantees an interview.

## **Parliamentary accountability and audit report**

This section is subject to audit.

### **Regularity of expenditure**

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

The SFC suffered no losses and made no special payments during financial year 2015-16 (2014-15: none).

### **Fees and charges**

The SFC applied no fees or charges during financial year 2015-16 (2014-15: none)

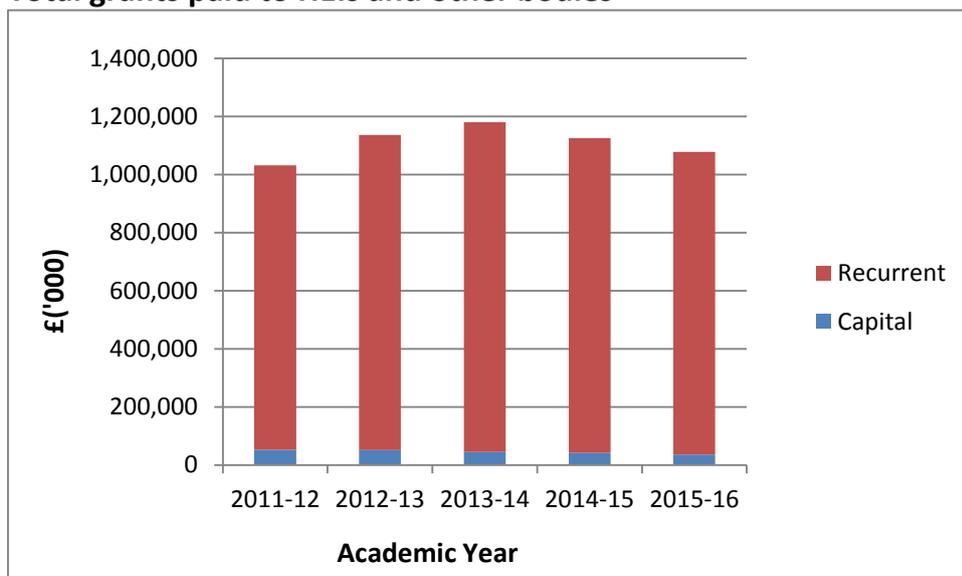
### **Remote contingent liabilities**

The SFC has no remote contingent liabilities.

### **Long-term expenditure trends**

The Statement of Comprehensive Net Expenditure shows that total grants paid to HEIs and other bodies in year was £1,078 million, a decrease of 4% compared to the prior year (2014-15: £1,125 million). The year on year change shown above relates to a re-profiling between academic year and financial year ends to reflect more accurately the academic year expenditure profile and did not affect the academic year allocation to the higher education sector. The 5-year HEIs and other bodies expenditure graph on page 58 shows that expenditure was £1,032 million in 2011-12 and peaked in 2013-14 at £1,179 million.

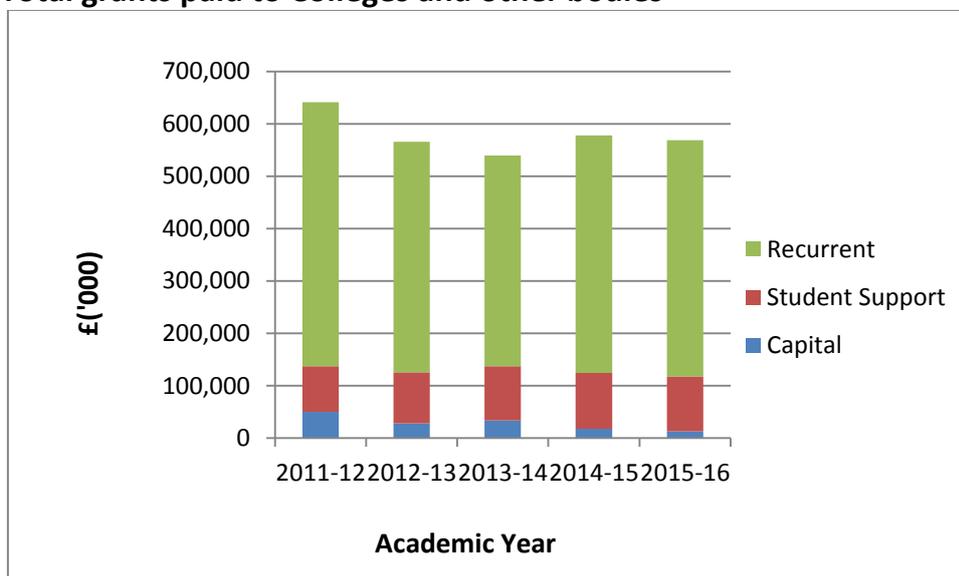
### Total grants paid to HEIs and other bodies



