



ANNUAL REPORT AND ACCOUNTS 2022-23

 Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

Scotland's tertiary education and research authority

**Building a connected, agile, sustainable tertiary
education and research system for Scotland**

SEPTEMBER 2023

Cover Photos:

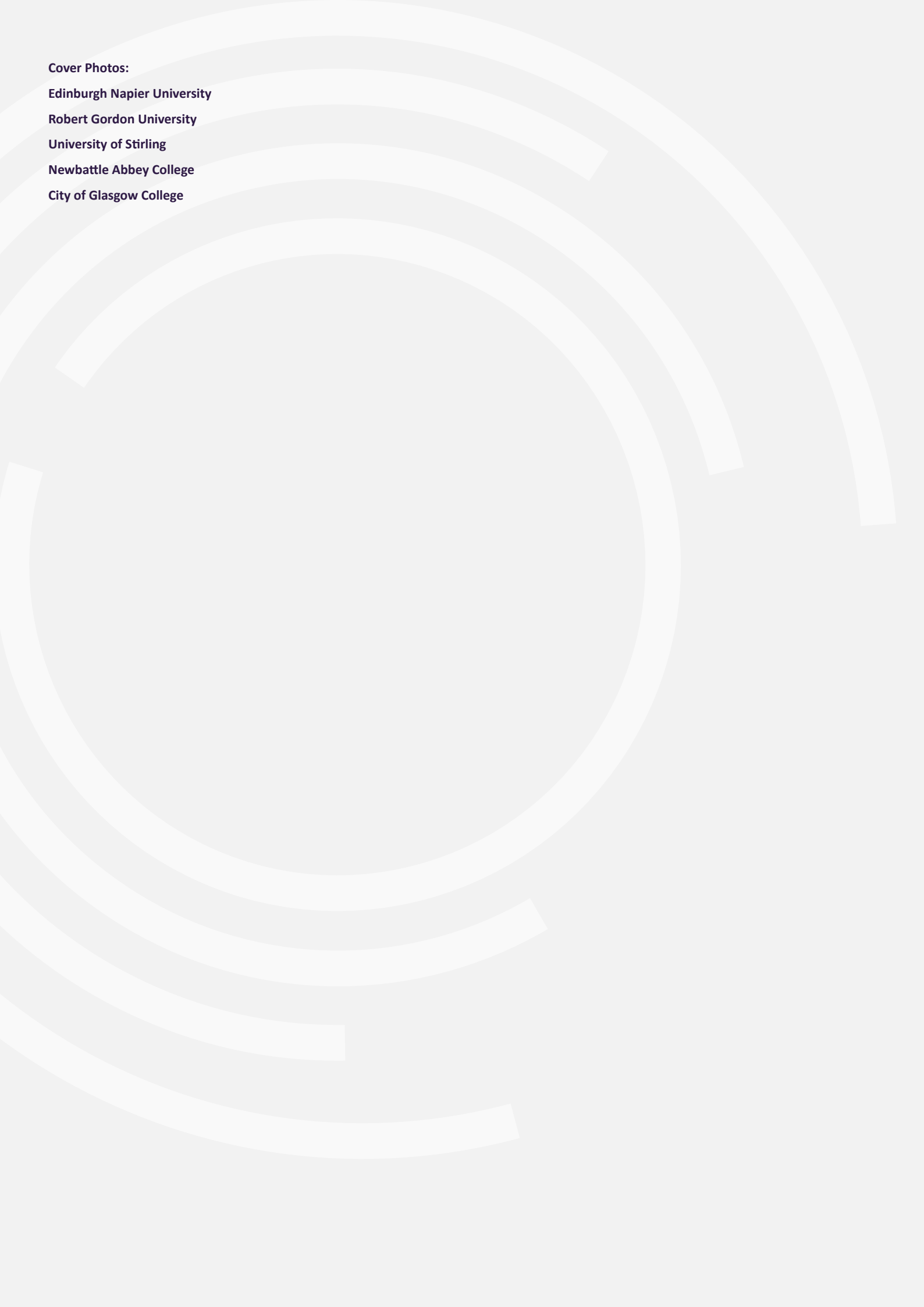
Edinburgh Napier University

Robert Gordon University

University of Stirling

Newbattle Abbey College

City of Glasgow College



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SECTION 1:
THE PERFORMANCE
REPORT



Foreword

**by Mike Cantlay, Chair of SFC and
Karen Watt, Chief Executive of SFC**

Welcome to the Scottish Funding Council's 2022-23 Annual Report and Accounts. As Scotland's tertiary education and research authority we are delighted to have this opportunity to provide a summary of our performance and to lay out our financial statements for public review.

The last three years have inevitably been influenced by the COVID-19 pandemic and, along with the colleges and universities we fund, we continue to live with its legacies. Although 2022-23 represented a step away from the impact of the pandemic, it presented us with many other challenges, primarily but not exclusively those stemming from global inflation and its effects on public finances.

Consequently, when we announced our funding allocations for colleges and universities, we prioritised front line teaching and investment in research, providing a 2.0% increase for teaching budgets in both colleges and universities and a £4.7m increase for research funding.

Transcending economic difficulties in its long-term implications is the climate emergency. Since the Scottish Government's declaration of a climate emergency in April 2019, SFC has intensified its focus on supporting Scotland's national target to reduce carbon emissions to net zero by 2045.

Published in November 2022, our Net Zero and Sustainability Framework set out the actions we intend to take in line with our climate commitments. The Framework confirmed our support for cutting edge climate research and innovation alongside



the development of workplace skills for a new green economy. In line with this we made available to universities up to £31m of low interest loans to advance their carbon management plans. We also announced funding for a new innovation programme led by the Environmental Association for Universities and Colleges to support institutions working together in their response to the climate emergency.

The need for a just transition to a low carbon economy informed some of our key skill investments and, as part of our Tertiary Provision Pathfinder programme, we supported the work of the National Energy Skills Accelerator (NESA), enabling the development of a new resource to help people identify the qualifications needed for jobs in low-carbon energy and to signpost the places those qualifications could be obtained.

Our pathfinder programme also supported skills priorities in the rural economy, future curriculum planning and the digital workforce, while our national Upskilling Fund provided money for a fourth year to enable universities to develop short, flexible courses responding to the changing needs of employers and the economy.

In March 2023 we took the first steps in a new approach to research partnerships by announcing funding for three initial Alliances for Research Collaborations (ARCs). The investment, worth up to £600,000 for each ARC will create multi-disciplinary, cross-sector teams to strengthen and accelerate bids for major research grants, including funding from overseas.

The international dimension of Scottish research also played a part in the instigation of the SFC Saltire Emerging Researcher Scheme. Under the scheme Scottish and European-based post-graduate and early career researchers took part in exchanges between Scotland and 21 European countries.

The student experience remained a key focus of our work and we continued to work towards the common approach to quality assurance and enhancement recommended by the Review of Coherent Provision and Sustainability. Our annual report on college student satisfaction found that nine out of ten full-time students were satisfied with their learning experience. In universities, the 2022 National Student Survey showed that 78.5% of final year undergraduates at Scottish universities were satisfied with the quality of their course compared with a UK average of 76.3%.

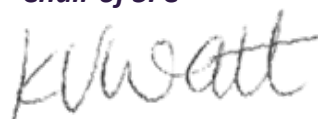
Towards the end of 2022 we published a new strategic plan laying out our priorities for tertiary education up until 2027. In doing so we reaffirmed our belief that everything we do as an organisation should be about creating the right environment for colleges and universities to thrive. Examples of this in action were the publication of guidance for future investments in college buildings and infrastructure, and our joint call with the Equality and Human Rights Commission for colleges and universities to address the most persistent inequalities affecting students and staff.

Finally, we would once again like to pay tribute to our own staff and members of the Board who throughout the year demonstrated their determination to do their absolute best for tertiary education and research in Scotland.



MIKE CANTLAY

Chair of SFC



KAREN WATT

Chief Executive of SFC

Photo: University of Abertay



Highlights

 £2.0bn

investment in further and higher education.

 146,040

FTE* places delivered by Scotland's universities.

 118,217

FTE* places delivered by Scotland's colleges.

All figures relate to academic year (AY) 2021-22



Investing in skills:

£8.8m	invested in Foundation Apprenticeships.
£15.2m	invested in Graduate Apprenticeships.
£7m	invested in University Upskilling Fund.
£10m	invested in Flexible Workforce Development Fund.



Diversity of the learner population:

16.5% first degree entrants from 20% most deprived areas.



Student satisfaction:

78.5% of final year undergraduates were satisfied with the quality of their course.

nine out of ten full-time students (90.2%) were satisfied with their college experience.



Research & Innovation:

Scottish universities leveraged £313.8m from UKRI (Research Councils).

297 new registered companies from Scottish academia.

753 active spin-out and start-up companies from universities in the last three years.

unless otherwise stated.

* Full-time equivalent

Performance overview

Statutory background

The Scottish Funding Council (SFC) is Scotland's tertiary education and research authority. We use the word tertiary to describe post-16 or post-secondary level education that is typically undertaken at college or university. Our ambition is to make Scotland an outstanding place to learn, educate, research and innovate – now and for the future.

Our purpose is to sustain a world-leading system of tertiary education, research and innovation that enables students to flourish; changes lives for the better; and supports social, economic and environmental wellbeing and prosperity.

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

Our main statutory duties and powers come from the Further and Higher Education (Scotland) Act 2005. We have two core statutory duties:



To secure the coherent provision by post-16 education bodies of high quality and fundable further and higher education.



To secure the undertaking of research.

In pursuit of our purpose we invest around £2bn of public money to deliver:

- Tertiary learning and teaching.
- Skills and apprenticeships.
- Student support and participation.
- Discovery research.
- Innovation and knowledge exchange.
- Data collection and dissemination.
- National quality assurance and enhancement processes.
- New and upgraded physical buildings and campus estate.
- Essential digital infrastructure and collective procurement for the sector.
- Strategic change, responsive provision and research priorities.



We carry out the following activities to secure investment impact:

- Distribute money in a fair and accountable way to secure coherent tertiary provision and excellent research.
- Joint planning and alignment of funding with other partners to secure outcomes and collective impact.
- Sharing of expert advice, intelligence and evidence with government, partners and the wider public.
- Ensuring students' interests are promoted and protected.
- Developing national operational policy for tertiary education and skills; discovery research, innovation and knowledge exchange.
- Setting expectations, targets and conditions for our funding; hold funded bodies to account; and secure improvement.
- Scrutinising the governance and financial health of institutions to secure public investment and a sustainable sector.
- Collecting and disseminating authoritative data and analysis.

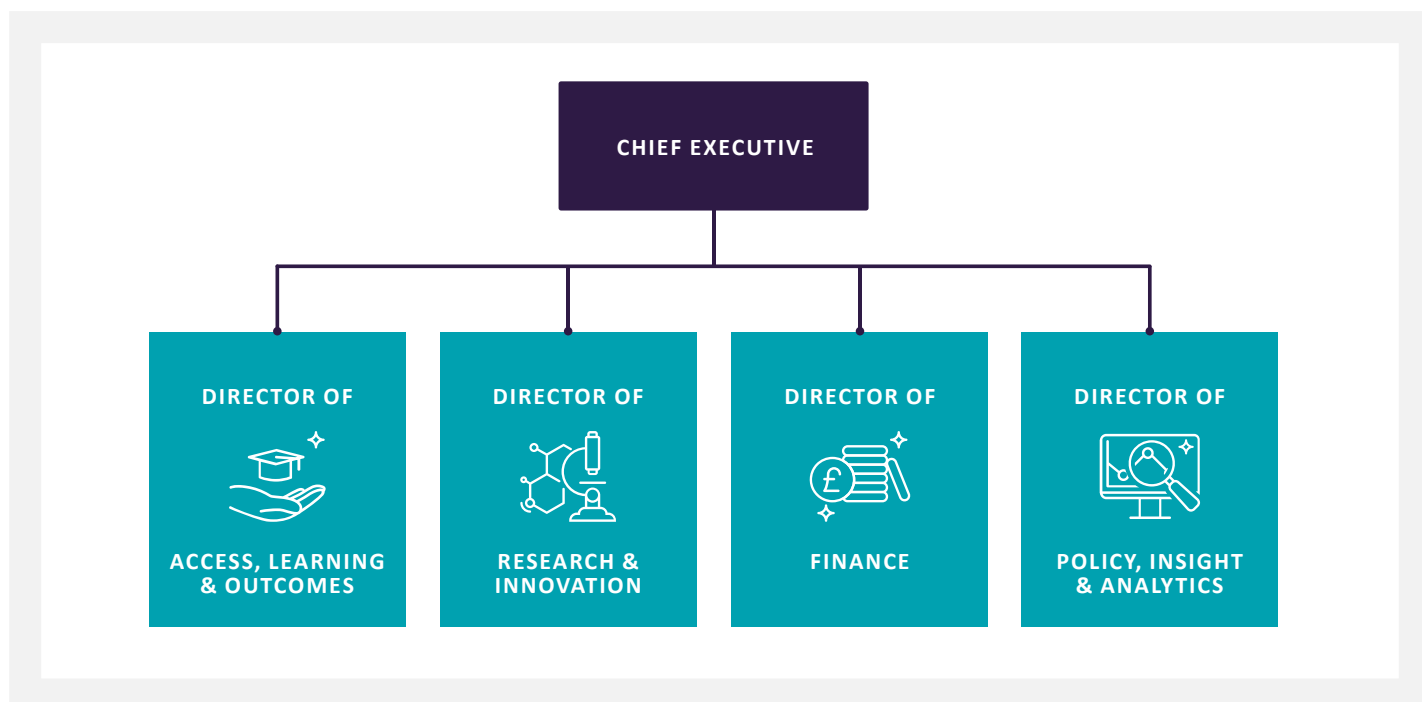
Our organisation

SFC is based in a single location in Edinburgh and, at 31 March 2023, directly employed 128 staff. Following the easing of the Government guidance to control the spread of COVID-19 in early 2022 our staff have been working in a hybrid manner, and we published our Hybrid Working Policy in October 2022. Corporately we continue to monitor this approach to ensure it supports operational objectives as well as providing increased flexible working practices.

SFC continues to implement a delivery plan that supports achievement of the objectives set out in our Strategic Plan. We have also launched a transformation plan that sets out an ambitious programme of change over the next 2-3 years to ensure that we have the right people, systems and processes in place to enable SFC to deliver its goals both now and in the future.

SFC has increased its investment in developing its analytical, digital, operational and research capacity and in improving the resilience and capacity in its digital and finance function. A key element of this transformation programme includes the development of our organisational design to ensure we have the correct number of staff in place with the relevant skills and capabilities to deliver our Strategic Plan. In addition, we have continued our focus on our response to the climate emergency, including the implementation of a carbon neutral policy.

Our current organisational structure is as outlined below comprising the Chief Executive's Office and four Directorates.





Uniting behind our purpose

To be proud to work for SFC and find joy at work!

Culture, values and behaviour



Effective structure and governance

To transform our infrastructure and operating model to enable us to respond better to new challenges and opportunities

Organisational design
Process mapping / digitalisation / automation
Growth, roles, recruitment & selection
Governance



Effective planning and prioritisation

To organise our activities and resources around priority work to achieve our mission and maximise value

Review implementation
Guidance letter delivery
Strategic Plan 2022-27
NSET alignment
Strategic Planning & Prioritisation Framework



Grow our talent

To empower our people, attract and retain talent and invest in our development, and to use our collective expertise creatively and to use our collective and to best effect

Performance Management Framework Review
Competency Framework
L&OD strategy
Critical skills
Talent management



Transform our workplace environment

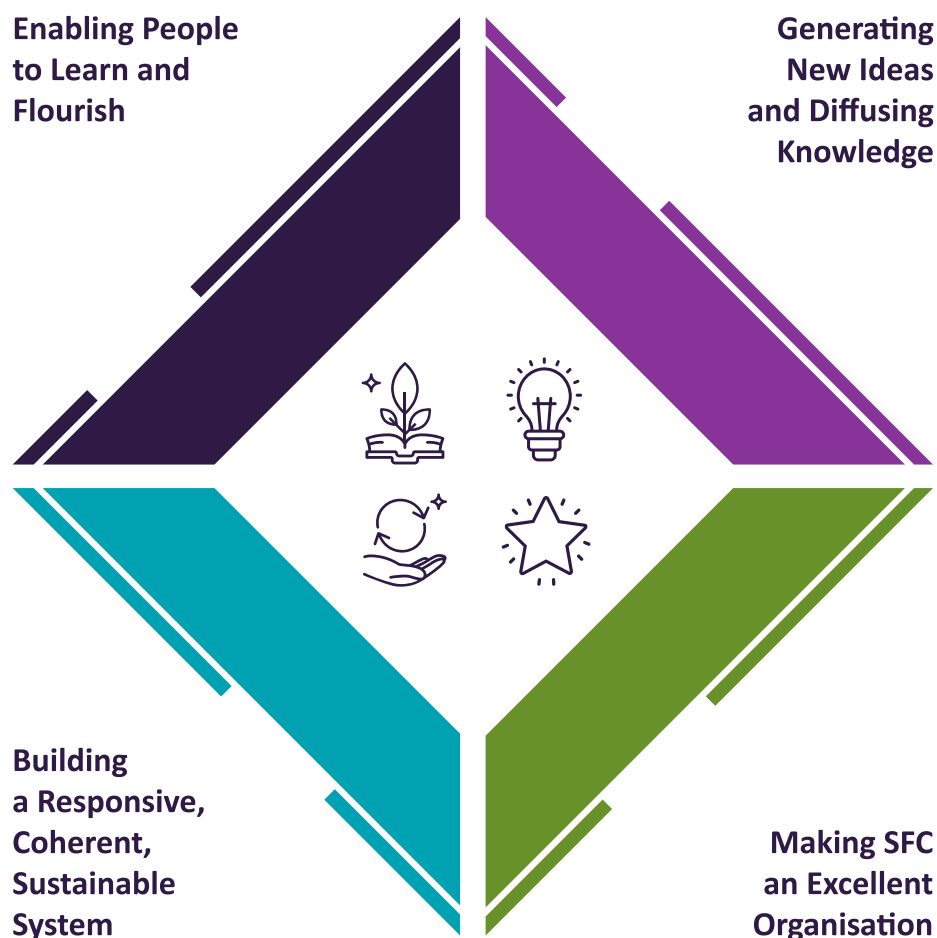
To have the tools, technology and working environment that supports us to deliver in an inclusive, flexible and efficient way

ICT & digital transformation
Hybrid working

Strategic Plan 2022-27 and reporting

Strategic Plan 2022-27

Our Strategic Plan 2022-27 is structured around four objectives that cover these broad areas:



These objectives support the ambition for Scotland to be an outstanding place to learn, educate, research and innovate – now and for the future; and will keep us on track to fulfil our purpose of creating and sustaining a world-leading system of tertiary education and skills, research and innovation that enables students to flourish, changes lives for the better, and supports social, economic and environmental wellbeing.

