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Comhairle Maoineachaidh na h-Alba

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Accounts Direction for Scotland's Universities 2025–26



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

Introduction

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

- FRS 102: [FRS 102 \(2022 Edition\)](#).
- Statement of Recommended Practice: Accounting for Further and Higher Education (SORP): [Statement of recommended practice 2019](#).

In addition, universities must comply with the Financial Memorandum (FM) with SFC ([Financial Memorandum with higher education institutions](#)) and this Accounts Direction.

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

SFC requires that the annual report and accounts are prepared with a 31 July year-end.

Scottish Funding Council

17 June 2026

Deadlines

1. Universities should submit audited financial information to SFC by **31 December 2026**. If universities, consider that they will be unable to meet this deadline they should contact SFC at the earliest opportunity.
2. The annual report and accounts should be signed by the Chief Executive Officer and by the Chair, or one other member of the governing body.

Changes for 2026

3. **Appendix 1** paragraph 29 has been updated to reflect additional reporting requirements from SFC to Scottish Government on the remuneration across the sector. These changes take effect from 2026-27, however SFC encourages early adoption in 2025-26 considering the volume of upcoming changes already planned for 2026-27.

Upcoming changes

4. The updated 2026 FE/HE SORP was published on 3 November 2025 and is effective for academic year (AY) 2026-27. The main changes cover leases and revenue recognition.
5. Operating leases will be brought on-balance sheet to be recognised as a right-of-use asset with a corresponding lease liability. Adoption of this new standard will include a cumulative adjustment to the opening income and expenditure reserve as at 1 August 2026.
6. Contract income will follow the revised FRS 102 five-step model, requiring clearer identification of performance obligations and timing of income recognition. This mainly affects tuition fees, including accounting for scholarships and university-provided equipment, and other commercial or contract-based income. Funding body grants and non-exchange income are not covered by this model. Whilst effective from AY 2026-27, comparative figures for AY 2025-26 will require restatement in line with the transition approach adopted. Universities should undertake impact assessments now to identify affected income streams, areas of judgement, new disclosure requirements and potential impact on covenant compliance.
7. Other changes in the 2026 FE/HE SORP relate mainly to enhanced clarification, presentation and disclosure guidance. While universities should review these updates carefully and ensure that disclosures and narrative reporting remain compliant with the revised SORP, no further material changes to accounting policies affecting recognition or measurement are expected.
8. Universities continue to be required to comply with Scotland's Fair Work reporting criteria. From 2026-27, the five desirable criteria listed in paragraph 17 of **Appendix 1** will become mandatory, resulting in all seven criteria requiring demonstration of compliance within the annual report. SFC recommend that universities include

commentary on the five desirable criteria in their 2025-26 annual reports where possible and explore implementation of required changes to activity in 2026-27, ahead of the formal change to mandatory compliance from April 2027.

2023 Scottish Code of Good HE Governance

9. The latest edition of the Scottish Code of Good Governance was published in 2023: [2023 Scottish Code of Good Higher Education Governance](#). Universities are asked to comply with the 2023 Code.

Mandatory and Corporate Governance Disclosures

10. We draw your attention to the specific mandatory disclosures for universities in **Appendix 1**. The corporate governance disclosures required are listed in **Appendix 2**.
11. The guidance notes issued alongside this Accounts Direction include example disclosures for core income and expenditure disclosures, as well as any specific example disclosures or additional guidance.

Appendix 1: Mandatory Disclosures

Purpose of this Appendix

12. This appendix sets out the minimum disclosures that universities must include in their annual report and accounts. It is a practical guide, not a restatement of the FE/HE SORP or FRS 102.
13. Universities should continue to apply professional judgement and refer to the FE/HE SORP and FRS 102 where more detailed guidance is required.

Strategic Report¹

14. The strategic report should include the following disclosures:
 - A list of members of the governing body and key committees. This should cover all those who served during the period and include any changes up to the date of signing the annual report and accounts. Attendance at Court meetings should also be included in the accounts or linked to the information on the university's website.
 - A statement describing the payment practice code or policy adopted on payment of suppliers and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998. If there is nothing to report, this should be stated.
 - A statement on the employment of disabled persons where the average number of all persons employed in the year exceeds 250.
 - A statement outlining how the university has had due regard to public sector equality duties under the Equality Act 2010, with cross-references to separately published reports on public sector equality duties where appropriate.
 - Disclosure of objectives, and strategy for achieving those objectives.
 - A fair and balanced review of the university's development and performance throughout the financial year and position at the end of the financial year. This should include a description of the challenges presented by the period of high inflation and current geopolitical issues, and the mitigating actions taken.
 - Disclosure of future prospects.

