



Scottish Funding Council
Annual Report and Accounts 2017-18

Chair’s Foreword	3
Section 1: The Performance Report	5
The Performance Report contains two parts:	5
Overview	5
Performance Analysis	12
Sustainability Report	28
Section 2: The Accountability Report	32
The Accountability Report contains three parts:	32
Corporate Governance Report	32
Directors’ Report	32
Parliamentary accountability report	57
Section 3: Independent Auditor’s Report to the Members of the Scottish Further and Higher Education Funding Council, the Auditor General for Scotland and the Scottish Parliament	60
Report on the audit of the financial statements.....	60
Opinion on financial statements	60
Section 4: the Financial Statements	64
Statement of Comprehensive Net Expenditure for the year ended 31 March 2018	64
Statement of Financial Position as at 31 March 2018.....	65
Statement of Cash Flows for the year ended 31 March 2018	66
Statement of Changes in Taxpayers’ Equity for the year ended 31 March 2018	67
Notes to the Accounts For the year ended 31 March 2018.....	68
Appendix 1: Direction by the Scottish Ministers.....	88
Appendix 2: Analysis of funds paid to institutions and other bodies	89

Chair's Foreword



I am pleased to introduce the Scottish Funding Council's (SFC) Annual Report and Accounts for Financial Year (FY) 2017-18.

I want to begin by thanking my predecessor, Professor Alice Brown CBE, whose period of office as Chair of SFC concluded during the year under review. Alice played a critical role in steering SFC successfully during a period of major change in the college and university sectors.

With an annual budget of £1.8 billion, the Scottish Government has placed considerable trust in SFC. Our job is to invest our budget in a way that supports the Scottish Government's purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable and inclusive economic growth.

A priority for SFC over the year has been to maximise the contribution that our investment in learning, research and innovation makes to achieving Scottish Government priorities. I am delighted by the willingness of colleges and universities to engage with SFC over the enhancement and intensification of our Outcome Agreement process, and with the ambitious targets that we have agreed for the period up to 2020-21.

Last year's Enterprise and Skills Review highlighted the significant room for improvement in how Scotland performs on key measures of productivity, equality, wellbeing and sustainability. Looking to the year ahead, my aim is to ensure that SFC helps to drive closer alignment and collaboration across the enterprise and skills system and delivers greater impact from its investment.

As a public body, SFC has a duty to account for its decisions and performance. This Annual Report and Accounts helps to meet that duty by summarising our financial performance in Financial Year 2017-18. It also highlights our key activities over the year, reports on the outcomes delivered by colleges and universities from our investment, and highlights SFC's performance in a range of areas.

I believe that this Annual Report and Accounts demonstrates that the Scottish Government's trust in SFC is well-placed, and that colleges, universities and SFC are making a major contribution to Scotland's prosperity and future.

A handwritten signature in black ink, appearing to read 'Mike Cantlay', with a large, stylized flourish at the end.

Mike Cantlay OBE
Chair

Section 1: The Performance Report

The Performance Report contains two parts:

- An Overview
- A Performance Analysis.

Overview

This section of the Performance Report contains a report from our Interim Chief Executive, provides an overview of the Scottish Funding Council (SFC), our Strategic Plan priorities, and the key risks that we have faced over the last year. We also provide a summary of our performance.

Interim Chief Executive's Report



Our Strategic Plan, *Ambition 2025*, which sets out our ten-year ambition for further and higher education in Scotland, has provided the foundation for much of the work over the last year. Although the external environment remains challenging, I am confident that we are on track to deliver our Strategic Plan objectives and make a major contribution to the Scottish Government's priorities for Scotland.

In FY 2017-18, we invested £1.8 billion in colleges and universities. This year's Annual Report and Accounts highlights some of the outcomes that have been achieved by colleges and universities with that investment, and shows a strong record of performance in many areas of activity.

Our investment in learning is helping to ensure that over 225,000 skilled and creative people enter the economy or further study each year. The evidence continues to show that college and universities are providing high-quality learning opportunities, and positive outcomes on many measures of performance.

However, we will need to see quicker progress if we are to meet the targets, set by the Commission on Widening Access (COWA), for widening access to higher education for students from the most deprived parts of Scotland. We have given priority to widening access over the last year and have worked with colleges and universities to intensify our ambitions through our Outcome Agreement process.

Despite the increasing international competition, our universities continue to perform exceptionally well in international rankings of research universities, and on other key performance indicators. We are also seeing evidence of increasing links between colleges, universities and businesses, which have the potential to stimulate more economic development in Scotland.