Within each objective we have identified priority areas of focus. Over the next five years, we will work collaboratively with our partners and government to assess our progress, to understand where we can do better, and to adapt the focus of our priorities. We are developing a performance management system that will help us track that progress and achievements against these strategic objectives. This will be aligned with the more detailed activities set out in our annual Delivery Plan.



Enabling people to learn and flourish

To invest in education that is accessible to learners from all backgrounds and throughout life; gives them a high-quality learning experience and supports them to succeed in their studies; provides opportunities to participate; and equips them to flourish in employment, further study and fulfilling lives.



PRIORITY 1.1

We will promote fair access, clear pathways and transitions, considering the way we measure and invest funds, set targets and track widening access; and we will work with students and institutions to secure efficient and successful learner journeys, while respecting institutional diversity.



PRIORITY 1.2

We will secure quality learning and teaching, protecting and enhancing the student learning experience, and sharing good practice across the tertiary system.



PRIORITY 1.3

We will ensure students are well prepared for the world of work and people have lifelong learning opportunities by supporting greater recognition of learning throughout life; through industry and business-focused upskilling and reskilling; and in the development of shorter, sharper courses over their working lives.



PRIORITY 1.4

We will ensure students are supported to participate in tertiary education, and have their voices heard and valued, including through the development of enhancement plans.



PRIORITY 1.5

We will promote equality and inclusion so that students are treated fairly and with respect, supporting colleges and universities to meet Public Sector Equality Duty Requirements and to tackle unlawful discrimination and persistent inequalities.



Generating new ideas and diffusing knowledge

To invest in excellent research and innovation that advances current knowledge; attracts and nurtures talent and entrepreneurship; mobilises collaboration and additional investment; enhances our international reputation; and delivers economic transformation and societal value.



PRIORITY 2.1

We will sustain excellent discovery research and cross-disciplinary collaborations, investing in research excellence wherever it is found while also supporting the development of targeted, purpose-driven collaborations across institutions.



PRIORITY 2.2

We will promote a supportive research culture for talented people and teams, including the co-design with the sector of relevant expectations.



PRIORITY 2.3

We will make knowledge useful through a connected, cutting-edge innovation eco-system, better integrating our knowledge exchange and innovation investment to enable and incentivise colleges and universities to contribute to national priorities, economic activity, and public service improvement.



PRIORITY 2.4

We will develop entrepreneurial education and commercial opportunities, embedding a culture of entrepreneurship across campuses and in the formation of new enterprises.



PRIORITY 2.5

We will deepen partnerships across the UK-wide dual funding system for research, supporting Scottish universities to seize opportunities, build on our world-class research standing and deliver impact for Scotland.



Building a responsive, coherent, sustainable system

To create the conditions for a responsive, coherent system of tertiary education and skills, research and innovation that transforms social and economic prosperity and wellbeing, and environmental sustainability, at national and regional levels and through place-based investment; secures international attractiveness and influence; and supports institutions to thrive individually and together.



PRIORITY 3.1

We will ensure institutions respond effectively to the climate emergency, embedding climate action and the just transition to net zero in our forward strategies, accountability frameworks and investments; and expecting colleges and universities to use their expertise and activities to deliver a prosperous, low-carbon future.



PRIORITY 3.2

We will support coherent provision, skills and qualification planning and alignment, with institutions, employers and partners, for example building on our Regional Tertiary Provision Pathfinders, to ensure provision adapts to changing needs, opportunity and the Scottish Government's priorities for the sector.



PRIORITY 3.3

We will ensure institutions enhance their financial health and good governance and will review our approach to assurance and engagement.



PRIORITY 3.4

We will incentivise collaboration between institutions and key partners, supporting the development of partnerships that secure better outcomes and public value, and enhance sustainability.



PRIORITY 3.5

We will adapt our investment priorities and distribution models to secure economic, social and environmental value, working with the Scottish Government, the sector and key stakeholders.



Making SFC an excellent organisation

To be an excellent public body that delivers impact through leadership, partnership, insight and wise investment.



PRIORITY 4.1

We will deliver our people and systems transformation programme, attracting and retaining diverse, empowered and thriving teams, and modernising our IT systems and platforms.



PRIORITY 4.2

We will act as a catalyst for positive change and impact through renewed partnership working and leadership, taking a proactive and collaborative approach to relationships with stakeholders critical to our ambition in order to secure better outcomes.



PRIORITY 4.3

We will develop a national impact framework and associated accountability and quality assurance mechanisms to align with the Scottish Government's priorities for the sector and to better inform our decision-making and improve public value.



PRIORITY 4.4

We will improve the collection, management and use of data, and create insights, to drive improvement within SFC and across the tertiary education, skills and research system.



PRIORITY 4.5

We will enhance our reputation and attractiveness as a high performing organisation – efficient, effective and agile.

Embedded throughout our objectives and priorities are these critical themes and objectives:



Responding to the climate emergency.



Protecting the interests of current and future students.



Responding to the economic, social and environmental needs of Scotland.



Promoting equality, diversity and inclusion.



Continuing progress towards Fair Work.



Recognising the importance of place.



Understanding the wider UK and international context.

Our approach to change and improvement will be guided by five general, inter-related principles:



Championing diversity.



Working in partnership.



Supporting sustainability for future generations.



Enhancing evidence-based planning.



Respecting autonomy and subsidiarity.

Delivery Plan 2022-24

Putting the strategy into action

The 2022-27 Strategic Plan sets out the vision for SFC and its priorities for the next five years. Our annual delivery plan guides how we will deliver our core objectives, priorities and outcomes and covers the financial year period from 2022-23 and 2023-24. The delivery plan has been refreshed to align to the new strategic objectives and, over the next few years, will further evolve, helping us to better assess our impact and successes. The 2022-23 Annual Report and Accounts is the first time SFC has reported against its new strategy and performance measures.

The Delivery Plan 2022-24 has a strong focus on:



Supporting institutions to change successfully to continue to provide world-leading education.



Encouraging widening access and securing fair access, clear pathways and transitions to deliver successful outcomes for all.



Promoting the highest standards of equality, diversity and inclusion within SFC and institutions.



Supporting SFC and institutions to work sustainably.



Investing in research and innovation.



Refreshing our approaches to funding and investment to maximise impact.



Reviewing assurance and outcome assessments to ensure quality.



Using data to the best effect.



Continuing to work with the Scottish Government and a wide range of other partners to deliver reform.



Managing risk and uncertainty

The risk outlook is increasingly uncertain with changes in Scottish Government leadership, wider socio-political and environmental pressures, ongoing inflationary pressures within a tight fiscal environment, and challenging net zero targets.

SFC published its Strategic Plan for 2022-27 in November 2022 and we continue to work with our Board, the Scottish Government, and our strategic partners to identify and manage emerging risks. We have a structured approach to managing risk, which is summarised on page 59 and 60.

The Scottish Government's estimates and forward plans include provision for the SFC continuation. Accordingly, it has been considered appropriate to prepare these financial statements on a 'going concern' basis.

Our approach to risk management includes all types of risks, including strategic and political, financial, operational, legal and regulatory, business resilience, environmental and people and culture, with the following key risks identified this year:

Cybersecurity

The risks associated with cybersecurity continue across the public sector and are set out in the Scottish Government Strategic Framework for a Resilient Scotland. The main risks to SFC are damage to the security and integrity of our data; disruption to our systems, including our payments to colleges and universities; leading to financial and reputational damage. The risk has the potential to impact our objective to be an excellent, outcome-focused public body and our objective to deliver a successful, world-leading, coherent and sustainable system of education.

SFC continues to deliver against a programme of work to further strengthen our information security controls to meet the changing threats of cybercrime.

An Internal Audit review of Cyber Security identified a number of control weaknesses. Remediation actions have been implemented as part of the programme of work, with progress updates provided to the Senior Leadership Group, Audit and Compliance Committee and Board.

Financial Memoranda with colleges and universities set out the requirements with which institutions are expected to comply in return for funding. Institutions are responsible for maintaining effective cyber resilience and for notifying SFC's Chief Executive of any serious incidents.

SFC reviews the annual report and accounts and audit reports of institutions and highlights any cyber incidents that have not been reported.

IT resilience

The risks associated with a lack of resilience of SFC's IT systems, including a full system failure or a disruption to our IT systems, are significant and will impact our objective to deliver a successful, world-leading, coherent and sustainable system of education.

SFC is adopting a cloud-based service provision, working with strategic partners to deliver improvements as part of a longer-term digital transformation strategy. This programme of work was managed in conjunction with a review of IT Resilience completed by Internal Audit in December 2022.

The review identified key areas for control improvement. Progress on these actions remains an area of management focus, with regular updates provided to the Senior Leadership Group, Audit and Compliance Committee and Board. Progress on the implementation of the new Digital Strategy continues to be tracked by the Senior Leadership Group and used to inform the Corporate Risk Register.

No material events or IT incidents were reported in FY 2022-23 and management continue to monitor an IT Risk and Issues log, to identify any areas of concern.

Securing funding

The increasing pressure on public finances and potential impact on institutions resulting from in-year changes in funding allocations is a significant risk. Although the risk will impact the wider sector, it creates additional pressures on SFC to secure funding that is aligned to the objectives of the Strategic Plan and will deliver a successful, world-leading, coherent, and sustainable system of education.

It may also have an impact on our ability to invest in excellent research and, innovation as strategic investments are re-prioritised, leading to a focus on more short-term or business critical deliverables.

SFC continues to develop mitigations that aim to reduce the risk, including working closely with the Scottish Government and other stakeholders on the Spending Review process and enhancing existing governance arrangements around the management of strategic investments covering other priorities.

Financial health of colleges and universities

The financial health of colleges and universities has been identified as a significant risk with the potential to impact negatively on the achievement of our Strategic Plan objective for a successful, world-leading, coherent, and sustainable system of education.

It is clear from institutions' financial returns that the financial sustainability of colleges and universities remains challenging across all indicators. Cost pressures include funding staff pay increases, increased employer pension contributions and delivering short- and longer-term capital projects, including estates maintenance and repair requirements.

We have taken steps to strengthen financial assessment of institutions and continue to engage at a Scottish Government and sector level to identify strategic change that aims to improve overall financial sustainability.

Emerging risks

We continue to face significant external and internal risks during a period of internal transformation and political and economic uncertainty. We assess risks as part of our strategic planning process to identify any emerging risks.

Key emerging risks include changes in the UK and Scottish Government Cabinet Ministers, Departmental changes and changes in Scottish Government priorities that impact the wider strategic and political context. Of particular note is the Scottish Government programme for reform flowing from the publication of the Independent Review of the Skills Delivery Landscape and the Purpose and Principles for Post-School Education, Research and Skills.

These changes impact our ability to prioritise strategic objectives, whilst continuing to meet multiple stakeholders' expectations, in a challenging financial context; to meet climate change targets, during a period of economic volatility; and to manage wider changes in legislation impacting the sector. SFC monitors changes in the delivery against the Strategic Plan with regular updates provided to the Board.



Photo: Fife College



Performance summary



SFC invests
£2.0bn
annually in
Scotland's
colleges and
universities.

We published a refreshed Strategic Plan in November 2022 setting out our priorities for the period 2022-27. We have four core objectives, as noted on page 15.

We have provided contextual information to note priorities and achievements under each objective. SFC has also utilised a range of statistics and data analytics to measure sector and SFC performance under each objective. We have included areas which illustrate the diversity of sector and SFC activity. This includes funding arrangements; quality of the learner experience; widening access; skills, research and innovation; economic renewal; climate change; and on SFC itself, as an outcomes focused public body.

In summary, our performance analysis demonstrates the following:



SFC invested £2.0bn in tertiary education, with 264,257 FTE* places delivered across Scotland's college and university sectors.



Through ongoing challenges driven by inflationary pressures, a tight fiscal environment and deteriorating industrial relations, SFC continued to ensure core functions of teaching, learning, research, and knowledge exchange through Scotland's colleges and universities could mitigate the impact on the student experience.



We implemented a new funding model for university research, based on the outcome of the REF 2021 exercise, allocating £246.8m through our Research Excellence Grant (REG), and we launched our new approach to research collaboration – Alliances for Research Challenges.



We underlined our commitment to addressing the climate emergency with the publication of our Net Zero and Sustainability Framework and Action Plan.



In academic year (AY) 2022-23 we made considerable progress with our Regional Tertiary Pathfinders, investing £500,000 in pilots to support the development and implementation of new course provision to meet priority needs in the South of Scotland and the North-East of Scotland.



We continued to make progress in embedding funding and delivery of Foundation and Graduate apprenticeships in core provision.



We made good progress on our common approach to quality across the tertiary sector, securing support from the sectors through a series of co-development workshops.



Despite the challenging funding environment, we secured continuing Young Person's Guarantee funding and Flexible Workforce Development Funding (FWDF) which we allocated across the college sector.



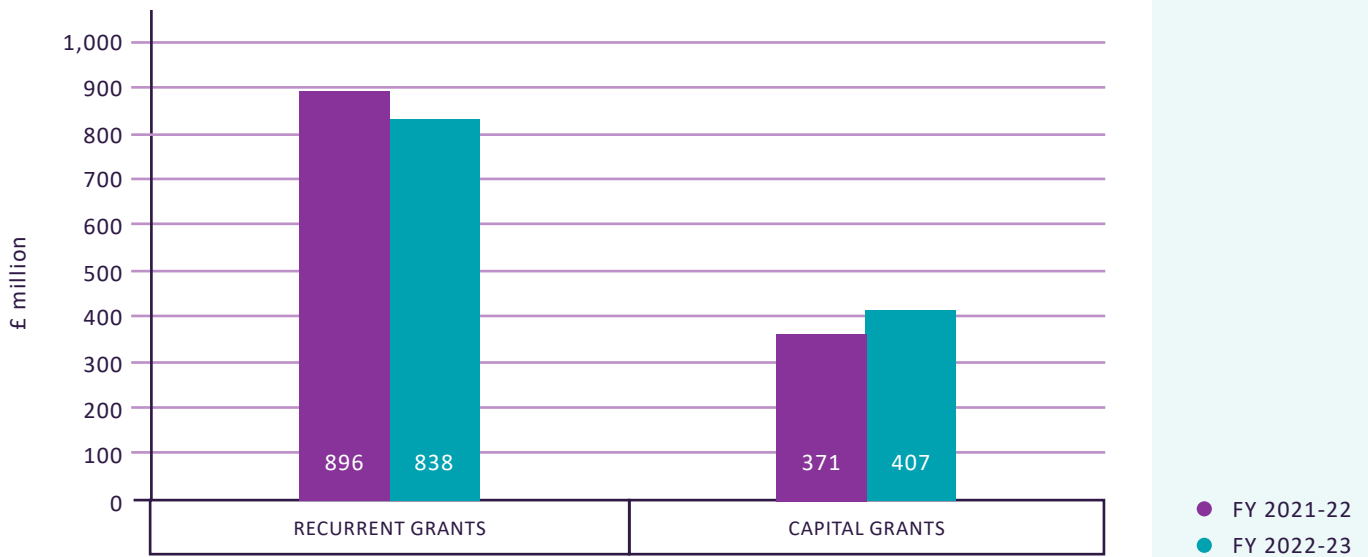
We published our College Infrastructure Strategy, setting out our guiding principles for the college estate and our intention to develop and deliver a Colleges Estate Strategy Implementation Plan.