Source: Scottish Funding Council Accounts 2011-12 to 2015-16

Total grants paid to Colleges and other bodies was £569 million, a decrease of 2% on the prior year (2014-15 £578 million). Under the Strategic Plan 2012-15, the Council aimed to generate efficiencies of around £50 million in real terms by the 2015-16 academic year. As can be seen from the graph below the grant funding to the sector has decreased by £72.4 million since 2011-12.

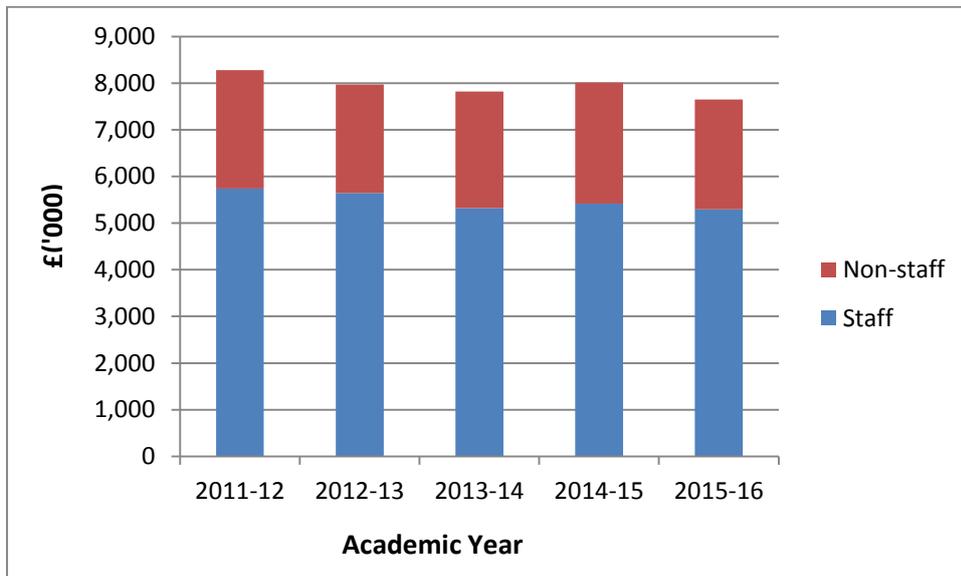
### Total grants paid to Colleges and other bodies



Source: Scottish Funding Council Accounts 2011-12 to 2015-16

SFC running costs were £7,649,000 in 2015-16. This is a decrease from £8,277,000 in 2011-12.

## SFC running costs



Source: Scottish Funding Council Accounts 2011-12 to 2015-16

**Laurence Howells**  
Accountable Officer

Date: 17 June 2016

## **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 2016 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 2015-16 Government *Financial Reporting Manual* (the 2015-16 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 2016 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 2015/16 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 and Staff 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 Performance Report 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 and Staff 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.



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

29 June 2016

## SECTION 3: THE FINANCIAL STATEMENTS

### Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

	Notes	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
<b>Expenditure</b>			
Grants paid to HEIs and other bodies	3	1,078,016	1,124,986
Grants paid to colleges and other bodies	3	568,630	577,866
Staff costs	4	5,293	5,420
Depreciation	5	35	71
Amortisation	6	117	128
Other operating charges	7	2,314	2,596
		<b>1,654,405</b>	<b>1,711,067</b>
<b>Income</b>			
European Social Fund income – colleges	9	(5,189)	(1,053)
European Social Fund income – SFC	9	(46)	(68)
Income from HEIs and colleges	10	(4,399)	(6,395)
Other grants	11	(972)	(22,050)
		<b>(10,606)</b>	<b>(29,566)</b>
<b>Net expenditure</b>		<b>1,643,799</b>	<b>1,681,501</b>
<b>Total comprehensive expenditure for the year</b>		<b>1,643,799</b>	<b>1,681,501</b>
<b>Funded by:</b>			
Grant-in-aid	8	1,627,056	1,666,722
Other Scottish Government grants	8	1,180	1,180
Other Government grants	8	16,125	11,639
		<b>1,644,361</b>	<b>1,679,541</b>
Surplus/(deficit) transferred to reserves		562	(1,960)
		<b>1,643,799</b>	<b>1,681,501</b>

There are no recognised gains and losses other than those recorded above.  
The notes on pages 67 to 85 form part of these accounts.