Following the Scottish Government's review of Enterprise and Skills, we have invested a significant amount of time over the last year in further developing our relationships with the other national agencies for enterprise and skills, and in supporting the establishment of a new Strategic Board for Enterprise and Skills. This work will place us in a good position to make a step-change in Scotland's economic performance.

In terms of our own organisation, we have continued to move our focus from funding the system of colleges and universities to promoting the delivery of improved outcomes from our investment which benefit Scotland's economy, society and culture.

Finally, I would like to thank our staff and our Board for their efforts and dedication over the last year as we work to achieve our Strategic Plan ambition of making Scotland the best place in the world to learn, to educate, to research, and to innovate.

Who we are

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

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

- Developing national policies for learning, skills, research, and innovation.
- Implementing our policies by negotiating and agreeing Outcome Agreements through which colleges and universities set out their ambitions in return for public funding.
- Investing in the people, buildings and equipment that allow learning, teaching, research and innovation to happen in colleges and universities.
- Providing strategic funding to promote change in the college and university sectors, ground-breaking new initiatives, or to support mergers or shared services.
- Being an active, creative and reliable partner with others where we have shared goals: Scottish Government, Scottish Enterprise, Highlands and Islands

Enterprise, Skills Development Scotland, NHS Education Scotland, UK Research and Innovation, NUS Scotland, local authorities and many others.

- Promoting the learner voice in education, and supporting continuous improvement in the quality of learning and governance, and in the financial sustainability of colleges and universities.
- Providing high-quality advice and evidence to the Scottish Government and others on issues affecting further and higher education and Scotland's research base, thus shaping and implementing national policy and strategy on post school education, skills, and research.

We are based in a single location in Edinburgh and employ 104 people. Our organisation is structured into four directorates:

- Access, Skills and Outcome Agreements.
- Research and Innovation.
- Finance.
- Corporate Services.

Our Strategic Plan 2015-18

Our Strategic Plan ambition is that Scotland should be the best place in the world to learn, to educate, to research and to innovate by 2025.

We have four key Strategic Plan outcomes:

- High-quality learning and teaching.
- World-leading research.
- Greater innovation in the economy.
- Effective use of resources.



Scottish Funding Council Strategic Plan 2015-18

AMBITION 2025

Our ambition

Our ambition is to make Scotland the best place in the world to learn, to educate, to research, and to innovate...

...so that colleges and universities play a major part in Scotland's social, cultural and economic development

Our task

To care for and develop the whole system of colleges and universities and their contribution to Scotland's educational, social, cultural and economic life

Coherence and connections • High performing colleges and universities •
High performing Scottish Funding Council

Outcomes

High-quality teaching and learning

World-leading research

Greater innovation in the economy

Effective use of resources

Key risks

During the course of financial Year (FY) 2017-18, we have managed up to 14 key corporate level risks to the achievement of our Strategic Plan objectives. These risks have appeared in our corporate Risk Register and fall into the following broad categories:

- The long-term financial health of colleges and universities.
- Budgets for colleges and universities in the context of the Spending Review and the draft Scottish Budget for FY 2018-19.
- The achievement of student number targets in the college sector, including student number targets for European Social Fund (ESF) activity.
- Britain's exit from the European Union and the implications for colleges and universities.
- Climate change targets and the implications for colleges and universities.
- Communications and SFC's role and relationship with partner bodies and other stakeholders.
- The impact of the review of enterprise and skills on SFC and its governance.
- Industrial relations in the college and university sectors and its impact on learners and the reputation of the sectors.
- Cybersecurity and the risks to the security of SFC's data.
- SFC's internal capacity and resources in the context of increasing demands.

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

Going concern

The Statement of Financial Position at 31 March 2018 shows net assets of £23.9 million. Funding for Financial Year (FY) 2018-19 has been approved by the Scottish Parliament and there is no reason to believe that future funding and budgetary approval will not be forthcoming. Accordingly, it has been considered appropriate to prepare these financial statements on a 'going concern' basis.

Performance summary

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

The latest data shows that both the college and university sectors provided more learning opportunities for students by exceeding student activity targets for Academic Year (AY) 2016-17. Colleges and universities are continuing to make a major contribution to Scotland's prosperity, with over 225,000 skilled and creative people entering the economy or further study every year.