*SRUC and associate students will feature in both college and university FTE figures

Performance analysis

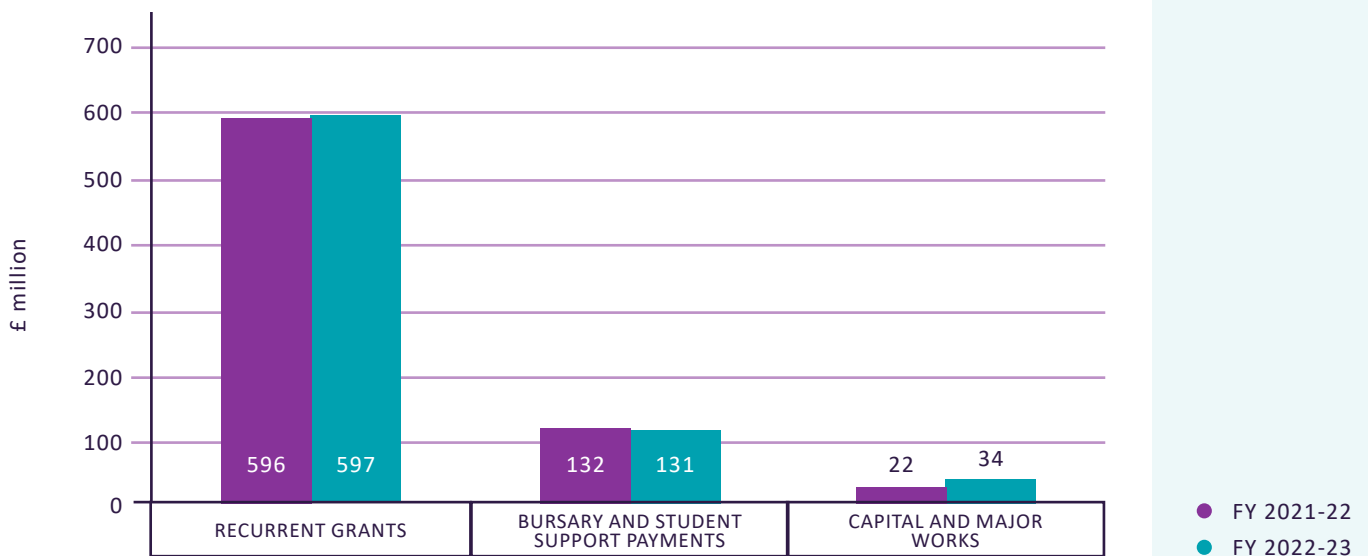
Our investment of £2.0bn annually in further and higher education is used by colleges and universities to deliver high-quality learning to students, undertake world-leading research, and support innovation in the economy and wider society. During financial year (FY) 2022-23, we awarded £1.2bn to universities and other bodies (FY 2021-22: £1.3bn), and £762m to colleges and other bodies (FY 2021-22: £750m).

Figure 1: Grants paid to higher education institutions (HEIs) and other bodies*



*Note: "other bodies" include organisations linked to the higher education sector that are not defined as higher education institutions, for example Universities Scotland.

Figure 2: Grants paid to colleges and other bodies**



** Note: "other bodies" include organisations linked to the college sector that are not defined as colleges, for example Colleges Scotland.



Photo: Newbattle Abbey College

Delivering our Strategic Plan objectives

FY 2022-23 saw no let-up in the challenges facing Scotland's colleges and universities. At the beginning of April 2022, the war in Ukraine was entering its sixth week. Its impact extended across the globe with soaring energy and food prices leading to 40 year-high rates of inflation in the UK, peaking at 11.1% in October 2022. While the rate of inflation began to fall in early 2023, the rate of decline was much slower than expected. Alongside rising energy and food prices, institutions faced rising interest rates as well as rising pay pressures leading to widespread industrial action.

Despite these challenges, colleges and universities continued to deliver for learners, employers and the wider Scottish economy. In supporting them to do so, we focused on ensuring their ongoing viability and sustainability, while also ensuring the continued delivery of teaching, learning, research and knowledge exchange. We mainstreamed a number of recommendations from our Review of Coherent Provision and Sustainability into the core objectives and associated priorities of our Strategic Plan. And through the Resource Spending Review process, we demonstrated the contribution that colleges and universities make to the achievement of Scottish Government priorities, making a strong case for continued investment in the tertiary sector in the face of an extremely challenging fiscal environment.

Through the year we fed into a number of Scottish Government reviews, including the Hayward Review of Qualifications and Assessment and, more notably, the Withers Review of the Skills Delivery Landscape. Both Reviews, but particularly the latter, have the potential to impact on our future mission and we will continue to engage positively as the Reviews' recommendations are considered and implemented.

The range of statistics, data and analysis that we collect and publish allows us and our stakeholders to measure the performance of the college and university sectors and assess progress against our strategic objectives. At the time of drafting this year's Annual Report and Accounts, most of the available data relates to AY 2021-22 which reflects the ongoing impact of the COVID-19 pandemic on the performance of the sectors. Further information about the performance of the college and university sectors can be found on our [website](#).

In November 2022 we published a refreshed, five-year Strategic Plan. The following paragraphs summarise the main activities that we have undertaken aligned to the delivery of the objectives set out in that Plan.



In November 2022 we published a refreshed, five-year Strategic Plan which mainstreams a number of recommendations from our Review of Coherent Provision and Sustainability.



Enabling people to learn and flourish

We will invest in education that is accessible to learners from all backgrounds and throughout life; gives them a high-quality learning experience and supports them to succeed in their studies; provides opportunities to participate; and equips them to flourish in employment, further study and fulfilling lives.

Investing in teaching and learning for all

We have invested £1.37bn in teaching and learning across the college and university sectors, supporting 264,257 FTE learners. To ensure that education is accessible to learners from all backgrounds, our funding model continues to reflect the additional support required to meet the needs of learners from Scotland's most deprived areas and learners with disabilities. In line with our Review recommendation, we plan in the coming year to review the funding model to ensure that premia align with changing demographics and national priorities.

We have agreed intakes for controlled subjects with the Scottish Government in line with our annual process and these have been communicated to the sector. We have continued to work closely with NHS Education for Scotland (NES) and the Scottish Government Health Directorate on policy development related to health-related investment and with Scottish Government education officials on investment in Initial Teacher Education with a particular focus on the supply of Gaelic medium education teaching workforce.

We have supported learners facing digital poverty by investing £4.5m to support the purchase of both hardware and appropriate connectivity equipment, including Wi-Fi and Mi-Fi dongles and data packages. We also gave institutions the flexibility to use this funding to

replace existing obsolete equipment for the purpose of helping address student digital poverty.

With investment of £137m we have also supported further education students in the college sector, providing general maintenance bursaries, childcare funding, discretionary funding and funding for care-experienced learners. This year we continued to provide flexibility in our discretionary funding with the removal of the £4,000 cap per student and we widened access to the Care-Experienced Bursary to students in informal care arrangements.

We [published](#) national equality outcomes for colleges and universities aimed at addressing and removing persistent inequalities in order to improve the retention, representation and success of students and staff with a range of protected characteristics as well as the procedures, services and support that colleges and universities should offer them to address any discrimination and disadvantage.

As recommended in our Review, through our National Schools Programme we have provided information, advice and guidance to circa 40,000 (AY 2020-21) senior phase secondary school pupils from underrepresented backgrounds, including SIMD20 and care-experienced, supporting them to apply and successfully enter both mainstream and high demand higher education courses. This year has seen us rationalise the programme into four main streams, enabling greater oversight and evaluation. The four streams are: Schools for Higher Education Programme, Access to High Demand Professions, the Transitions Programme and the Advanced Higher Hub.

Delivering high quality provision

We continued to explore a common approach to quality assurance and enhancement, a key recommendation from our Review, and have developed draft principles and a draft data catalogue, mapping college and university metrics. A steering group is now overseeing a series of workstreams: (i) shaping the common approach; (ii) data and evidence; (iii) monitoring, self-evaluation and reporting; (iv) student learning experience and student partnership; and (v) tertiary enhancement activity.

Quality Assurance Agency (QAA) Scotland and Education Scotland have continued to undertake reviews on quality at universities and colleges respectively. Students feed into both processes and our investment in student partnerships in quality Scotland (sparqs) has enabled the delivery of training to support student participation.

Students also play a key role in a project we have commissioned through Education Scotland, QAA Scotland, sparqs and the College Development Network to build a detailed picture of what an effective mix of learning and teaching looks like across the tertiary education system. The project – The Future of Learning and Teaching: defining and delivering an effective and inclusive digital / blended offering – will gain an initial understanding of how face-to-face teaching, online learning and variations of blended and hybrid approaches are currently working together in tertiary education courses in Scotland and elsewhere in the world.

Student satisfaction is measured in the university sector through the National Student Survey (NSS). SFC has engaged in the development of the NSS worked to ensure the survey's value has been minimally impacted by changes to the survey questions in England. Consideration is being given to how to utilise these student survey data to understand quality in our universities and to its broader use to understand the student experience.

Supporting work-based learning and more flexible provision

We successfully developed and implemented a funding methodology to safeguard and secure 2,500 Foundational Apprenticeship (FA) opportunities and 1,378 Graduate Apprenticeship (GA) places for AY 2022-23, while developing effective governance arrangements with key delivery partners. We engaged with the Scottish Government and key stakeholders in the Foundation Apprenticeship Enhancement Group to take forward recommendations following Education Scotland's review of FAs to enhance future delivery and worked with the Scottish Government to develop a Graduate Apprenticeship Enhancement Group to take forward an enhancement programme for GA delivery and development.

We invested £7m in the university sector to deliver shorter, more flexible provision to enable institutions to respond to the needs of learners and business. Priorities for AY 2022-23 included support for higher-level skills for those already in the workplace and those seeking employment; tackling inequality by supporting those with protected characteristics most likely to be in sectors affected by COVID-19 and/or the EU Exit; supporting sectors that have been disproportionately impacted by the pandemic and EU Exit, through upskilling and reskilling interventions and the movement of workers into sectors where we are most confident of a strong recovery, or where there is demand; and supporting the Just Transition to Net Zero.

Despite a challenging fiscal environment, including the Emergency Budget Review, we secured Flexible Workforce Development Funding (FWDF) and allocated £10m to colleges to provide upskilling and reskilling support to employers across Scotland. Demand for the programme remains high, with 447 employers on waiting lists. We also successfully secured Young Person Guarantee (YPG) funding, allocating £3.5m to colleges. Responding to feedback from colleges we altered our allocation model for AY 2022-23 to provide greater flexibility in our allocation model funding on a grant award basis rather than credit funding.

How the sectors have performed

Student numbers

The COVID-19 pandemic continued to present challenges for colleges and universities during AY 2021-22, with ongoing, albeit less acute, measures in place to protect students and staff, as well as the challenges of supporting a cohort of learners who had experienced two years of disrupted schooling. Nonetheless, overall colleges delivered 118,217 FTE places, an increase of 0.3% from the previous year. The university sector also performed well with 146,040 FTEs places delivered.

SFC is committed to work-based learning in line with Ministerial priorities. In AY 2022-23 FAs and GAs were fully embedded into core funding, with colleges offering 2,500 FA opportunities and universities offering 1,387 new GA opportunities.

Student success

Ensuring that students have a high-quality learning experience and are able to progress successfully through their learning is also an important strategic priority for SFC. In the university sector, the latest data show 91.5% of Scottish-domiciled full-time first degree entrants in 2020-21 continued into year 2 of their course. In the college sector, the latest data show that 59.0% of further education (FE) students successfully completed their course and 62.5% of higher education (HE) students successfully completed their course.

Learner experience

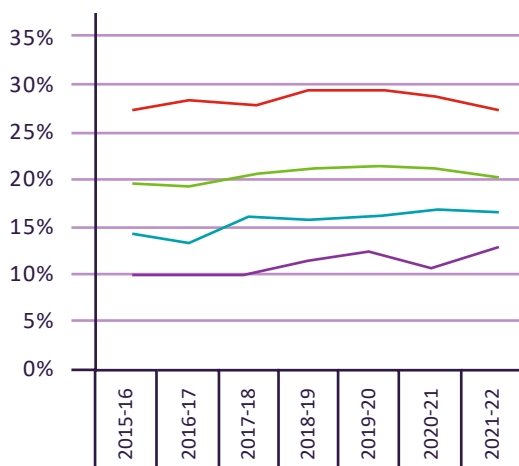
According to the latest NSS results – July 2022 – Scottish universities remain ahead of the UK average for overall student satisfaction. Across Scotland's universities, 78.5% of final year undergraduates were satisfied with the quality of their course compared with a UK average of 76.3%. Satisfaction varies across the sector and seven Scottish universities recorded an increase in student satisfaction.

In the college sector, despite the continuing impact of COVID-19 on learning and teaching, the Student Satisfaction and Engagement Survey showed that nine out of 10 full-time students (90.2%) were satisfied with their college experience, 92.7% and 85.7% of full-time FE and HE students respectively. Satisfaction rates were higher for part-time students at 93.9% for FE and 89.4% for HE. Overall satisfaction levels increased in 2021-22 (FEFT +4.1%, FTHE +5.4%, PTFE +1.7%, PTHE +5.0%) compared with 2020-21 and were back to near pre-pandemic levels.

Widening access

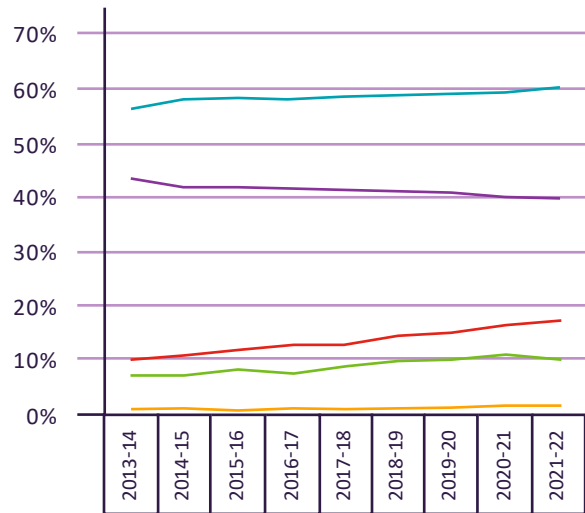
Widening access to higher education is a strategic priority for SFC. The latest data show that 16.5% of Scottish domiciled full-time first-degree entrants to Scottish HEIs were from the 20% most deprived areas in AY 2021-22. Figure 3 shows the proportion of Scottish-domiciled full-time entrants by level and sector of study from 2015-16 to 2021-22. Universities are also taking steps to improve access to a more diverse population, including protected characteristics of gender, ethnicity, disability and care experience. Figure 4 shows the proportion of Scottish domiciled full-time first degree entrants to university by selected student characteristic from 2013-14 to 2021-22. The college sector has also taken steps to improve access to a more diverse population. Figure 5 shows the proportion of learning hours at Scotland’s colleges by protected characteristic the same period.

Figure 3: Proportion of Scottish-domiciled full-time entrants by level and sector of study



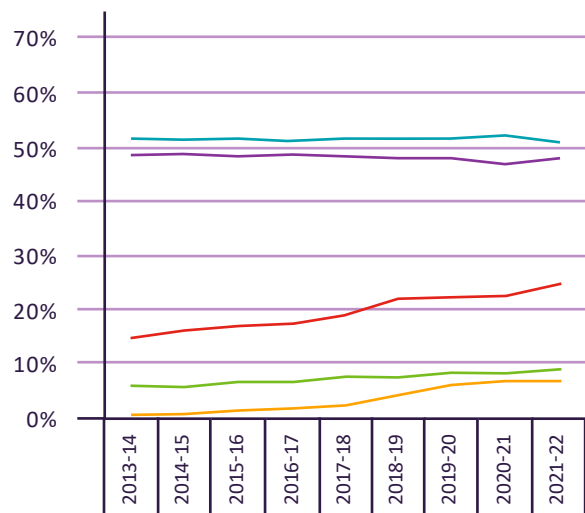
- University Full-time First Degree (COWA cohort)
- University Full-time Other Undergraduate (non-COWA cohort)
- College Full-time HE
- Tertiary sector full-time HE

Figure 4: Proportion of Scottish domiciled full-time first degree entrants to university by selected student characteristic



- Female
- Male
- Declared Disability
- Care-Experienced
- BaME

Figure 5: Proportion of learning hours at Scotland’s colleges by protected characteristic



- Female
- Male
- Declared Disability
- Care-Experienced
- BaME



Generating new ideas and diffusing knowledge

To invest in excellent research and innovation that advances current knowledge; attracts and nurtures talent and entrepreneurship; mobilises collaboration and additional investment; enhances our international reputation; and delivers economic transformation and societal value.

Research excellence

Research excellence is fundamental to Scotland's reputation and our ability to attract international students, inward investment, leveraged funding and broad collaborative networks here and across the globe. Scotland's universities are among the best in the world, with cutting edge research that creates knowledge of immense social, economic and cultural value and our priority is to invest in excellent research wherever it is found.