**Statement of Financial Position**  
as at 31 March 2016

	Notes	31 March 2016 £'000	31 March 2015 £'000
<b>Non-current assets</b>			
Property, plant and equipment	5	29	64
Intangible assets	6	108	151
Trade and other receivables	12	2,843	3,169
Total non-current assets		<u>2,980</u>	<u>3,384</u>
<b>Current assets</b>			
Trade and other receivables	12&13	3,993	3,359
Cash and cash equivalents	14	4,663	4,673
Total current assets		<u>8,656</u>	<u>8,032</u>
<b>Total assets</b>		<b>11,636</b>	11,416
<b>Current liabilities</b>			
Trade and other payables	15	3	7
Other liabilities	15	1,773	2,112
<b>Total current liabilities</b>		<u>1,776</u>	<u>2,119</u>
<b>Assets less liabilities</b>		<b>9,860</b>	9,297
<b>Taxpayers' equity</b>		<u><b>9,860</b></u>	<u>9,297</u>

The financial statements on pages 63 to 66 were approved by Council on 10 June 2016 and signed on its behalf by:



Laurence Howells  
Accountable Officer

Date: 17 June 2016



Alice Brown  
Chair

Date: 17 June 2016

The Accountable Officer authorised these financial statements for issue on 10 June 2016.

The notes on pages 67 to 85 form part of these accounts.

**Statement of Cash Flows**  
for the year ended 31 March 2016

	Notes	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
<b>Cash flows from operating activities</b>			
Net operating costs		(1,643,799)	(1,681,501)
Depreciation and amortisation charges	5&6	152	199
Decrease in long term debtors	12	326	473
(Increase)/decrease in trade and other receivables	13	(634)	1,532
Decrease in trade and other payables	15	(342)	(616)
<b>Net cash outflow from operating activities</b>		<b>(1,644,297)</b>	<b>(1,679,913)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	-	(81)
Purchase of intangible assets	6	(74)	(175)
<b>Net cash outflow from investing activities</b>		<b>(74)</b>	<b>(256)</b>
<b>Cash flows from financing activities</b>			
Grant-in-aid	8	1,627,056	1,666,722
Other Scottish Government grants	8	1,180	1,180
Other Government grants	8	16,125	11,639
<b>Net cash inflow from financing activities</b>		<b>1,644,361</b>	<b>1,679,541</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(10)</b>	<b>(628)</b>
<b>Cash and cash equivalents at 1 April 2015</b>	14	<b>4,673</b>	5,301
<b>Cash and cash equivalents at 31 March 2016</b>	14	<b>4,663</b>	4,673
<b>Net decrease in cash</b>		<b>(10)</b>	<b>(628)</b>

The notes on pages 67 to 85 form part of these accounts.

**Statement of Changes in Taxpayers' Equity**  
for the year ended 31 March 2016

	Note	Year ended 31 March 2016 £'000
<b>Changes in Taxpayers' Equity 2015-16</b>		
Balance as at 1 April 2015		9,297
Net expenditure		(1,643,799)
Scottish Government grant-in-aid funding	8	1,627,056
Other Scottish Government grants	8	1,180
Other Government grants	8	16,125
<b>Balance at 31 March 2016</b>		<b><u>9,860</u></b>
<b>Changes in Taxpayers' Equity 2014-15</b>		
Balance as at 1 April 2014		11,257
Net expenditure	8	(1,681,501)
Scottish Government grant-in-aid funding	8	1,666,722
Other Scottish Government grants	8	1,180
Other Government grants	8	11,639
Balance at 31 March 2015		<b><u>9,297</u></b>

General reserves include £3,169,000 (2015: £3,642,000) in respect of recoverable grants advanced to institutions (note 12)

The notes on pages 67 to 85 form part of these accounts.

## Notes to the Accounts

For the year ended 31 March 2016

### 1 Basis of Accounts

As the Scottish Funding Council is an NDPB the format of its accounts is covered by the 2015-16 *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.