¹ Further guidance on Strategic reports is given in the SORP (paragraphs 3.23 to 3.26)

- A description of the principal risks and uncertainties being faced.
- Key performance indicators.

Fair Work First

15. Universities must include in their annual report and accounts commentary outlining the Fair Work First practices and the progress the university has made in their implementation. As per best practice, universities should make every endeavour to do this in agreement with their workforce, such as the relevant trade union where one is present, or workers' representative(s) where there is no union present.
16. The commentary must demonstrate how the university complies with the following mandatory criteria:
 - Pay at least the Real Living Wage.
 - Provide appropriate channels for effective workers' voice, i.e. collectively (e.g. through trade union recognition) and individually (e.g. through staff surveys).
17. Recipients of public sector grants are also expected to commit to working towards the remaining five desirable criteria:
 - Investment in workforce development.
 - No inappropriate use of zero-hour contracts.
 - Address workplace inequalities, including pay and employment gaps for disabled people, racialised minorities, women and workers aged over 50.
 - Offer flexible and family-friendly working practices for all workers from day one of employment.
 - Oppose the use of fire and rehire practice.
18. Guidance on adhering to the criteria along with examples are available in [Fair Work First – Guidance](#), updated in November 2024. A link to an existing statement on the university's website demonstrating compliance with the Fair Work First requirements would also be acceptable. Such a statement should be reviewed annually. SFC will review these commentaries/statements annually, follow up with universities as appropriate and report to Scottish Government on the sector's adherence to the Fair Work First criteria.
19. From 2026-27 the five desirable criteria become mandatory, resulting in all seven criteria requiring demonstration of compliance within the annual report. SFC recommend universities include commentary on the five desirable criteria in their 2025-26 annual reports where possible and explore implementation of required changes to

activity in 2026-27 ahead of the formal change to mandatory compliance from April 2027.

20. Universities are permitted to include links to external reports if all criteria are covered in sufficient detail to satisfy the requirements outlined above.

Corporate Governance

21. The FE/HE SORP requires universities to include in their annual report and accounts a statement covering the responsibilities of their governing body in relation to corporate governance. This statement is required to indicate how the university has complied with good practice in this area.
22. We recognise that each university will have its own system of corporate governance, reflecting its particular objectives and management processes. However, in preparing their governance statement, universities should give due regard to the guidance contained in **Appendix 2**.
23. SFC's Financial memorandum additionally requires that universities include a statement specifically confirming compliance with the 2023 Scottish Code of Good HE Governance ("the Scottish Code") on a comply or explain basis. An explanation should be provided in the event that the university's practices are not consistent with particular principles. Universities should use the wording in the template in **Appendix 3** for reporting compliance with the Code.
24. The following paragraphs provide details of specific disclosures that must be included in the annual report and accounts.

Remuneration

25. To ensure greater transparency over decisions on remuneration, universities are required to outline within their annual report details of the operation of the remuneration committee and the policy adopted for senior pay, including that of the Principal.
26. In line with paragraph 25.9 of the FE/HE SORP, universities must disclose the total number of higher paid staff, including senior post-holders, in bands of £10,000, above a threshold of total emoluments (excluding pension contributions and compensation for loss of office) of £100,000. Payments funded from external sources, including the NHS, should be included in emoluments. The number of senior post-holders within each band should be separately identified.
27. In addition to the requirements of the FE/HE SORP, SFC requires disclosure of:
 - The actual total remuneration of the head of university which must disclose separately salary, bonus, employer pension contributions, payments in lieu of pension contributions and taxable and non-taxable benefits in kind. Where there

is a change of head of university during the year, details should be given separately for each person, noting the dates each was in post and giving comparative information.

- The aggregate amount of any compensation for loss of office payable to the head of university and any staff member earning in excess of £100,000 per annum, or where the costs of all elements of a proposed arrangement amount to more than £100,000, together with the number of people to whom this was payable.
28. Universities should also disclose the relationship between the Principal's total remuneration and that of all other employees, expressed as a multiple of the median pay across all staff. For the purposes of this calculation, total remuneration comprises salary, bonus, employer pension contribution, payments in lieu of pension contributions, taxable and non-taxable benefits. The median is based on the annualised, full-time equivalent remuneration of all staff at the reporting date. Explanations should be provided for any significant change in the median compared with prior year.
29. In addition to the remuneration reporting requirements outlined above, from 2026-27 SFC will also be required to collate and report on more detailed information to the Scottish Government. Therefore, universities will be required to ensure their remuneration report includes:
- Median pay in the organisation.
 - Minimum pay in the organisation.
 - 5, 25, 50, 75 and 95 percentile pay ratios.