Following publication of the REF 2021 results, we implemented an updated formula for the Research Excellence Grant (REG) as part of our AY 2022-23 allocations process. The new formula, developed following extensive consultation the previous year, included single-year transition measures intended to smooth temporarily significant funding changes.

To support development of a future research strategy, we undertook a comprehensive baseline analysis of key trends in Scottish research competitiveness and quality. We have also procured two external commissions to explore both the societal impact and economic impact of Scotland's university research and we began work on a new SFC report on the role and value of the REG, drawing on case studies submitted by universities as part of the 2022-23 Outcome Agreement process.



Our new Alliances for Research Challenges (ARCs) represent a new approach to research collaboration aligned to Scottish Government priorities.

Research collaboration

In line with our Review recommendations, during the second half of 2022 we delivered a two-stage process to identify and develop new Alliances for Research Challenges (ARCs) with a focus on connecting areas of Scottish research strength to national Scottish Government priorities in areas of research funding opportunity. Three ARCs – focused on brain health, food systems and energy, homes & livelihoods – have been announced and will each receive up to £0.6m over the next four years from SFC. A fourth ARC on quantum technologies is under development. The investment will enable them to create multi-disciplinary, cross-sector teams to strengthen and accelerate bids for major research grants, including funding from overseas.

Research culture

As recommended in our Review, we included research culture in our Outcome Agreement (OA) process in AY 2022-23 for the first time. We asked institutions for a short, high-level statement describing how positive research cultures are being developed, supported and embedded and we will use this to inform our future work and support greater national understanding of research culture in Scotland.

We have also established a new, national Advisory Group for Postgraduate Research. The Group will explore opportunities to support postgraduate researchers, including advising on future funding approaches, building and strengthening the evidence base and guiding Scotland's response to changes in the rest of the UK.

Making knowledge useful

Alongside our Innovation Centre (IC) funding partners – Scottish Enterprise, and Highlands and Islands Enterprise – we commissioned a comprehensive evaluation of phases 1 and 2 of the IC programme. The results of the evaluation are being considered, alongside infrastructure plans submitted by each IC, as part of an assessment process to determine future long-term infrastructure investment decisions and support delivery of a key Review recommendation. During the year SFC worked closely with ICs to develop guidance to support them through this process.

Work is on track to develop the University Knowledge Exchange and Innovation Fund, with close engagement and consultation with the sector. Although no additional funding has been made available, we have also continued to explore opportunities to build on the knowledge exchange assets in Scotland's colleges. For example, our IC infrastructure process includes consideration of how future ICs will engage with and utilise a tertiary approach.

We have also engaged closely with the development of the Scottish Government's Innovation Strategy, providing advice and guidance to ensure alignment and join up with our KE&I investments and strategy.

Embedding a culture of entrepreneurship

We continued to support entrepreneurialism through our ongoing investments in Interface and Converge. Last year we invested £900,000 in Interface and a further £615,000 in the Innovation Voucher programme to support collaborations between Scotland's universities, research institutes and colleges, and organisations from a wide variety of national and international industries. Our £422,000 investment in Converge (matched by universities) helped students, graduates and staff across Scotland's universities and research institutes turn their creativity, ideas and innovations into commercial reality. Alongside our current investments, we are exploring ways to build a focus on entrepreneurship and commercialisation into our programme of investments and activity as part of the development of our coherent knowledge exchange & innovation strategy.

We have worked with the Universities Scotland Research Commercialisation Directors Group to explore the concept of an Entrepreneurial Campus where every learner would have exposure to entrepreneurial education and every institution would be enabled to support business start-ups. The outputs from this work will provide the starting point for discussions on how we will manage the uplift to the University Innovation Fund in AY 2023-24. This work has also supported us in our engagement with the 'Entrepreneurial People and Culture' programme within the National Strategy for Economic Transformation (NSET).

Working with UK partners

We continue to cultivate and explore opportunities to build on and deepen our relationship with UK Research and Innovation (UKRI). We welcomed a new UKRI observer onto our Research and Knowledge Exchange Committee (RKEC) and we continue to have regular formal and informal interactions to

stay informed of wider UK activity and identify opportunities for collaboration and synergy. We have engaged in the Future Research Assessment Programme (FRAP), designed to undertake an evaluation of the REF 2021 and to consider, and make recommendations on, future approaches to research assessment in the UK. We convened a dedicated RKEC sub-group to focus on developing FRAP proposals and generate Scottish sector perspectives to feed into this national process. Following publication of the final findings, a process of extensive sector engagement and consultation will begin on the development of REF 2028.

How the sectors have performed

Analysis of the Higher Education Statistics Agency (HESA) data outlined that total research income to Scottish universities in AY 2021-22 was as follows:



£313.8m from UKRI
(Research Councils)*

13.3% of the UK total to universities.



£53.9m from UK industry

12.9% of the UK total to universities.



£168.5m from UK charities

13.0% of the UK total to universities.

Analysis of UKRI Gateway to Research data outlined that Scotland's share of large UKRI grants** in 2022 was 11.6%

**where 'large awards' are the top 10% of awards by award value.

*AY 2021-22 figures do not include Heriot-Watt and therefore, are not comparable with previous years returns.

The HESA HE-BCI survey indicated that in AY 2021-22:

- The number of new registered companies from academia was 297.
- The number of active spin-out and start-up companies from universities which have survived at least three years was 753.

In 2021-22 Interface facilitated 367 academic-business collaborations and awarded 109 Innovation Vouchers.



Building a responsive, coherent, sustainable system

To create the conditions for a responsive, coherent system of tertiary education and skills, research and innovation that transforms social and economic prosperity and wellbeing, and environmental sustainability, at national and regional levels and through place-based investment; secures international attractiveness and influence; and supports institutions to thrive individually and together.

Embedding our commitment to net zero

We published our Net Zero and Sustainability Framework for Action, establishing a long-term plan that demonstrates our full commitment to responding to the climate emergency and reflects improved corporate accountability and collective responsibility. It spotlights net zero leadership and delivery by colleges and universities and their future ambitions and plans; reflects the importance of the relationship between SFC's net zero actions and those of the tertiary education sector; and provides a shared vision of our evolving role and actions around which we can all coalesce. Key priorities embedded in the Framework for Action include gearing our funding towards net zero and climate positive outcomes, and net zero accountability for the funding we provide. We will be evolving our OA guidance to include net zero/ climate related measures and self-evaluation from AY 2023-24 onwards. Internally, we are refreshing our procurement strategy, policy and procedures to reflect best practice and ensure we capture principles of carbon reduction in supply chain management.

Through the Financial Transactions Programme SFC has provided around £20m of low-cost loans to four university capital projects designed to respond to the climate emergency:



Building Management System (BMS) Replacement and Associated Works.



Green Biodiversity Walls.



Route to Net Zero Carbon.



Reimagined Peter Wilson Building.

The projects will deliver a greener, healthier campus environment, more resilient to future climatic conditions, whilst also preparing the way for future investments in green buildings, infrastructure, and renewable power generation technologies.

Supporting coherent provision, skills and qualification planning and alignment

Good progress has been made by the Regional Tertiary Provision Pathfinders which were recommended in our Review. SFC has invested almost £500,000 to support the development and implementation of new course provision to meet priority needs in the South of Scotland and the North-East of Scotland. Building on existing collaborative working and rooted in local knowledge and understanding of skills needs, the Pathfinder Regional Delivery Boards in the two regions have launched seven pilots, prioritising projects which will have the most impact on securing simpler pathways and improved outcomes for learners:



NORTH EAST

- **Energy Transition Skills Interactive Pathway** (National Energy Skills Accelerator NESAs)
RGU, UoA, NESCol, SDS and ETZ
- **Developing demand-led, aligned and sustainable learner pathways**
NESCol and RGU
- **Enhancing the senior phase**
NESCol, RGU, UoA and Local Authorities
- **Enhancing and co-ordinating the region's simulation infrastructure for health and social care education**
RGU, UoA, NESCol with NHS Grampian

SOUTH OF SCOTLAND

- **Developing a joint prospectus for learning and innovation in the land-based sector**
SRUC and Borders College
- **Digital Skills Hub and Pathfinder**
Borders College and Dumfries and Galloway College and partners
- **West of Scotland Educational Pathways**
D&GC and University of the West of Scotland and Dumfries and Galloway Council

The regional pilots will inform potential system improvement and good emergent practice for the tertiary education system on skills planning and delivery.

SFC has also secured representation on the Scottish Apprenticeship Advisory Board (SAAB), the Employer Engagement Group, the Standard and Frameworks Group, and the Apprenticeship Equalities Group. Representation on these groups will enable SFC to influence future development and delivery

of the apprenticeship family and play a greater role in skills and qualification planning and alignment.

Beyond SAAB, we have engaged with, and provided support to, several sectors that are experiencing labour and skills shortages, including Aerospace and Defence, Advanced Manufacturing, Trading Standards and Environmental Health, Health and Social Care. Through this engagement we have facilitated collaboration between industry, colleges and universities to develop upskilling and reskilling opportunities.

Photo: Borders College



Photo: Glasgow Caledonian University



Workforce planning in the health service

We have progressed on three of the seven key themes of the current Joint Action Plan with NHS Education for Scotland (NES) with a focus on developing clearer and attractive career pathways into health and social care careers. SFC continues to provide advice on the work-based learning elements of the National Workforce Strategy. We are also engaged with the NES/NHS regional health and social care huddles, which bring together colleges, universities, local authorities, and territorial health boards, to enhance our understanding of regional health and social care workforce issues, and to determine where joining up activities across the two organisations will deliver best value. Work has begun on development of the 2023-24 Joint Action Plan which will include a clearer line between outcomes and actions with metrics by which both organisations can monitor progress and impact. Given the drop in applicants to medicine, we are providing advice to Scottish Government Health and Social Care Department on options to increase the number of applicants to medicine and are engaging with universities on recruitment and retention in relation to nursing and midwifery provision.

Supporting financial health and good governance

We have continued to review financial returns and sustainability indicators, enhancing our understanding of the indebtedness and commercial commitments of the sector through regular engagement with lenders to understand their concerns and insights. We have spent time over the year to develop our overview of institutional risk, taking account of financial sustainability and governance, and have begun work on a new approach to institutional engagement.

We have updated the Colleges' Disposal Guidance and are currently discussing proposals with the Scottish Government. Depending upon appetite we may extend the scope of this work to create more opportunities for colleges to think and act more entrepreneurially in estates management and investment.

We have provided advice to Ministers on the future of the Glasgow Colleges Regional Board and begun work on the future of UHI. Consideration of the future of the Lanarkshire Regional Board was paused to allow employment matters at South Lanarkshire College to be resolved.

We have supported three colleges in the UHI region as they have proceeded with a proposal to merge. Updated guidance on mergers and structural reform is under development and will be progressed in the coming year.

Developing responsive and dynamic funding model

Working closely with the College Funding (Principals) Group, the College Funding Working Group and the CDN Finance Directors Group, we have made significant changes to the college investment model including:



The introduction of a threshold rather than target approach to credits.



The reduction of the credit threshold to more closely align with attainable performance levels.



The untethering of 20% of the credit value to recognise the semi-fixed nature of some costs.



A more definite approach to marginal movement of credits based upon performance.

For the University Investment Model, we have made marginal changes to funded places allocations to reflect performance and trailed that this will be the pattern for future years. We have established a working group with university planners to model future year performance to inform the University Investment Model.

Supporting the college estate

In line with our Review recommendations, we published the College Infrastructure Strategy, setting out our guiding principles for the college estate and our intention to develop and deliver a Colleges Estate Strategy Implementation Plan, working with the sector, during 2023-24 and the following year. Work has begun on this significant collaborative project with the development of a Delivery Plan and identification of seven work packages. The outline Plan has been shared with Colleges Scotland.

The Capital Maintenance funding model was reviewed and is in place for AY 2023-24. The model will provide greater flexibility for colleges by combining backlog and lifecycle maintenance allocations into one capital allocation. The additional £4.7m increase in capital maintenance funding will be targeted to support the high priority emergency and health & safety needs for estates maintenance across the college sector throughout 2023-24.



Making SFC an excellent organisation:

To be an excellent public body that delivers impact through leadership, partnership, insight and wise investment.



Our introduction of Microsoft 365 services and upgrades in IT infrastructure have enabled greater collaborative working and heightened security.

Delivering with efficiency and impact

We have developed a transformation programme and implementation plan covering human resources, digital, governance, planning, and estates. As part of this work, a Business Systems Group was established to plan and prioritise digital and IT systems solutions and upgrades.

We have continued to increase our capacity and capability, establishing a hybrid approach to recruitment to support recruitment of specialist roles. Our staff complement has grown to 128 FTEs over the reporting period. We have also extended our learning and development offer, providing SFC employees with access to the Civil Service Learning platform.

Our internal audits completed in FY 2022-23 confirmed appropriate financial processes and controls are in place and operating well. Drawdown and payments have been completed accurately and on time, covering a budget of approximately £2.0bn. As part of our ongoing enhancement approach, we have begun work to refresh our scheme of financial delegated authorities and a project to refresh financial policies and procedures, including a review of our risk and control framework and a refresh of our procurement policy.

The latest Best Value update was completed in Summer 2022, setting out clear progress against actions from the previous Best Value Assessment.

Working with our partners

We have continued to work collectively with colleges, universities, students, funding partners, government and key stakeholders, to secure sustainable institutions, coherent tertiary education provision, excellent research and innovation, and good outcomes.

We engaged closely with sector partners as we developed our approach to the 2023-24 funding allocations, engaging through a range of channels to test our approach and share our thinking. Through our regular schedule of meetings, supported by bespoke working groups, we have ensured a spirit of collaboration and co-creation on a range of issues, including college infrastructure, the common approach to quality, equality outcomes, and research and innovation.



Through participation in the NSET Portfolio Board and associated programme boards we have played a key role in communicating the role of colleges and universities in the delivery of a green, wellbeing economy. We have had a particular focus on supporting the Entrepreneurial People and Culture, and the Skilled Workforce workstreams but have fed into wider discussions where appropriate.

Working with partners in SDS and the Scottish Government we have contributed to the delivery of objectives agreed by the Shared Outcomes Assurance Group, including the delivery of FAs and GAs and publication of the Education and Skills Impact Framework.

We have enhanced engagement with local authorities and enterprise and skills partners, alongside colleges and universities, in the delivery of our Regional Pathfinders. And we have reinstated the UK Four Nations Funding Bodies group to enhance collaborative working with our UK partners.

Evidence-based decision making

We have continued to publish official and national statistics in line with guidelines to meet the needs of the sector, the Scottish Government and other partners. We have begun the process to recruit a Data Engineering team to support the development of a new data collections system and are commissioning an agency to review our data publications with a view to enhancing our analytical capabilities.

To better articulate the impact of the sector and provide the overarching context for our approach to assurance and accountability we have begun work on a National Impact Framework (NIF) as articulated in the SFC Review of Coherence and Sustainability.

Future developments

There are several future transformational developments to highlight which will impact on the tertiary education and research sector and on SFC internally. Key activities include:



Managing the long-term financial sustainability of the sectors within a flat cash funding environment.



Development of the National Impact Framework and associated assurance and accountability mechanisms.



Development of new funding models for both the college and university sectors.



Implementation of recommendations on the future of Regional Strategic Bodies.



Implementation of the evaluation of the Innovation Centre programme.



Development and implementation of a Colleges Estate Strategy Implementation Plan.



Development and implementation of our People Strategy.



Responding to the recommendations of the Independent Review of the Skills Delivery Landscape.



Supporting the delivery of the Purpose and Principles for Post-School Education, Research and Skills.

To support our transformation programme we have embarked on a dedicated recruitment drive to enhance our capacity and capability, with a particular focus on data analytics, data engineering, research and policy. We have made a number of new appointments over the course of the year.

As we further consider our People Strategy, priorities, future transformational developments and resourcing requirements, further internal changes will likely result in the future.

Net Zero and sustainability

Our investments underpin the contribution that Scotland's tertiary education sector is making to the transition to net zero and environmental sustainability. Contributions include but are not limited to:



Education and skills:

SFC leads the Climate Emergency Skills Action Plan education sub-group, providing data and analytics to support evidence-based policy making. Our investment, coordination and support enable colleges and universities to deliver green upskilling and reskilling opportunities.



Research and innovation:

We are progressing Alliances for Research Challenges (ARCs) in food, and in energy security with sustainability at the heart of their work and we are working with UKRI on the environmental sustainability of research. Our investment in the Innovation Centre programme is identifying innovative ways of working in more traditional industries such as construction.



Estate management:

We are supporting universities through our Financial Transactions programme to respond to the climate emergency by delivering a greener, healthier campus environment, more resilient to future climatic conditions; and our College Infrastructure Strategy has as a key commitment to the pursuit of net zero ambitions.



Leadership:

We provide funding for the Energy Skills Partnership which supports college training networks in several skills areas vital to our just transition to net zero. In 2022 our funding of the Alliance for Sustainability Leadership in Education (EAUC Scotland), which provides support to colleges and universities to reduce emissions and increase sustainability leadership, supported delivery of new sustainability training resources for all college staff together with the College Development Network and Learning for Sustainability Scotland.