European Social Fund (ESF) and European Regional Development Fund (ERDF) income are treated on a cash 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 liabilities. The scheme is accounted for as a defined contribution scheme under the multi-employer exemption permitted in IAS 19 'Employee Benefits'. The expected costs are accounted for on a systematic and rational basis over the period during which the Council benefits from employees' services by payment to the PCSPS of an amount calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

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

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

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

### **Financial guarantees**

In accordance with IAS 39, financial guarantees are considered for recognition as liabilities. The likelihood of a liability occurring is considered to be remote therefore the financial guarantees have been treated as a contingent liability in line with IAS 37 and are not recorded on the balance sheet. See note 21.

### 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 institutions are to 31 July 2015. Grants to institutions for the period up to 31 March 2016 are yet to be verified by institutions and their auditors to ensure that grant-in-aid receipts from the Council have been used for their intended purpose. Any material differences arising, which are related to the regularity of grant-in-aid for the period covered by these accounts, will be subject to adjustment in subsequent financial years. Subject to the above, grant-in-aid receipts received from the sponsor department have been applied for their intended purpose.

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

<b>Grants paid to HEIs and other bodies</b>	<b>Year ended 31 March 2016</b>	<b>Year ended 31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Recurrent grants	1,042,405	1,083,238
Capital grants	35,611	41,748
	<b><u>1,078,016</u></b>	<b><u>1,124,986</u></b>

The year on year change shown above relates to a re-profiling between academic year and financial year ends to reflect more accurately the academic year expenditure profile and did not affect the academic year allocation to the higher education sector.

<b>Grants paid to colleges and other bodies</b>	<b>Year ended 31 March 2016</b>	<b>Year ended 31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Recurrent grants	450,830	453,377
Bursary and student support payments	104,770	106,397
Capital and major works	13,030	18,092
	<b><u>568,630</u></b>	<b><u>577,866</u></b>

#### 4 Staff costs (excluding Chief Executive)

##### a) Salaries and related costs

	Year ended 31 March 2016			2015
	Directly employed staff	Seconded and agency staff	Total	Total
	£'000	£'000	£'000	£'000
<b>Cost of employing staff:</b>				
Wages and salaries	3,938	168	4,106	4,298
Social security costs	336	2	338	333
Other pension costs	844	5	849	789
	<b>5,118</b>	<b>175</b>	<b>5,293</b>	5,420

##### 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 2016, £8,150 (as at 31 March 2015: £7,336) was outstanding and this related to 9 members of staff. This amount is included in the other debtors figure in note 13.

## 5 Property, plant and equipment

	Furniture and fittings £'000	ICT £'000	Other equipment £'000	Total £'000
<b>Historic cost</b>				
At 1 April 2015	206	490	61	757
Additions	-	-	-	-
Disposals	-	(36)	-	(36)
At 31 March 2016	206	454	61	721
<b>Depreciation</b>				
At 1 April 2015	201	431	61	693
Provided during the year	1	34	-	35
Disposals	-	(36)	-	(36)
At 31 March 2016	202	429	61	692
<b>Net Book Value</b>				
<b>At 31 March 2016</b>	<b>4</b>	<b>25</b>	<b>-</b>	<b>29</b>
At 1 April 2015	5	59	-	64
<b>Historic cost</b>				
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
<b>Depreciation</b>				
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
<b>Net Book Value</b>				
At 31 March 2015	5	59	-	64
At 1 April 2014	31	23	-	54

## 6 Intangible assets

Intangible assets comprise IT software and software licences

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

## 7 Other operating charges

	Year ended 31 March 2016			2015
	Running	Sectoral	Total	Total
	cost	expenditure		
	£'000	£'000	£'000	£'000
Operating leases – property rental	470		470	470
Accommodation costs	360		360	437
Council members' remuneration	360		360	349
Other support costs	569		569	610
Publication costs	31		31	24
Staff recruitment and training	87		87	144
Travel and subsistence				
– Council members	9		9	10
– Staff	79		79	82
Legal costs	149		149	127
External Audit fee	27	41	68	68
Professional services		69	69	197
Equipment and consumables	33		33	49
Hospitality costs				
– Council members	4		4	4
– Staff	12		12	14
Committee costs	14		14	11
	<b>2,204</b>	<b>110</b>	<b>2,314</b>	<b>2,596</b>

Sectoral expenditure has been used to meet operating charges where the benefit is to institutions within the Scottish further and higher education sectors. £69,000 (2014-15: £197,000) of this expenditure relates to professional services and their associated costs. These professional services are commissioned in accordance with the conditions of an agreement between the Council and Scottish Government that covers the use of funds for distribution to acquire consultancy and professional services.