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

Financial and Environmental Sustainability

30. Main principle 1, provision 4 of the 2023 Scottish Code of Good HE Governance states that "the governing body must be attentive to risks which could threaten the sustainability of the university, including the risk of inaction in the face of threat or opportunity, and ensure that the university has appropriate procedures to identify and actively manage risk". In this context, universities are required to include within their annual report and accounts a description of the sustainability framework within the university.
31. Universities should outline the challenges presented by current geopolitical issues and the period of high inflation to the sustainability of the university and the steps taken by the university to mitigate these challenges.
32. Universities should outline the process by which the governing body monitors the overall sustainability of the university, including the key sustainability measures used.

33. Universities are encouraged to provide commentary on the steps being taken to address climate change issues. This could include confirmation of compliance with Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009. Universities should also include a commentary on net zero strategies in place aligned to the 2045 national legally binding target and seeking closer alignment with interim national legally binding targets. Linking to external reporting on the university website is also acceptable.

Notes to the Accounts

34. Universities must disclose the audit fees and non-audit fees paid to external and internal auditors.

Appendix 2: Corporate Governance Statement Guidance for Universities

35. Universities are required to include in their annual report and accounts a statement covering the responsibilities of their governing body in relation to corporate governance. This statement is required to indicate how the university has complied with good practice in this area.
36. It is a condition of the Financial Memorandum with SFC that governing bodies meet the principles of good governance, set out in the Scottish Code.
37. Universities must include a specific statement in the corporate governance statement to confirm compliance with the Scottish Code. In line with the principle of comply-or-explain, an explanation must be provided if the university's practices are not consistent with particular principles. The wording which universities must use to confirm compliance is included at **Appendix 3**.
38. Universities are required to demonstrate robust governance, maintain a sound system of internal control and ensure that the following key principles of effective risk management have been applied:
 39. Covers all risks – including those of governance, management, quality, reputation and finance – but focuses on the most important risks.
 40. Produces a balanced portfolio of risk exposure.
 41. Is based on a clearly articulated risk appetite, policy and approach.
 42. Requires regular monitoring and review, giving rise to action where appropriate.
 43. Needs to be managed by an identified individual and involve the demonstrable commitment of the governing body and the executive leadership.
 44. Is embedded into normal business processes and aligned to the strategic objectives of the organisation.
45. Universities are required to review at least annually the effectiveness of their system of internal control. Universities must include in their annual report and accounts a statement on internal control. In formulating their statements, universities should refer to best practice guidance, including guidance from the British Universities Finance Directors Group.

Format of Corporate Governance Statement

46. We recognise that each university will have its own system of corporate governance, reflecting its particular objectives and management processes, and the corporate

governance disclosures in the annual report will differ accordingly. It is expected that each university will tailor its corporate governance statement to reflect its own individual circumstances. However, good practice suggests that a corporate governance statement should include the following sections:

47. **Introduction**, which shows the context and purpose of the corporate governance statement.
48. **Governing body**, outlining the governance structure and the role of the university's committees, and their effectiveness.
49. **Corporate strategy**, outlining the arrangements for strategic development.
50. **Risk management and internal control**, setting out the arrangements for identifying, evaluating and managing risks and the arrangements for monitoring internal controls. Universities should highlight the challenges presented by the period of high inflation and current geopolitical situation.
51. **Going concern**, confirming that the university is a going concern, with supporting assumptions and qualifications as necessary including reference to compliance with bank covenants where applicable. This disclosure provides support for the use of the going concern accounting policy and should be consistent with the disclosures regarding going concern either in the annual report and accounts or the auditors' report.
52. **Conclusion**, providing any concluding observations or messages.

Appendix 3: Template for Statement of Compliance with the 2023 Scottish Code of Good Higher Education Governance

In the opinion of the Governing Body, the university complied with all the principles and provisions of the 2023 Scottish Code of Good Higher Education Governance through the year.

or

In the opinion of the Governing Body, the university complied with all the principles and provisions of the 2023 Scottish Code of Good Higher Education Governance with the exception of

[List areas of non-compliance]

The university is taking action to address this by xxxx and xxxx and expects to be fully compliant by xxxx.