Photo: University of Glasgow

In November 2022, we published our [Net Zero & Sustainability Framework for Action](#), our route map to reach net zero by 2045 or earlier. The plan provides a comprehensive set of actions across all business areas of SFC through which we intend to elevate our role in the just transition, green growth and place-based net zero transformation. We will adjust our approach to outcome agreements, impact, and assurance and accountability to embed further net zero specific reporting measures with institutions, aligned with existing carbon and other sector sustainability reporting, covering their whole institutional responses to the climate emergency. Using our investment levers we will also support institutions in their individual and sector wide net zero journeys. We will carry out a phased review of all our guidance and other process documentation to ensure it is supportive towards the net zero transition. For example, our [Accounts Directive](#) issued to institutions highlights their legal obligations under the Climate Change (Scotland) Act 2009, and we require all new building projects linked to SFC capital funding to achieve high sustainability standards.

We made several improvements through SFC's [annual statutory carbon report](#) in November 2022. New risks have been added to our corporate risk register in 2022 on climate mitigation and adaptation. We are committed to moving to full compliance with public sector leadership on the global climate emergency guidance ([PSLGCE](#)) including mitigation, adaptation and adopting interim emissions reductions targets. We are also committed to improving data gathering on our emissions, including improving understanding of our baseline and boundary.

We delivered a new [Carbon Management Plan](#) in November 2022 with an emphasis on empowering our staff in delivering climate positive outcomes, including providing carbon literacy training for all staff. We held two workshops facilitated by Adaptation Scotland in early 2023 considering SFC's need to adapt, and appropriate ways in which we can translate an adaptation "pull" through our capital funding levers. We have committed to undertake Adaptation Scotland benchmarking as a public body.

Payments to colleges and universities

We successfully allocated £2.0bn in funds accurately and on time to colleges and universities in FY 2022-23.

Financial position

SFC's funding grant disbursements and operating costs for the year ended 31 March 2023 are contained in the Financial Statements. 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). Grants paid to colleges and universities and other bodies are detailed on pages 109 and 110.

Performance against Departmental Expenditure Limits in FY 2022-23

The financial performance against Departmental Expenditure Limits (DEL) is summarised below:

Budget	Expenditure £'000	Income £'000	Outturn £'000	Allocation £'000	Variance £'000
Resource	1,734,824	196,256	1,538,568	1,595,860	(57,292)
Capital	429,715	43,305	386,410	422,200	(35,790)
Total resource (see below)	2,164,539	239,561	1,924,978	2,018,060	(93,082)
Financial Transactions	32,032	-	32,032	20,100	11,932
Financial Transactions - Repayment of principal on investment (reinvested)	-	11,572	(11,572)	-	(11,572)
TOTAL BUDGET	2,196,571	251,133	1,945,438	2,038,160	(92,722)

Reconciliation of Statement of Comprehensive Net Expenditure to resource outturn (£'000)	
Comprehensive net expenditure	1,981,208
Depreciation charge allocated to non-cash costs	(258)
Amortisation charge allocated to non-cash costs	(29)
Scottish Government Grant income credited to taxpayers equity	(1,180)
UK Government Grant income credited to taxpayers equity	(43,305)
Net expenditure attributed to the capital budget	(109)
Reprofiling of FT funds attributed to the capital budget	(11,471)
Other	122
Resource Outturn	1,924,978

SFC recorded a £92.7m variance against budget comprising a variance due to decisions on reprofiling (£91.9m) and an underspend (£0.8m):



£56.1m variance due to college support job evaluation funds, where the funding was passed to SG. The college support staff job evaluation did not conclude in FY 2022-23.



£35.8m variance due to rephasing of capital projects in the college sector, in particular Dunfermline Learning Campus. SG determined that these funds were required to support the SG in achieving a balanced budget, so this funding was not reprofiled over the academic year.



£0.8m net underspend driven mainly by repayments made by colleges on pre-2014 loans which do not score as resource spend in DEL.

SFC received £20.1m in Financial Transaction funding to award loans to universities and we received permission from the Scottish Government to reinvest the proceeds from the repayment of loans of £11.9m giving a total investment of £32.0m. These loans are only provided to private sector organisations and are for projects which meet the criteria for particular programmes. This form of funding has been awarded to universities over the last four years and is the most significant item in our Statement of Financial Position.

Included within the total funding above, students benefited from:



Funding for Flexible Workforce Development Fund (FWDF) (£7.0m).



Funding allocation for student counsellor support (£4.0m in 2022-23, August 2022 - March 2023).



Simulated Placements for Nursing/Midwifery and Paramedicine (£1.3m in 2022-23).



Funding for students to access free period products at colleges and universities (£1.3m in 2022-23).



Funding for additional university pre-registration MSc Physiotherapy students recruited through the September and January intakes (£0.9m in 2022-23).

We monitor the financial position for further and higher education throughout the year through resource returns to the Scottish Government. We manage our budget through an annual re-profiling exercise to reallocate funds between the further education, higher education and running costs budgets.

SFC is funded on a financial year (April to March) basis but distributes funds to institutions on an academic year (August to July) basis.

To accommodate this SFC is permitted to re-profile a portion of its funds over the financial/academic year boundary, against higher education resource budgets. This allows SFC to meet demand led institutional funding needs over the summer term, after the financial year end. The Scottish Government approved total re-profiling of £66.7m (FY 2021-22 £93.6m) which equates to 3% (FY 2021-22: 5%) of the total Grant-in-Aid budget from the Scottish Government.

Running cost expenditure

Running cost expenditure is a very small proportion of overall expenditure (at around 0.6%). During FY 2022-23, the total running cost expenditure was £11.7m (FY 2021-22: £8.7m).

Audit

The audit of the accounts of SFC has been undertaken by Mazars, appointed by the Auditor General for Scotland. No non-audit services were supplied during the year.



KAREN WATT
Accountable Officer

15 September 2023



A hand is shown interacting with a purple joystick on a dark, illuminated control panel. The background is a blurred museum or gallery space with various exhibits and colorful lighting. The text 'SECTION 2: THE ACCOUNTABILITY REPORT' is overlaid on a teal background in the lower right corner.

SECTION 2: THE ACCOUNTABILITY REPORT

Corporate governance report

Directors' report

The Chair and Board members of SFC are appointed by the Scottish Ministers in accordance with the *Code of Practice for Ministerial Appointments to Public Bodies in Scotland*, issued by the Commissioner for Ethical Standards in Public Life in Scotland.



More information about SFC Board members and their interests can be found on our website at [Council Board membership](#).

In FY 2022-23, membership of the SFC Board was as follows:

CHAIR

Dr Mike Cantlay

CHIEF EXECUTIVE

Karen Watt

MEMBERS

David Alexander

Sheila Duncan

Mhairi Harrington

Lorna Jack (Deputy Chair)

Professor Ewart Keep

Andy Kerr (resumed duties on 1 February 2023)

Dr Paul Little

Professor Sir Peter Mathieson

Professor Irene McAra-McWilliam

Dr Veena O'Halloran

Caroline Stuart

Professor John Wallace

Professor Lesley Yellowlees

SFC Board meetings are attended by observers from NUS Scotland, Research England, and the Higher Education Funding Council for Wales (HEFCW). A union-nominated member of staff also normally attends the Board as an observer. A representative from the Scottish Government may attend by invitation.

Personal data related incidents

There have been no incidents of loss of personal data by SFC, which required to be reported to the UK Information Commissioner.

Statement of Accountable Officer's responsibilities

Under paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005, SFC is required to prepare a statement of accounts in respect of the year ended 31 March 2023 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 SFC's state of affairs at 31 March 2023 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 Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual (FRM) 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 SFC. 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 SFC'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 herself aware of any relevant audit information and to establish that Mazars is aware of that information. There is no relevant audit information of which Mazars is not aware. The Annual Report and Accounts, as a whole, is fair, balanced and understandable.

The Accountable Officer confirms that she takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance statement

Introduction

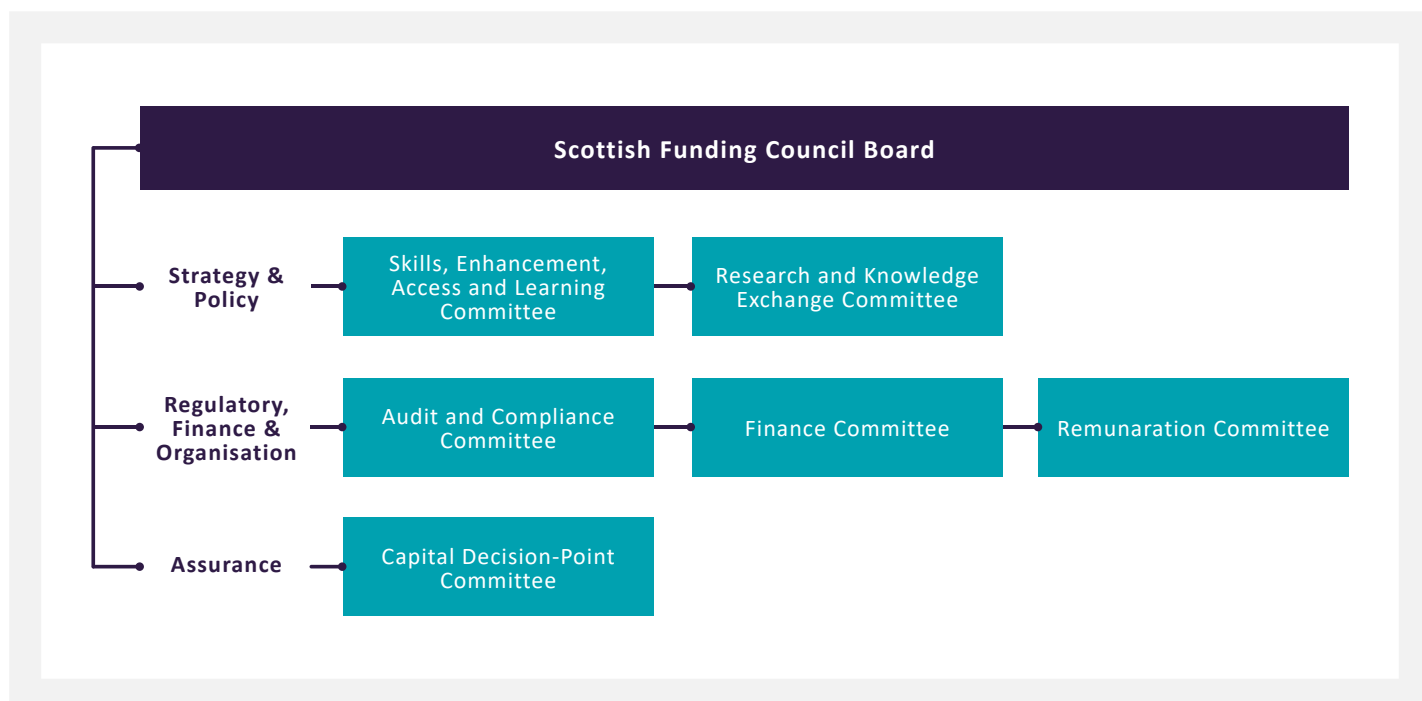
As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of SFC's objectives. The *Memorandum to Accountable Officers of other Public Bodies* sets out these responsibilities.

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 2022-23 and reports my assessment of the effectiveness of these arrangements.

Governance structure

SFC's governance structure is based on the legislative powers of the organisation and its Framework Document with Scottish Government. The Framework document was reviewed and updated in September 2022.

The following diagram outlines the governance structure in place at the end of FY 2022-23.



SFC 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 Board

The SFC Board is responsible for providing strategic leadership, direction, support and guidance, and in ensuring that SFC delivers its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers.

Members of the SFC Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of SFC'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 Framework Document and *Code of Conduct for members of the Scottish Further and Higher Education Funding Council*.

Board effectiveness

The SFC Board reviews its effectiveness and uses the outcomes to develop and implement a Board Development Plan. The last Board Effectiveness Review was completed in January 2022 and the Board has directed that a further review should be undertaken in FY2023-24. An external Board Effectiveness Review will be completed in 2024.

A strategy session was held during the year to inform future decision-making. This session enabled the Board to listen to a broad range of contextual information and discuss the external operating environment, as well as the challenges and opportunities ahead. Presentations were received from the student, international and fiscal environment perspectives, as well as a briefing on the broader economy from the Fraser of Allander Institute.

In addition, during the year, the Chair and the Scottish Government sponsor department jointly developed a Board skills matrix to inform future board appointments.



Photo: Forth Valley College



Photo: Glasgow Caledonian University

Standing committees

During FY 2022-23, six standing committees provided the SFC Board with advice or undertook functions on behalf of the Board. Two committees provide advice to the Board and the Accountable Officer for policy and strategy in relation to Outcome Agreements with colleges and universities:

Skills, Enhancement, Access and Learning.

Research and Knowledge Exchange Committee.

Three committees provide advice to the Board and the Accountable Officer on funding, regulatory or organisational matters:

Audit and Compliance Committee.

Finance Committee.

Remuneration Committee.

The sixth committee provides the Board and Accountable Officer with advice on capital funding issues:

Capital Decision-Point Committee.

The remit of the six Committees are set out in the table below and available on SFC website under [Board committees](#).

	<p>Skills, Enhancement, Access and Learning</p>	<p>The Skills, Enhancement, Access and Learning Committee provides advice to the SFC Board on strategies and policies for improving the learning experience and outcomes for students, including widening access to learning, equalities, quality enhancement, and meeting the skills needs of Scotland.</p>
	<p>Research and Knowledge Exchange Committee</p>	<p>The Research and Knowledge Exchange Committee has a key role to respond to, recommend and advise the Council on research and knowledge exchange strategy, policy and funding issues relevant to Scottish HE institutions and colleges, with broad areas of advice.</p>
	<p>Audit and Compliance Committee</p>	<p>The Committee considers SFC's annual accounts and matters relating to the internal operations of the executive, in particular those relating to risk management, corporate governance, internal audit, external audit and compliance with legislation and regulation.</p>
	<p>Finance Committee</p>	<p>The Finance Committee reviews the medium-term financial plans, scrutinise the annual budgets and the financial position of the Council to ensure that it can meet its commitments and strategic objectives and review the financial aspects of the annual report and accounts. The Committee considers institutions' financial sustainability, financial governance and compliance with financial memoranda.</p>
	<p>Remuneration Committee</p>	<p>The Remuneration Committee provides advice to the SFC Board on staffing matters, including the remuneration of the SFC Chief Executive, and provides oversight of SFC's human resource and organisational development strategies.</p>
	<p>Capital Decision-point Committee</p>	<p>The Committee has oversight of SFC capital programmes, and in particular the governance arrangements, for both colleges and universities. The Committee provides assurance to the SFC board that the Council executive has undertaken the necessary scrutiny and due diligence for its capital programmes; traditional capital, revenue-funded and Financial Transaction loan finance.</p>

SFC Board members' attendance at meetings

The full Standing Orders and membership of all [SFC committees](#) are published on the SFC's website.

The SFC Board members' attendance at Board and committee meetings in FY 2022-23 is shown in the table below.

The table to the left refers only to formal Board and Committee meetings. In addition to the above, SFC Board members chair other forums, serve on other working parties and attend meetings on behalf of SFC.

Council members attending Council and Committee meetings (C = Chairperson)	BOARD 6 meetings
Dr Mike Cantlay (Chair)	6C
Karen Watt (Chief Executive)	6C
David Alexander	6
Sheila Duncan	4
Mhairi Harrington	6
Lorna Jack (Deputy Chair)	6
Professor Ewart Keep	6
Andy Kerr ¹	2
Dr Paul Little	6
Professor Sir Peter Mathieson	4
Professor Irene McAra-McWilliam	6
Dr Veena O'Halloran	5
Caroline Stuart	6
Professor John Wallace	6
Professor Lesley Yellowlees	6

¹Having

RD ings	AUDIT AND COMPLIANCE 4 meetings	CAPITAL DECISION POINT 2 meeting	FINANCE 7 meetings	REMUNERATION 3 meetings	RESEARCH AND KNOWLEDGE EXCHANGE 4 meetings	SKILLS, ENHANCEMENT, ACCESS AND LEARNING 3 meetings
-	-	-	-	-	-	-
*	-	-	*	*	*	-
4C	-	-	-	-	-	-
3	-	-	-	3C	-	3
-	2C	7	2	3	-	-
-	-	7C	-	-	-	-
-	-	7	-	-	-	3
1	-	-	-	-	-	0
-	-	-	-	-	-	3C
-	-	-	-	-	-	-
-	-	-	-	-	4	3
3	-	6	2	-	-	-
3	-	-	-	-	3	-
-	2	7	2	-	-	-
-	-	-	-	-	4C	-

*While not a formal member of these committees, the CEO has attended one or more of these committee meetings.
g voluntarily stepped aside from duties on the SFC Board for the duration of the investigation process at SLC, Andy Kerr resumed duties on 1 February 2023.