## 8 Government grant-in-aid received

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
a) Funds from Scottish Government for:		
HEI and other bodies	1,036,863	1,087,350
Colleges and other bodies	545,483	527,202
Capital	36,541	44,501
Council running costs	8,169	7,669
	<u>1,627,056</u>	<u>1,666,722</u>

The year on year change shown above relates to a re-profiling between academic year and financial year ends to reflect more accurately the academic year expenditure profile and did not affect the academic year allocation to the higher education sector.

b) Other Scottish Government Grants Sabhal Mor Ostaig	<u>1,180</u>	<u>1,180</u>
c) Other Government Grants Funds from Department for Business Innovation and Skills for Research Capital	<u>16,125</u>	<u>11,639</u>

## 9 Income from European Social Fund (ESF)

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
ESF income received – colleges	5,126	587
European Regional Development Fund income received	<u>63</u>	<u>466</u>
	5,189	1,053
ESF income received - SFC	46	68
	<u>5,235</u>	<u>1,121</u>

## 10 Income from higher education institutions and colleges

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Clawback from colleges	2,576	4,367
Clawback from higher education institutions	1,823	2,028
	<u>4,399</u>	<u>6,395</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 2016 £'000	Year ended 31 March 2015 £'000
<b>Other grant income</b>		
Higher Education Funding Council for England (HEFCE)	-	20,266
Other grant income	972	1,784
	<u>972</u>	<u>22,050</u>

In 2014-15, 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 Higher

Education institutions and other bodies' in the Statement of Comprehensive Net Expenditure.

## 12 Trade and other receivables: recoverable grants

	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>
<b>(a) Balances due within one year:</b>		
West Lothian College	158	158
Glasgow Kelvin College	-	147
Lews Castle College	168	168
	<u><b>326</b></u>	<u>473</u>
<b>(b) Balances due after one year:</b>		
West Lothian College	2,843	3,001
Lews Castle College	-	168
	<u><b>2,843</b></u>	<u>3,169</u>

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

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

The Council 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

	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>
Prepayments and accrued income	2,514	2,106
Institutions clawback	1,007	-
Other HEI balances	5	726
Other debtors	141	54
	<hr/> <b>3,667</b>	<hr/> 2,886
Balances due within one year (from note 12a )	<b>326</b>	473
Total balances due within one year	<hr/> <b>3,993</b> <hr/>	<hr/> 3,359 <hr/>

### 14 Cash and cash equivalents

	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>
Funds held at Government Banking Service accounts	4,497	4,574
Funds held at commercial banks	166	99
	<hr/> <b>4,663</b> <hr/>	<hr/> 4,673 <hr/>

### 15 Trade and other payables

	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>
Trade payables	3	7
Pension provision	-	18
Other HEI balances	1,196	1,544
Other liabilities	577	550
Total other liabilities	<hr/> 1,773	<hr/> 2,112
Total current liabilities	<hr/> <b>1,776</b> <hr/>	<hr/> 2,119 <hr/>

## 16 Capital and non-capital commitments

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

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

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

<b>Grants committed to be paid to HEIs and other bodies</b>	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>
Grant for distribution		
Recurrent grant	449,174	387,376
Capital grants	3,046	16,432
	<b>452,220</b>	<b>403,808</b>

<b>Grants committed to be paid to colleges and other bodies</b>	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>
Grant for distribution		
Recurrent grant	161,024	151,350
Student support payments	37,049	37,762
Capital grants	2,920	467
	<b>200,993</b>	<b>189,579</b>

## 17 Commitments under leases

### Operating leases

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

#### Obligations under operating leases comprise:

	<b>31 March 2016 £'000</b>	<b>31 March 2015 £'000</b>
<b>Equipment</b>		
Not later than one year	11	6
Later than one year and not later than five years	35	12
	<u><b>46</b></u>	<u><b>18</b></u>
<b>Buildings</b>		
Not later than one year	470	470
Later than one year and not later than five years	-	470
	<u><b>470</b></u>	<u><b>940</b></u>

The premises in Edinburgh occupied by the executive are leased by the Scottish Ministers (as statutory successors to the Secretary of State for the Environment) and sub-let to the Council. Our lease ends in June 2017 and we have commenced planning to secure our future accommodation requirements.