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 in the terms of the Scottish Government's Scottish Public Finance Manual (SPFM), the Framework Document with Scottish Government, and associated guidance and good practice guidance.

Risk management and control

Risk management is the process of identifying, assessing and controlling risks to achieve our objectives. SFC is committed to:



Ensuring that SFC's strategic priorities and business functions are not adversely affected by significant risks.



Ensuring that risk management is a key element of effective corporate governance within the organisation.



Having a risk management framework for identifying, assessing, and managing risks at group and corporate levels.



Embedding a risk management framework that is manageable, proportionate to our business, and integrated with our planning and reporting processes.



Identifying significant risks in a corporate risk register and ensure that appropriate controls and mitigating actions are in place to manage risks.



Having arrangements for ensuring the effectiveness of our approach to risk management, including through the Audit and Compliance Committee, and the programme of internal audit.



Maintaining a Risk Management Strategy and Framework which identifies the assurance relied upon to assess whether risks are being managed effectively.

As part of our commitment to continuous improvement, the SFC Risk Management Strategy and Framework was reviewed during the year. This work included a number of changes aiming at making the process more effective through simplification and streamlining.

Aligned with industry best practice, the SFC Board 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 and Risk Appetite is regularly reviewed and discussed by the SFC Board and is included in meetings of other Board Committees to help inform our decision-making.

While, as Accountable Officer, I remain ultimately responsible for managing and implementing SFC's risk management strategy on a day-to-day basis, and for reporting changes to risk management arrangements 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 Corporate Risk Register identifies 'owners' for each risk within the senior staff of the SFC executive, chosen for their expertise in the particular areas of risk.

Risk management is embedded in the operations of the organisation. Risks are reviewed by managers regularly as part of their work, and The Senior Leadership Group review the Corporate Risk Register and updates are presented to the SFC Board for discussion and noting.

Information governance and security

During the FY 2022-23, SFC has been working through a programme of cyber security enhancement in line with our broader cloud strategy.

SFC continues to address our cyber culture and awareness through a combination of learning supported phishing campaigns, leveraging industry leading technologies in the form of Microsoft Azure services and protections whilst realigning our business continuity processes, measurement and governance with our new ways of operating.

There have been no cyber security breaches during FY 2022-23.

Photo: West College Scotland



Internal audit

Internal audit is a key independent source of assurance. The strategic and annual planning of internal audit reviews is risk based, in which work is targeted to the areas identified as greatest risk and strategic importance.

Internal audit plan covered the following areas for review in FY 2022-23:



Cyber security.



IT risk assessment.



Equality, diversity and inclusion.



Distribution of grant funding.



Financial management.



Health and safety.

Reports with recommended actions were reported to the Audit & Compliance Committee.

All internal audit recommendations are 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 within the target dates, with formal approval and a risk assessment completed for any delays to original target dates.

The provision of internal audit services has been carried out by the in-house audit team at Scottish Enterprise since 1 April 2020.

Significant issues

Significant issues are those that might have a negative impact on our ability to deliver our strategic priorities, or which might affect our performance or reputation, or have a material impact on our accounts. Significant issues are raised mainly through the assurance framework, audit process and the Certificates of Assurance process. During FY 2022-23, the following issues required significant management attention.



Financial health of colleges and universities

The financial health of colleges and universities continues to be closely monitored by SFC. Colleges and universities were already facing financial sustainability pressures before the impact of COVID-19 and we worked closely with the sectors, the Scottish Government and others to provide support during the pandemic. Institutions managed the impact of the pandemic more positively than anticipated as a result of additional funding from Government and SFC, and their own mitigating actions, but longer-term financial sustainability remains challenging for many institutions. Both colleges and universities continue to face underlying financial challenges in the context of a public funding environment that is likely to remain tight in the foreseeable future. Institutions are also facing inflationary pressures while the rising cost of living is increasing pressure in relation to pay settlements and energy costs. SFC is continuing to engage closely with institutions to monitor financial health and to support them in managing their financial sustainability.



South Lanarkshire College

During 2020-21 Audit Scotland issued a Section 22 report under the Public Finance and Accountability (Scotland) Act 2000 on South Lanarkshire College (SLC) drawing Scottish Parliament's attention to governance issues at the College. The Chair of SLC, Andy Kerr, stepped back from the SFC Board in July 2021 while related reviews and investigations were carried out. These were concluded in January 2023, and he returned to the SFC Board in February 2023. Andy's term of office on the SLC Board ended in May 2022. Whilst responsibility for governance remains with South Lanarkshire College, the issue is noted here as it may represent a reputational risk to SFC.



Cybersecurity

There continues to be a significant risk of cyber-attacks to public bodies, and SFC remains committed to ensuring appropriate cyber security arrangements are in place. As part of this, SFC instructed a review of Cybersecurity and IT Risk Assurance in December 2022, highlighting priority areas for further development. These include a refreshed programme of cyber security remediation in line with our broader cloud strategy. Progress on audit actions is monitored by the Senior Leadership Group and Audit & Compliance Committee.

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 SFC'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 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 SFC'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:



SFC'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 and line management processes within the organisation.



Regular meetings between SFC 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, undertaken by the in-house internal audit team at Scottish Enterprise for the year to 31 March 2023, who submit regular reports to SFC's Audit and Compliance Committee, 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.



Findings and recommendations made by external auditors in their 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 2023, the Head of Internal Audit reported completion of all reviews in the Audit Plan. Internal Audit was of the opinion that SFC's systems provided a reasonable basis for maintaining control and that the control framework provided reasonable assurance regarding the effective and efficient achievement of SFC's objectives. This opinion is based on recommendations in the audit reports being satisfactorily implemented. The Head of Internal Audit's Annual Audit Opinion is that:

"The Internal Audit Plan for 2022/23 was approved by the Audit and Compliance Committee in March 2022. Overall sufficient assurance work has been carried out, in accordance with the Public Sector Internal Audit Standards, to enable a reasonable conclusion to be formed on the adequacy and effectiveness of SFC's internal control environment.

For 2022/23 the conclusion of internal audit work carried out, and reported to the SFC Audit and Compliance Committee, identifies an overall satisfactory level of assurance on SFC's framework of governance, risk management and management control.

SFC has an appropriate and effective risk management framework in place, which meets the requirements of the Scottish Public Finance Manual and which contributes to a successful risk culture."

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 2023 and up to the date of approval of the Annual Report and Accounts.



Photo: Robert Gordon University

The Remuneration and Staff Report

Remuneration Report

The sections marked ‘*’ in this Remuneration Report have been audited by Mazars. The other sections of the Remuneration Report were reviewed by Mazars to ensure that they were consistent with the Financial Statements.

Remuneration policy

A Remuneration Committee reviews and determines the remuneration of the Chief Executive and directors of the executive on an annual basis and within the context of budgetary constraints and Scottish Government pay policy. The Committee also determines the remuneration and annual increase for the Chair and SFC Board members, in line with Scottish Government pay policy. The pay policy determines that all of the above decisions are subject to Scottish Government approval.

Current membership of the Remuneration Committee consists of four non-executive members of the SFC Board.

Chair and SFC Board members

Members of the SFC Board are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of SFC’s affairs. The SFC Board membership during FY 2022-23 is detailed below.

Chief Executive

The Chief Executive is an ordinary member of the Civil Service Pension Scheme arrangements. The employer’s contribution to the scheme amounted to 30.3% of the Chief Executive’s pensionable salary.

Senior staff

The remuneration of senior staff is reviewed annually in line with Scottish Government policy and may provide for progression and a cost-of-living increase, subject to not exceeding the salary scale maximum. Apart from the general requirement to perform satisfactorily, there is no performance-related element.

Senior staff are employed on an open-ended contract with a notice period, after completion of probation, of three months from employee or employer. The notice period for the Chief Executive is six months.



Photo: Fife College

SFC Board Membership for the period 1 April 2022 to 31 March 2023*

Member	Appointment start date	Appointment end date	Remuneration 2022-23 £'000	Remuneration 2021-22 £'000
Dr Mike Cantlay OBE (Chair)	3 Oct 2017	2 Apr 2025	50-55	50-55
Karen Watt (Chief Executive)	14 Jan 2019	-	See page 67	See page 67
David Alexander	3 Oct 2017	2 Oct 2025	10-15	10-15
Sheila Duncan	4 Nov 2019	3 Nov 2023	10-15	10-15
Mhairi Harrington OBE	3 Oct 2017	2 Oct 2025	10-15	10-15
Lorna Jack (Deputy Chair)	4 Nov 2019	3 Nov 2023	10-15	10-15
Professor Ewart Keep	4 Nov 2019	3 Nov 2023	10-15	10-15
Andy Kerr	4 Nov 2019	3 Nov 2023	10-15	10-15
Dr Paul Little CBE	4 Oct 2015	3 Oct 2023	10-15	10-15
Professor Sir Peter Mathieson	4 Nov 2019	3 Nov 2023	0-5	0-5
Professor Irene McAra-McWilliam OBE	4 Nov 2019	3 Nov 2023	10-15	10-15
Douglas Mundie	1 Sep 2014	2 Oct 2021	-	5-10
Dr Veena O'Halloran	4 Oct 2015	3 Oct 2023	10-15	10-15
Caroline Stuart	4 Oct 2015	3 Oct 2023	10-15	10-15
Professor John Wallace CBE	4 Nov 2019	3 Nov 2023	10-15	10-15
Professor Lesley Yellowlees OBE	3 Oct 2017	2 Oct 2025	10-15	10-15

The Chair receives a daily fee of £490.09 for a time commitment of two days per week.

SFC Board members' attendance at meetings is given on page 57 and 58.

As at 31 March 2023 there were 15 Board members of whom eight are females and seven are males.

Remuneration information for Senior Employees for the Period 1 April 2022 to 31 March 2023*

Single total figure of remuneration	Salary (£'000)		Pensions benefits (£'000)		Total (£'000)	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
Karen Watt (Chief Executive)	130-135	125-130	-	64	130-135	190-195
Martin Boyle (Director of Policy, Insight & Analytics)	100-105	90-95	29	65	130-135	160-165
Helen Cross (Director of Research & Innovation) 1 Nov 2022 to 31 March 2023 (Note 1)	35-40 pro-rata	-	19	-	55-60	-
James Dunphy (Director of Access Learning & Outcome)	100-105	90-95	40	36	140-145	130-135
Stuart Fancey (Director of Research & Innovation) 1 April to 3 June 2022 (Note 2)	20-25	105-110	-	37	20-25	145-150
Richard Maconachie (Director of Finance) joined 19 April 2022 (Note 3)	95-100	-	37	-	130-135	-
Chris Brown (Interim Director of Finance) Oct 21-15 Apr22 (Note 4)	5-10	55-60	-	-	5-10	55-60
Lorna McDonald (Director of Finance) left SFC on 9 Nov 2021	-	70-75	-	25	-	100-105
John Kemp (Director of Access, Learning & Outcome) left SFC on 31 March 2022	-	120-125	-	-	-	120-125

Note 1 – Full Year Equivalent £90k - £95k.

Note 2 – Full Year Equivalent £105k - £110k.

Note 3 – Full Year Equivalent £100k - £105k.

Note 4 – Full Year Equivalent £130k - £135k (including VAT).

There were no bonus payments or benefits in kind payments made in either FY 2022-23 or FY 2021-22.

Pension information for Senior Employees for the Period 1 April 2022 to 31 March 2023*

	Accrued pension at pension age as at 31/03/2023	Real Increase in pension and related lump sum at pension age	CETV at 31/3/23	CETV at 31/3/22	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Karen Watt (Chief Executive)	65 - 70 plus a lump sum of 150 - 155	0 - 2.5 plus lump sum of 0	1,433	1,304	-35
Martin Boyle (Director of Policy, Insight & Analytics)	30 - 35 plus a lump sum of 70 - 75	0 - 2.5 plus a lump sum of 0	585	504	14
Helen Cross (Director of Research & Innovation) joined 1 Nov 2022	15 - 20	0 - 2.5	220	201	9
James Dunphy (Director of Access Learning & Outcome)	5 - 10	0 - 2.5	50	27	14
Stuart Fancey (Director of Research & Innovation) left 3 June 2022	40 - 45	0	658	659	-15
Richard Maconachie (Director of Finance) joined 19 April 2022	15 - 20	0 - 2.5	321	274	29
Lorna McDonald (Director of Finance, left SFC on 9 Nov 2021)	-	-	-	204	-
John Kemp (Director of Access, Learning & Outcome, left SFC on 31 March 2022)	-	-	-	1,014	-

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023. HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023-24 CETV figures.





Photo: Newbattle Abbey College

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements for staff employed directly by SFC. 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: three 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 five months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. Because the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, it is expected that, in due course, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Transfer Values shown in this report – see below). 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 4.6% and 8.05% of **classic, premium, classic plus, nuvos** and **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 uprated 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 an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). 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 0.5% of pensionable salary 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.

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.

Civil Service pension

The Civil Service pension arrangements are an un-funded multi-employer defined benefits scheme but SFC is unable to identify its share of the underlying assets and liabilities.

The scheme actuary last valued the CSPS as at 31 March 2016. You can find details in the resource account of the [Cabinet Office: Civil Superannuation](#).

For 2022-23, employers' contributions of £1,676,124 were payable to the Civil Service Pension Scheme (FY 2021-22: £1,452,172) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during FY 2022-23 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Fair pay disclosures*

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 and the same ratio for the 25th and 75th percentiles of the organisation's workforce.

The banded remuneration of the highest-paid director in SFC in the financial year 2022-23 was £130,000-135,000 (FY 2021-22: £125,000-130,000).

	Fair Pay Disclosures*			
	2022-23		2021-22	
	PAY	RATIO	PAY	RATIO
Highest paid Director (mid-point of band)	£132,500	Highest paid to:	£127,500	Highest paid to:
Staff Median	£46,662	2.84	£43,595	2.92
Staff 25th percentile	£40,662	3.26	£36,165	3.53
Staff 75th percentile	£61,571	2.15	£53,123	2.40

This was 2.84 times (FY 2021-22: 2.92) the median remuneration of the workforce, which was £46,662 (FY 2021-22: £43,595).

The ratio of the highest paid director and the 25th percentile in FY 2022-23 was 3.26 on staff pay of £40,662 (FY 2021-22 staff pay was £36,165 the ratio was 3.53). The ratio of the highest paid director and the 75th percentile in FY 2022-23 was 2.15 on staff pay of £61,571 (FY 2021-22 staff pay was £53,123 and the ratio was 2.40).

The SFC believes the median pay ratio for FY 2022-23 is consistent with the pay, reward and progression policies for the entity's employees taken as a whole, reflecting the implementation of the 2022-23 pay award combined with an increasing number of more senior staff. The ratios all show a reduction from the 2021-22 results where the highest paid director is compared to the staff median, the staff 25th percentile and the staff 75th percentile.

In FY 2022-23, nil (FY 2021-22: nil) employees received remuneration in excess of the highest paid director. Remuneration ranged from £19,959 to £132,500 (FY 2021-22: £18,936 to £129,406). Total remuneration includes salary and non-consolidated performance-related pay (no benefits in kind are payable). It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.



Remuneration change from prior year

During FY 2022-23, the highest paid director received a 1.9% pay increase (base pay and progression) in FY 2021-22 this was 2.1%. This compares to the 2022-23 average pay increase (base pay and progression) for eligible staff of 5.9% (in FY 2021-22 this was 2.4%). These figures are distinct from the Fair Pay Disclosures table above which reflects the mid-point of each band. The higher staff pay increases in 2022-23 are a result of Scottish Government Pay Policy, which permitted a higher level of increase for lower paid staff compared to higher earners. By the end of FY 2022-23, 45% of SFC staff were on the maximum for of their pay range.

Staff Report

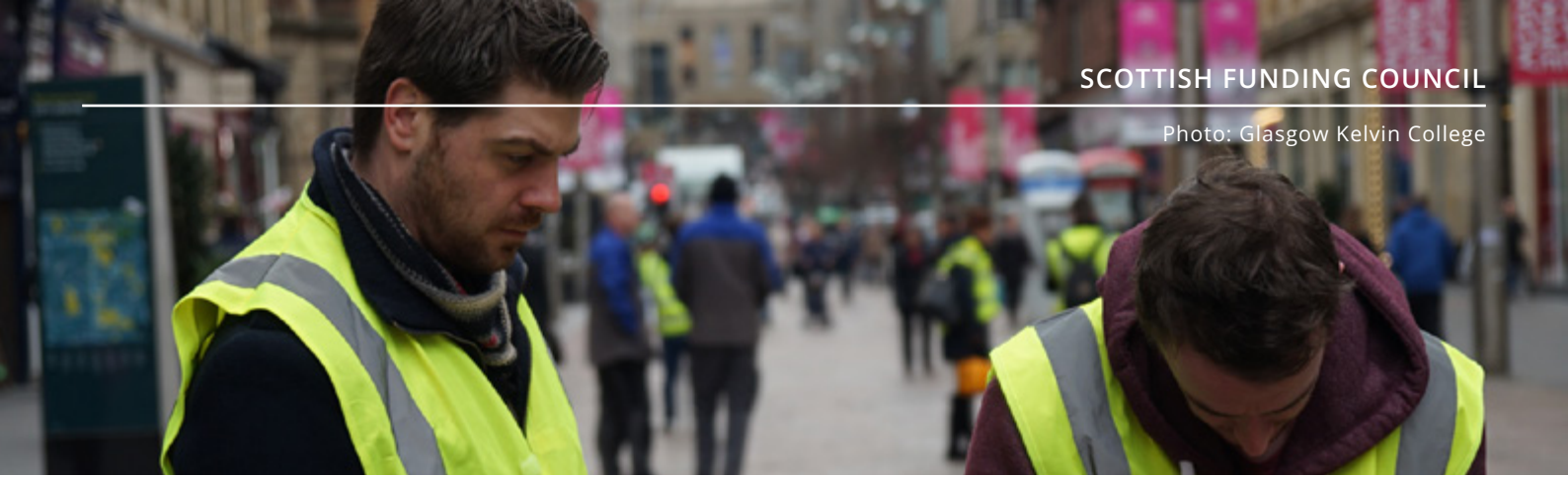
Staff numbers (including Chief Executive)*				
	Year Ended 31 March 2023			2022
	Permanent staff	Seconded and agency staff	Total	Total
Average number of FTE employees	119	4	123	113

Salaries and related costs (excluding Chief Executive)				
Cost of employing staff:	Year Ended 31 March 2023			2022
	Permanent staff	Seconded and agency staff*	Total	Total
	£'000	£'000	£'000	£'000
Wages and salaries	6,100	293	6,393	5,169
Social security costs	670	19	689	568
Other pension costs	1,636	35	1,671	1,424
Apprenticeship levy	15	-	15	12
Voluntary exit	-	-	-	95
Total	8,421	347	8,768	7,268
Secondment	(140)	-	(140)	(171)
Charge to programme funds	(560)	-	(560)	(604)
Admin payroll costs	7,721	347	8,068	6,493

*SFC total spend for the year includes £0.9m consultancy spend, mainly relating to digital transformation, captured in Note 5 to the Accounts.

SFC Board Members' Remuneration (including Chair and Chief Executive)		
	Year Ended 31 Mar 2023	Year Ended 31 Mar 2022
	£'000	£'000
Salary and Allowances	341	344
Social Security Costs	30	29
Other Pension Costs	40	39
Total	411	412

The SFC directly employed 86 females and 42 males as at 31 March 2023. The Chief Executive is a female employee, and there were 4 Directors in post as at 31 March 2023, three males and one female.



Loans

Interest free loans are payable to staff for the purchase of season travel tickets or bicycles for use in travel to work. Due to home working being in place during the pandemic no loans were outstanding as of 31 March 2023.

Staff turnover 2022-23

During the FY 2022-23, 22 staff left SFC. This gives a turnover figure of 17.7% based on the average number of employees in the year (124 headcount).

Turnover is calculated on the basis of voluntary resignations, including staff who choose to retire, and expiry of fixed-term contracts or dismissals (in line with [Cabinet Office methodology](#)).

Staff engagement 2022-23

In March 2023 SFC carried out a full people survey and the response rate and engagement scores from this are given below, together with the results of the last full People survey. During the Covid-19 pandemic we paused holding our full People survey every two years but carried out other shorter staff surveys to gain employee feedback and inform planning.

	Staff Engagement Surveys	
	RESPONSE RATE	ENGAGEMENT SCORE
SFC People survey 2023	87%	71%
SFC People survey 2019	81%	73%

SFC does not use the Civil Service survey as we are a Non-Departmental Public Body. As an indication the 2022 Civil Service survey mean response rate across participating departments was 65% with a mean engagement index of 61%.

Health, safety and well-being

We have a Health and Safety Committee which assesses the workplace regularly to ensure that our staff work in a safe environment which supports their well-being.

The 12-month rolling absence figure for the SFC was 2.2% as at 31 March 2023 (as at 31 March 2022: 2.5%). The absence rate for public sector organisations in 2022 was 3.6% (ONS Labour Force Survey 2022, published April 2023).

Staff relations

We recognise the importance of good industrial relations and effective communication with our staff. We have a Joint Negotiation and Consultation Forum (JNCF), which meets regularly, and involves members of our Senior Management Team (SMT) and representatives from our staff trade union, Unite. Through this we share information, discuss issues of mutual concern, consult and, where appropriate, negotiate on policies, procedures and terms and conditions of employment.

Staff policies applied during the financial year

We are required to disclose staff policies applied during the financial year for:



Giving full and fair consideration to applications for employment by 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.



Otherwise for the training, career development and promotion of disabled persons employed by the company.



The key policies which SFC can apply are:



Equality and Diversity Policy.



The SFC Dignity at Work Policy which provides a framework for staff to deal with inappropriate behaviour.



Recruitment and Selection Procedure.



Disciplinary Procedure.



Fair Absence Management Guidance.

We offer workstation assessments and homeworking risk assessments to assess whether further action is needed to meet individual needs. We can call upon occupational health support and feedback from Access to Work to assist in making reasonable adjustments for staff with disabilities.

Equality and diversity

We strive to actively improve equality, diversity and inclusion at SFC. We are subject to Internal and External Audit on our equalities procedures and practices. We recently completed an audit in this area in February and we received a positive Internal Audit on our practices to promote Equality and Diversity within our policies, procedures and guidance at SFC.

We are accredited as a Disability Confident Employer, which means, amongst other things, if candidates meet the minimum criteria for a vacancy and indicate they have a disability, we guarantee an interview.

We are accredited as a Carer Positive Engaged Employer by Carer Scotland.

We undertake Equality Impact Assessments on our proposed policies or funding initiatives.



Photo: Dumfries and Galloway College

Compensation for loss of office*

No compensation payments were made to staff during the year 2022-23.

Trade Union facility time

SFC recognises that facility time brings benefits to employees, managers and the wider community from effective joint working between union representatives and employers. It forms a crucial mechanism through which trade unions can represent their members and ensure the effective voice of workers and is a key dimension of Fair Work.

It is an investment in the prevention of workplace disputes, providing savings to both the public sector and the public purse, through a reduction of negative impacts on staff time and the number of working days lost through industrial action. The information provided below to meet the statutory requirements of the Trade Union (Facility Time Publications Requirements) Regulations 2017 should therefore be considered in the context of the benefits both for the workforce and the employer.

In the period 1 April 2022 to 31 March 2023 we provided the following support through paid facility time for union officials working at SFC. During 2022-23 there were 9 employees (full time equivalent of 8.5) who held appointments as union officials (FY 2021-22: eight employees; full time equivalent of 7.8). These 9 employees spent between 1-50 per cent of their working hours on facility time (FY 2021-22: 1-50 per cent of their time). The total cost of this facility time was £20,397 (FY 2021-22: £15,215), which represents 0.2% (FY 2021-22: 0.2%) of the total staff costs of £8.6m (FY 2021-22: £6.5m). 95% (FY 2021-22: 95%) of facility time was spent on trade union activity.

Parliamentary accountability report

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.

SFC suffered no losses. No special payments were made during financial year

2022-23 (FY 2021-22: £nil). No gifts were made during financial year 2022-23 (FY 2021-22: £nil).

Fees and charges

SFC applied no fees or charges during financial year 2022-23 (FY 2021-22: nil).

Remote contingent liabilities

SFC has no remote contingent liabilities.



KAREN WATT
Accountable Officer

15 September 2023





SECTION 3:
INDEPENDENT
AUDITOR'S REPORT

Independent auditor's report to the members of Scottish Funding Council, the Auditor General for Scotland and the Scottish Parliament

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements in the annual report and accounts of Scottish Funding Council for the year ended 31 March 2023 under the Further and Higher Education (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and Notes to the accounts, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2023 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 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.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor

General on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, we report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland Website.

Risks of material misstatement

We report in our separate Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the central government sector to identify that the Further and Higher Education (Scotland) Act 2005 and directions made

thereunder by the Scottish Ministers are significant in the context of the body;

- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on regularity of expenditure and income

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.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited parts of the Remuneration and Staff Report

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited parts of the Remuneration and Staff Report have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Other information

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited parts of the Remuneration and Staff Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in

the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been 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 Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

CONCLUSIONS ON WIDER SCOPE RESPONSIBILITIES

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

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 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

CAMERON WADDELL

Key Audit Partner

For and on behalf of Mazars LLP

September 2023

Mazars LLP
The Corner
Bank Chambers
26 Mosely Street
Newcastle upon Tyne
NE1 1DF





SECTION 4: THE FINANCIAL STATEMENTS

Statement of Comprehensive Net Expenditure for the year ended 31 March 2023

Expenditure	Notes	Year ended 31 March 2023	Year ended 31 March 2022
		£'000	£'000
Grants paid to HEIs and other bodies	2	1,244,730	1,266,733
Grants paid to colleges and other bodies	2	762,268	750,126
Staff costs	-	8,628	6,493
Depreciation	3	14	29
Amortisation	4 & 16	273	117
Other operating charges	5	2,794	2,105
TOTAL		2,018,707	2,025,603
Income			
European Social Fund income	7	(7,951)	(11,743)
Income from HEIs and colleges	8	(18,629)	(14,778)
Other grants	9	(10,489)	(7,689)
Other income	10	(430)	(382)
TOTAL		(37,499)	(34,593)
Net expenditure		1,981,208	1,991,010
Comprehensive net expenditure	SoCTE	1,981,208	1,991,010

There are no recognised gains and losses other than those recorded above.
The notes on pages 92 to 107 form part of these accounts.

Statement of financial position as at 31 March 2023

Non-current assets	Notes	31 March 2023	31 March 2022
		£'000	£'000
Property, plant and equipment	3	27	-
Right of use assets	16	1,976	-
Intangible assets	4	82	43
Loans	11	165,670	160,473
Total non-current assets		167,755	160,516
Current assets			
Loans	11	15,394	11,931
Trade and other receivables	12	2,522	1,942
Cash and cash equivalents	13	100,880	8,135
Total current assets		118,796	22,008
Total assets		286,551	182,524
Current liabilities			
Trade and other payables	14	141	17
Other liabilities	14	3,008	2,504
Total current liabilities		3,149	2,521
Assets less current liabilities		283,402	180,003
Non-current liabilities			
Other liabilities	16	1,717	0
Total non-current liabilities		1,717	0
Total Assets less liabilities		281,685	180,003
Taxpayers' equity		281,685	180,003

The financial statements on pages 87 to 91 were approved by the SFC on 15 September 2023 and signed on its behalf by:



KAREN WATT
Accountable Officer
15 September 2023

The Accountable Officer authorised these Financial Statements for issue on
The notes on pages 92 to 107 form part of these accounts.

Statement of cash flows for the year ended 31 March 2023

Cash flows from operating activities	Notes	Year ended 31 March 2023	Year ended 31 March 2022
		£'000	£'000
Net operating costs		(1,981,208)	(1,991,010)
Adjustments for non-cash transactions			
Depreciation and amortisation charges	3, 4, 16	287	147
Increase in debtors	11	(8,660)	(3,175)
Movements in working capital			
(Increase)/decrease in trade and other receivables	12	(579)	1,266
Increase/(decrease) in trade and other payables	14	124	868
Net cash outflow from operating activities		(1,990,036)	(1,991,904)
Cash flows from investing activities			
Purchase of intangible assets	4	(68)	(111)
Purchase of tangible assets	3	(41)	0
Net cash outflow from investing activities		(109)	(111)
Cash flows from financing activities			
Grant-in-aid	6	2,038,405	1,976,676
Other Scottish Government grants	6	1,180	1,180
Other Government grants	6	43,305	16,760
Net cash inflow from financing activities		2,082,890	1,994,616
Net increase/(decrease) in cash and cash equivalents		92,745	2,600
Cash and cash equivalents at 1 April 2022	13	8,135	5,534
Cash and cash equivalents at 31 March 2023	13	100,880	8,135
Net increase/(decrease) in cash and cash equivalents		92,745	2,601

The notes on pages 92 to 107 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2023

Changes in Taxpayers' Equity 2022-23	Notes	Year ended 31 March 2023
		£'000
Balance as at 1 April 2022		180,003
Scottish Government grant-in-aid funding	6	2,038,405
Other Scottish Government grants	6	1,180
Other Government grants	6	43,305
Comprehensive net expenditure for the year		(1,981,208)
Balance at 31 March 2023		281,685

Changes in Taxpayers' Equity 2021-22

Balance as at 1 April 2021		176,398
Scottish Government grant-in-aid funding	6	1,976,676
Other Scottish Government grants	6	1,180
Other Government grants	6	16,760
Comprehensive net expenditure for the year		(1,991,010)
Balance at 31 March 2022		180,003

The Taxpayers' Equity balance includes £181.1m (2021-22: £172.4m) in respect of loans advanced to institutions (note 11).

The notes on pages 92 to 107 form part of these accounts.

Notes to the accounts for the year ended 31 March 2023

1. Accounting policies

Basis of accounting

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

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

Adoption of FReM amendments

There have been only a few changes in FReM requirements in 2022-23, the main change is in the inclusion of IFRS 16 *Leases* which is considered below.

Going concern

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

Significant judgements and estimates

In preparing these accounts the SFC makes certain judgements on key areas of income, expenditure and assets which are detailed in the Accounting Policies stated below. Where estimates have been made, for example in the useful life of an asset, the SFC considers that none have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Recovery of grants

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

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

Financial transactions

SFC accounts for financial transaction loans to HEIs at cost rather than amortised cost. The impact of the recognition of the loan values at 31 March 2023 correctly (if accounted for at amortised cost in line with International Reporting Standard (IFRS) 9) would be to change the value of the loans. This is not a material amount for the SFC annual accounts. However, we anticipate continuing to receive this form of funding from the Scottish Government and so we will keep this decision under review to determine whether adjustment would be appropriate at some future date.

Property, plant and equipment

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

The useful lives are as follows:

FURNITURE AND FITTINGS	5 years
INFORMATION TECHNOLOGY AND OTHER EQUIPMENT	3 years

Intangible assets

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

Taxation

HM Revenue and Customs does not consider the activities of the SFC to be a trade and the grant income received is not therefore liable to corporation tax. The SFC is currently registered for VAT and, although most of the SFC's activities are outside the scope of VAT, tax is levied on consultancy income including staff secondments. VAT payable is included as an expense to the extent that it is not recoverable from HMRC and non-recoverable VAT is included in the capitalised purchase cost of non-current assets.

Grants and loans

Grants receivable

Grant-in-aid received for revenue, capital and running costs purposes and other Government grants are regarded as financing and are credited to taxpayers' equity. Grant-in-aid received is treated on a cash basis. European Social Fund (ESF) and European Regional Development Fund (ERDF) income are treated on a cash basis in view of the uncertainty over the level of income the SFC will receive. Recoverable grants are recognised at the dates agreed with the organisations concerned.

Grants payable

The SFC pays grants on the basis of: monthly instalments which take into account the pattern of the institution's receipts and payments; or on agreed profiles; or on receipt of claims from institutions. This largely reflects the pattern of need at institutions. Funds to institutions are distributed on an academic year basis as a result of which there may be prepayments at the end of the financial year. Recovery and penalties are recognised when the amount of the funding adjustment has been established and approved by Council. Recoverable grants are recognised at the dates agreed with the organisations concerned.

Financial instruments

IFRS 7, IFRS 9 and International Accounting Standards (IAS) 32 require an organisation to present and disclose information on the possible impact of financial instruments on its financial position and performance, and on the extent of its risk exposure. As a non-departmental public body (NDPB) funded by the government, the SFC is not exposed to any liquidity or interest rate risks.

SFC has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks. Loans to institutions are charged

at nominal interest rates over a period of 10 to 20 years and are repayable by deduction from future grant in aid. As a result, SFC considers there to be minimal impairment risk from these transactions.

In accordance with IFRS 9 the loans should be initially recognised at fair value and thereafter at amortised cost. However, the loan cost has been used as a reasonable estimate of the carrying value of loans as the amortised cost would not be materially different.

Loans

Interest free loans are payable to staff for the purchase of season travel tickets or bicycles for use in travel to work. Any other loans are payable under the terms set out in the Further and Higher Education (Scotland) Act 2005.

Statement of Comprehensive Net Expenditure

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

Operating leases

IFRS 16 requires lessees to recognise nearly all leases in the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. SFC has two property leases, one for its main office and a pepper corn lease with Scottish Enterprise for the right to use meeting room space.

The lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease or, if that is not readily determinable, the HM Treasury discount rate promulgated in the PES papers as an incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right of use asset, when there is a change in future lease payments.

The right of use asset is initially measured at cost, comprising: the initial lease liability; any lease payments already made less any lease incentives received; initial direct costs; and any dilapidation or restoration costs. The right of use asset is subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. The right of use asset is tested for impairment if there are any indicators of impairment.

Leases of low value assets and short-term leases of 12 months or less are expensed, as are non-lease service components.

Pension costs and other post-retirement benefits

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme, but the SFC is unable to identify its share of the underlying liabilities.