## 18 Contingent liability

The Scottish Funding Council is currently subject to litigation by a former employee. The claim was heard in court in December 2015. It is not possible at this stage to predict the likely 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 Non-Departmental Public Body (NDPB) sponsored by the Scottish Government.

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

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

In addition, the Council had various material transactions with other publicly funded bodies during the period, including 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.
- Paul Little is Principal and Chief Executive of the City of Glasgow College.
- Veena O'Halloran is Director of Student Experience and Enhancement Services at the University of Strathclyde.

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](http://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
<b>2015-16</b>				
Balances with other Central Government bodies		2,843		-
Balances with bodies external to Government	3,993	-	1,776	-
<b>At 31 March 2016</b>	<b>3,993</b>	<b>2,843</b>	<b>1,776</b>	<b>-</b>

### 2014-15

Balances with other Central Government bodies	-	3,169	-	-
Balances with bodies external to Government	3,359	-	2,119	-
<b>At 31 March 2015</b>	<b>3,359</b>	<b>3,169</b>	<b>2,119</b>	<b>-</b>

## 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 New College Lanarkshire to Lloyds Banking Group. The balance of principal outstanding on the loan at 31 March 2016 was £4.6 million (as at 31 March 2015: £4.8 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 2016 was £13.8m (as at 31 March 2015: £18.8m).

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, regions and other bodies

College/regions	Total Year ended 31.3.16 £'000	Total Year ended 31.3.15 £'000
Forth Valley	25,325	27,394
West Lothian	12,693	13,034
Dumfries and Galloway	11,064	11,374
Borders	9,686	9,691
Edinburgh	55,283	62,137
Highlands and Islands	34,860 <sup>19</sup>	-
Inverness	7,263 <sup>19</sup>	11,337
Lewis Castle	455 <sup>19</sup>	3,068
Moray	1,668 <sup>19</sup>	7,541
North Highland	1,584 <sup>19</sup>	8,518
Perth	2,245 <sup>19</sup>	8,889
Orkney	62 <sup>19</sup>	1,597
Shetland	69 <sup>19</sup>	1,857
West Highland	- <sup>19</sup>	2,319
Ayrshire	45,723	47,438
West	51,739	53,138
Glasgow Clyde	39,303	40,438
Glasgow Kelvin	28,298	29,419
City of Glasgow	46,117	37,123
Fife	44,876	43,889
New College Lanarkshire	43,564	46,463
South Lanarkshire	12,879	11,940
Dundee and Angus	34,761	35,654
North East	40,582	41,831
SRUC	8,952	8,716
Newbattle	934	892
Sabhal Mor Ostaig	1,829 <sup>19</sup>	3,631
<b>Total grant distributed to colleges</b>	<b>561,804</b>	569,328
<b>Total grant distributed to other organisations</b>	<b>6,826</b>	8,538
<b>Total grant distributed</b>	<b>568,630</b>	577,866

<sup>19</sup> As of 1 April 2015, the University of the Highlands and Islands became the fundable body and all grant payments (excluding student support funds) for the UHI assigned colleges were paid to the University.

**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**

<b>University or college</b>	<b>Total year ended 31.3.16  £'000</b>	<b>Total Year ended 31.3.15  £'000</b>
Aberdeen	73,503	75,231
Abertay Dundee	19,675	19,221
Dundee	76,953	81,138
Edinburgh	185,453	191,299
Glasgow	152,736	166,148
Glasgow Caledonian	64,344	63,102
Glasgow School of Art	18,069	18,608
Heriot-Watt	41,602	45,665
Edinburgh Napier	55,230	56,901
Open University in Scotland	22,089	21,664
Queen Margaret Edinburgh	13,787	13,710
Robert Gordon	41,343	40,992
Royal Conservatoire of Scotland	10,193	9,825
St Andrews	38,664	49,440
Stirling	39,409	40,477
Strathclyde	92,073	100,311
Highlands and Islands	37,386	33,485
West of Scotland	64,394	63,710
SRUC	12,667	13,322
<b>Total grant distributed to institutions</b>	<b>1,059,570</b>	1,104,249
<b>Total grant distributed to other organisations</b>	<b>18,446</b>	20,737
<b>Total grant distributed</b>	<b>1,078,016</b>	1,124,986

The year on year change shown above relates to a re-profiling between academic year and financial year ends to reflect more accurately the academic year expenditure profile and did not affect the academic year allocation to the higher education sector.