The scheme is accounted for as a defined contribution scheme under the multi-employer exemption permitted in IAS 19 'Employee Benefits'. The expected costs are accounted for on a systematic and rational basis over the period during which the SFC benefits from employees' services by payment to the PCSPS of an amount calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Payments to the defined contribution schemes are expensed as they become payable. Early severance payment obligations are expensed in the year in which the employee leaves.

Short-term employee benefits

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

Financial guarantees

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

IFRS issued but not effective

International Accounting Standard (IAS) 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. At 31 March 2023, there are none such to declare.

2. Grants paid to institutions and other bodies

a) The Framework Document between the Scottish Government and the SFC requires the SFC and its Chief Executive to ensure that grant-in-aid receipts were used for their intended purpose. In turn, the Financial Memorandum between the SFC 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 2022. Grants to institutions for the period up to 31 March 2023 are yet to be verified by institutions and their auditors to ensure that grant-in-aid receipts from the SFC 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.

c) Distribution of funds.

Grants paid to HEIs and other bodies	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Recurrent grants	838,035	895,938
Capital grants	406,695	370,795
TOTAL	1,244,730	1,266,733
Grants paid to colleges and other bodies	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Recurrent grants	596,591	595,783
Bursary and student support payments	131,210	132,026
Capital and major works	34,467	22,317
TOTAL	762,268	750,126

3. Property, plant and equipment

Historic cost	Furniture and fittings	ICT	Other equipment	Total
	£'000	£'000	£'000	£'000
At 1 April 2022	144	310	27	481
Additions	-	41	-	41
Disposals	-	-	-	-
At 31 March 2023	144	351	27	522
Depreciation				
At 1 April 2022	144	310	27	481
Provided during the year	-	14	-	14
Disposals	-	-	-	-
At 31 March 2023	144	324	27	495
Net Book Value				
At 31 March 2023	-	27	-	27
At 1 April 2022	-	-	-	-
Historic cost				
At 1 April 2021	144	310	27	481
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 March 2022	144	310	27	481
Depreciation				
At 1 April 2021	115	310	27	453
Provided during the year	29	-	-	29
Disposals	-	-	-	-
At 31 March 2022	144	310	27	481
Net Book Value				
At 31 March 2022	-	-	-	-
At 1 April 2021	29	-	-	29

4. Intangible assets

Intangible assets comprise IT software and software licences.

Historic cost	IT	Software licences	Total
	£'000	£'000	£'000
At 1 April 2022	1,352	120	1,472
Additions	68	-	68
Disposals	-	-	-
At 31 March 2023	1,420	120	1,540
Amortisation			
At 1 April 2022	1,309	120	1,429
Provided during the year	29	-	29
Disposals	-	-	-
At 31 March 2023	1,338	120	1,458
Net Book Value			
At 31 March 2023	82	-	82
At 1 April 2022	43	-	43
Cost			
At 1 April 2021	1,240	120	1,360
Additions	112	-	112
Disposals	-	-	-
At 31 March 2022	1,352	120	1,472
Amortisation			
At 1 April 2021	1,191	120	1,311
Provided during the year	118	-	118
Disposals	-	-	-
At 31 March 2022	1,309	120	1,429
Net Book Value			
At 31 March 2022	43	-	43
At 1 April 2021	49	-	49

5. Other operating charges

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Operating leases – property rental	14	259
Accommodation costs	260	230
Council members' remuneration	411	412
Other support costs	560	631
Professional services	1,048	16
Staff recruitment and training	236	151
Legal costs	34	67
Travel and subsistence		
– Council members	5	1
– Staff	15	2
Internal Audit Fee	57	35
External Audit fee	96	77
Equipment and consumables	42	201
Hospitality costs		
– Council members	-	-
– Staff	6	-
Publication costs	9	21
Conference costs	1	2
Committee costs	-	-
TOTAL	2,794	2,105

6. Government grant-in-aid received

Funds from Scottish Government for	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
HEI and other bodies	874,413	871,205
HEI capital	349,600	346,700
Financial transactions	20,100	3,138
Colleges and other bodies	713,867	713,419
Colleges Capital	72,600	33,700
Council running costs	7,825	8,514
TOTAL	2,038,405	1,976,676
Other Scottish Government Grants		
Sabhal Mòr Ostaig	1,180	1,180
Other Government Grants		
Funds from Department for Science, Innovation and Technology (DSIT) for Research Capital	43,305	16,760

7. Income from European Social Fund (ESF)

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
ESF income received – colleges programme	5,190	10,745
ESF income received – HEIs programme	2,513	985
Total	7,703	11,730
ESF income received – SFC running costs	248	13
TOTAL	7,951	11,743

There are outstanding claims for the ESF programme. However, in view of uncertainty over the level of income the SFC will receive we have elected to account for it on a cash basis.

8. Income from higher education institutions and colleges

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Recovery from colleges	16,978	14,635
Recovery from higher education institutions	1,651	143
TOTAL	18,629	14,778

Generally, a recovery 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 recovery arises in student support where there is a variance between payment based on estimated and actual numbers. A financial penalty may be imposed on an institution if it exceeds its indicative student number for non-controlled full-time and sandwich undergraduates by more than 10% or if it exceeds its indicative number for a controlled subject area by more than 10% or 10 FTE whichever is the larger. The penalty for a breach of consolidation is the withdrawal of part of the Main Teaching Grant based on the student numbers above the indicative number in excess of the tolerance threshold.

9. Other grants

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Other grant income	10,489	7,689
TOTAL	10,489	7,689

10. Other income

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Finance income	430	382
TOTAL	430	382

11. Loans

Balances due within one year	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
University of Aberdeen	286	286
University of Abertay	716	716
University of Dundee	1,082	1,082
University of Edinburgh	1,655	1,655
Edinburgh Napier University	-	21
University of Glasgow	1,000	1,000
Glasgow School of Art	500	500
Glasgow Caledonian	286	-
Heriot-Watt University	629	629
Queen Margaret University, Edinburgh	157	169
The Robert Gordon University	401	408
University of St Andrews	950	950
University of Stirling	835	389
University of Strathclyde	4,680	2,364
SRUC	1,651	1,226
University of the Highlands & Islands	491	491
University of the West of Scotland	75	45
TOTAL	15,394	11,931

BALANCES DUE AFTER ONE YEAR		
West Lothian College	2,211	2,211
University of Aberdeen	2,857	3,142
University of Abertay	8,826	9,542
University of Dundee	12,854	13,936
University of Edinburgh	6,295	7,949
Edinburgh Napier University	-	-
University of Glasgow	6,000	7,000
Glasgow School of Art	8,500	9,000
Glasgow Caledonian	1,714	-
Heriot-Watt University	3,279	3,908
Queen Margaret University, Edinburgh	2,412	2,570
The Robert Gordon University	4,035	4,436
University of St Andrews	3,721	4,671
University of Stirling	21,642	13,147
University of Strathclyde	50,765	54,691
SRUC	22,971	16,145
University of the Highlands & Islands	7,373	7,864
University of the West of Scotland	215	261
TOTAL	165,670	160,473
TOTAL	181,064	172,404

University loans are funds provided to institutions on an individual basis to support the costs of specific projects, which are recovered through an adjustment to their future funding. The SFC Board has agreed the principles for providing university loans. Loans are treated as financial instruments and some are non-interest bearing and some have interest charged at 0.25%. The loan cost has been used as a reasonable estimate of the amortised cost of recoverable grants as the discounted cashflows would not be materially different. Amounts provided are within the total funding for the programme approved by the Board. University loans are normally for five to ten years but can be up to 20 years.

The SFC also offers flexibility in grant payments to colleges encountering financial liquidity challenges. This includes providing cash advances. The SFC

provided a repayable advance of £5.54m to West Lothian College in April 2007, to enable the college to voluntarily terminate its PFI contract, at which point the title of the college buildings transferred to the college. The £5.54m advance is interest free and was originally repayable in equal instalments over 16 years. The first repayment was made in August 2010 and at 31 March 2022 the amount outstanding was £2.21m. In March 2014 the college made an upfront repayment of £650,000 towards the loan and negotiated a reduced annual repayment with the SFC from April 2015. In 2020 the SFC agreed to the suspension of repayments on the loan from July 2021 to July 2025 inclusive, recommencing in July 2026. As a result, the loan period has been extended to July 2039.

12. Trade and other receivables

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Prepayments and accrued income	290	404
Institutions recovery	2,200	1,533
Other HEI balances	-	-
Other college balances	-	-
Other debtors	32	6
TOTAL	2,522	1,943

13. Cash and cash equivalents

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Funds held at Government Banking Service accounts	100,860	8,118
Funds held at commercial banks	20	17
TOTAL	100,880	8,135

14. Trade and other payables

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Trade payables	141	17
Other liabilities	2,749	2,504
Lease liabilities	259	-
Total current liabilities	3,149	2,521

15. 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 SFC's financial year runs from 1 April to 31 March each year. Grant commitments that fall outwith the SFC's current financial year, but within the remaining period of the current academic year, are disclosed as committed grant.

Grants committed to be paid to HEIs and other bodies		
Grant for distribution	31 March 2023	31 March 2022
	£'000	£'000
Recurrent grant	311,941	261,905
Capital grants	118,790	135,703
Total	430,731	397,608

Grants committed to be paid to colleges and other bodies		
Grant for distribution	31 March 2023	31 March 2022
	£'000	£'000
Recurrent grant	193,565	213,315
Student support payments	42,167	54,780
Capital grants	14,183	24,200
Unitary charge	10,212	9,767
Total	260,127	302,062

Capital works grants are claims based and the amount to be paid out by the end of the academic year cannot be determined exactly. In setting its profile of grant payments each academic year, the SFC 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.

16. Leases

The SFC does not own any land or buildings. Its premises in Edinburgh are leased: the lease for SFC's main office on the ground floor of 97 Haymarket Terrace began in September 2017 and ends in April 2031. The information below reflects that property lease. SFC has not restated prior year balances to reflect the implementation of IFRS 16 because the impact is not material to SFC's accounts.

Right-of-use assets	31 March 2023	31 March 2022
	£'000	£'000
Balance at 1 April	2,220	-
Depreciation charge for the year	(244)	-
Balance at 31 April	1,976	-

Lease liabilities		
Maturity analysis – contractual undiscounted cashflows:	31 March 2023	31 March 2022
	£'000	£'000
Less than one year	259	-
One to five years	1,035	-
More than five years	798	-
Total	2,092	-

Lease liabilities included in the statement of financial position at 31 March:

Current liability	259	-
Non-current liability	1,717	-
Total liability	1,976	-

Amounts recognised in profit or loss

Interest on lease liabilities	14	-
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17. Related party transactions

The SFC is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Government. The Scottish Government Advanced Learning and Science Directorate, as the sponsor directorate, is regarded as a related party. The SFC was financed by grant-in-aid from its sponsor directorate's parliamentary account. During the year the SFC had a number of material transactions with the Directorate. The universities and colleges funded by the SFC are regarded as related parties. Details of the major transactions between the SFC and the funded institutions are set out in Appendix 2 to the Report and Accounts. Amounts due to and from related parties are shown in notes 11, 12 and 14. In addition, the SFC had various material transactions with other publicly funded bodies during the period, including Jisc, Royal Society Edinburgh (RSE) and Advanced Procurement for Universities and Colleges (APUC).

The transactions with Jisc and APUC represent funding for sector-wide infrastructure for the benefit of universities and colleges. Payment to RSE is to fund Scotland's national academy.

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

- Dr Mike Cantlay OBE (Chair) holds an Honorary fellowship of SRUC.
- David Alexander is Principal at Gateshead College, previously Vice Principal at West College Scotland.
- Mhairi Harrington was previously Principal and Chief Executive of West Lothian College, is the Chair of Adult Learning Strategic Forum Scotland, and is a Senior Fellow for College Development Network.
- Professor Ewart Keep is a member of the Management Board of City of Glasgow College, provides policy advice to the Association of Colleges (AoC), is an academic member of the ESRC Productivity Institute and provides advice to UKRI (ESRC), and has a number of roles supporting the Education and Training Foundation including committee chair.
- Andy Kerr was previously the Chair of South Lanarkshire College.
- Dr Paul Little is Principal and Chief Executive of the City of Glasgow College, is Principal Observer on Glasgow Colleges Regional Board, is the Vice-Convenor of the College Principals Group of Colleges Scotland, is the Vice-Chair of College Employers Scotland, and is a Fellow of Royal Society of Edinburgh (RSE).
- Professor Peter Mathieson is Principal and Vice-Chancellor of the University of Edinburgh and the Lead Member for Health for Universities Scotland.
- Professor Irene McAra-McWilliam is the Deputy Director Research and Innovation at Glasgow School of Art, a member of Universities UK (UUK) Pro Vice-Chancellor Group, and a member of Advanced Care Research Centre Advisory Group at the University of Edinburgh.
- Dr Veena O'Halloran is the Special Adviser to the Principal at the University of Strathclyde, is on the Committee of Scottish University Chairs, and a governance adviser to the Royal College of Surgeons of Edinburgh.
- Caroline Stewart is Chair of Dumfries and Galloway College and a member of the Scottish Police Authority Board.
- Professor John Wallace was previously Principal of The Royal Conservatoire of Scotland, he was the RSE vice-president for arts, humanities and social sciences and currently undertakes work with the University of St. Andrews outreach department and the University of St Andrews Laidlaw Music Centre, he is an Honorary Professor of Brass at the University of St Andrews, and is Emeritus Professor at Royal Conservatoire of Scotland.
- Professor Lesley Yellowlees was previously Vice Principal and Head of the College of Science and Engineering at the University of Edinburgh, is a Director of Newbattle Abbey College, a Fellow of the RSE, and is a member of Edinburgh Napier University Court.

[Register of Interests for the SFC Board Members](#) is available on the SFC website.

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

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

18. Intra-government balances

Intra-government balances				
2022-23	Trade receivables: amounts falling due within one year	Trade receivables: amounts falling due after more than one year	Trade payables: amounts falling due within one year	Trade payables: amounts falling due after more than one year
	£'000	£'000	£'000	£'000
Balances with other Central Government bodies	32	-	16	-
Balances with bodies external to Government	2,490	-	2,873	-
At 31 March 2023	2,522	-	2,889	-
2021-22				
Balances with other Central Government bodies	6	-	14	-
Balances with bodies external to Government	1,936	-	2,507	-
At 31 March 2022	1,942	-	2,521	-

19. Financial instruments

As the cash requirements of the SFC 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 loans made to HEIs. These are disclosed in Note 11. The SFC does not consider these to be a risk as repayments are deducted from future funding at source. The SFC also has contracts to buy non-financial items in line with the SFC's expected purchase and usage requirements and the SFC is, therefore, exposed to little credit, liquidity or market risk.

Appendix 1: Direction by the Scottish Ministers

**SCOTTISH FURTHER AND HIGHER EDUCATION FUNDING COUNCIL****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 (FRM) 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.

A handwritten signature in black ink, appearing to be 'J. G. G.', written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated 14 December 2005

Appendix 2: Analysis of funds paid to institutions and other bodies

Distribution of grant-in-aid from the Scottish Government		
College/regions	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Ayrshire	55,500	53,941
Borders	13,228	12,908
Dumfries and Galloway	14,538	14,729
Dundee and Angus	43,488	44,646
Edinburgh	68,164	70,188
Fife	66,535	57,577
Forth Valley	32,213	30,529
Glasgow Colleges' Regional Board	161,094	168,641
Highlands and Islands	68,103	69,041
New College Lanarkshire Regional Board	76,883	72,453
Newbattle	1,848	1,393
North East College Scotland	48,645	49,799
Open University in Scotland	-	166
Sabhal Mòr Ostaig	2,543	2,175
SRUC	13,116	13,357
West College Scotland	65,125	61,405
West Lothian	22,547	17,933
Total grant distributed to colleges	753,570	740,881
Total grant distributed to other organisations	8,698	9,245
Total grant distributed	762,268	750,126

Distribution of grant-in-aid from the Scottish Government		
University or college	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Aberdeen	79,522	80,784
Abertay	22,037	22,254
Dundee	84,702	86,936
Edinburgh	205,583	197,532
Glasgow	177,905	175,388
Glasgow Caledonian	75,110	78,737
Glasgow School of Art	13,552	14,304
Heriot-Watt	47,499	48,885
Edinburgh Napier	63,517	66,041
Open University in Scotland	28,089	28,323
Queen Margaret Edinburgh	20,628	20,618
Robert Gordon	50,203	54,626
Royal Conservatoire of Scotland	13,257	13,275
St Andrews	43,280	42,567
Stirling	50,843	51,927
Strathclyde	112,078	112,824
Highlands and Islands	47,458	52,159
West of Scotland	75,307	77,886
SRUC	16,919	20,680
Dumfries and Galloway College	20	-
North East Scotland College	17	-
Sabhal Mòr Ostaig	587	419
Total grant distributed to institutions	1,228,113	1,246,165
Total grant distributed to other organisations	16,617	20,569
Total grant distributed	1,244,730	1,266,733



Scottish Funding Council
Comhairle Maoinachaidh na h-Alba

APEX 2 - 97 HAYMARKET TERRACE

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