The introduction of a regional structure in the college sector is continuing to transform the college sector in Scotland and improve the opportunities for students. During the year, we supported the development of this regional approach, including working with the University of the Highlands and Islands (UHI) on the development of an integrated structure, and by supporting Scotland's Rural College (SRUC) on its long-term strategy.

We have given priority throughout the year to widening access to higher education for students from deprived areas, particularly through our Outcome Agreement process and a range of activity promoted by SFC during 2017-18, including regional events and a national Fair Access Conference in June 2017. The appointment of a Commissioner for Fair Access has also helped to give a greater focus on widening access.

Although there has been steady progress in recent years in recruiting students from the 20% most deprived areas of Scotland into universities, the latest data shows a slight decline in outcomes for 2016-17. We are confident that, through strong commitments in draft Outcome Agreements for AY 2018-21, the sector will be on track to achieve the interim target set by COWA of an intake of 16% from the most deprived areas of Scotland by 2021.

We have supported activity aimed at improving the connections in the learning system, particularly through our work on progression from college to university

(articulation) and through the important role that colleges are playing in implementing the Scottish Government's youth employment strategy, Developing the Young Workforce (DYW). In particular, colleges have been supporting DYW by introducing new vocational learning pathways in the senior phase of Curriculum for Excellence in schools. The latest data shows an increasing uptake of senior phase vocational courses delivered by colleges, rising from 2,101 in AY 2013-14 to 4,015 in 2016-17.

Ensuring that students have a high-quality learning experience and are able to progress successfully through their learning are also important priorities for SFC. In the university sector, the latest data for AY 2016-17 shows a continuing increase in the retention of students. In AY 2016-17, we achieved our national ambition of retaining 91% of full-time first degree Scottish domiciled undergraduates.

In research, our long-term sustained investment has been vital to the world-wide reputation of Scotland's universities. For example, Scotland continues to score very highly in international rankings of research universities: in the 2017-18 QS World University Rankings, three Scottish universities appeared in the top 100. The university sector also continues to attract a share of UK Research Council income at a level that is well above Scotland's population share of the UK, attracting 15% of total UK income in AY 2016-17. In the same year, Scotland's universities increased the level of research income that they attract from industry, charities and other sources, and their recruitment of postgraduate students.

We have continued to invest in strategic initiatives aimed at improving university-business interaction and, through that, greater business innovation. There is evidence of increasing links between universities and businesses; for example, income to universities from knowledge exchange activity increased from £451 million in 2015-16 to £470 million in AY 2016-17, exceeding our target of £450 million.

Our planned investment of up to £120 million in Innovation Centres in key sectors of the economy, alongside other initiatives, such as our funding of Interface – the business/university 'matchmaking' agency – and our Innovation Voucher scheme are also making a real difference. These examples highlight the value of our partnership work with the Enterprise Agencies, universities, colleges, and business.

In terms of our own organisation, in recent years we have transformed SFC and its impact. We have moved our focus from funding the system of colleges and universities to promoting the delivery of better outcomes from learning and research, which benefit Scottish society, culture and development.

We play an important leadership role in supporting the Scottish Government's priorities for further and higher education through our Outcome Agreement approach to funding. We have continued to develop our approach to Outcome Agreements, including through a process of 'intensification', and, in October 2017, published our priorities for the period AY 2017-18 to 2020-21.

We have continued to act as the authoritative source of evidence, data and information on further and higher education in Scotland, by providing advice to the Scottish Government and others, by contributing to various national policy reviews, and by publishing a wide range of data, statistics, and analyses.

During the year, we have devoted a significant amount of senior staff time to proposals for a new national Enterprise and Skills Strategic Board, particularly in relation to strategic planning, performance reporting, governance structures, and skills planning. The first meeting of the new Strategic Board took place in December 2017 and its main priority was the development of an overarching Strategic Plan, which it intends to publish in summer 2018.

Our work to improve our communications has shown good progress, with an increased profile for SFC on social media and strong interest in our work from the media and stakeholders.

More detailed information about our performance in FY 2017-18 is contained in the next section of the Annual Report and Accounts.

Performance Analysis

Measuring our performance

Following the introduction of our Strategic Plan in 2015, we introduced a Strategic Plan Performance Report which measures and assesses performance. As the majority of our annual budget of £1.8 billion is invested in colleges and universities, through our Outcome Agreement funding, the measures relate mainly to outcomes which they deliver.

The Performance Report draws on qualitative and quantitative evidence, including performance indicators, and highlights any risks. We report to the SFC Board at each meeting on our performance, and also on any significant risks to the achievement of our strategic objectives, which then inform our Risk Register.

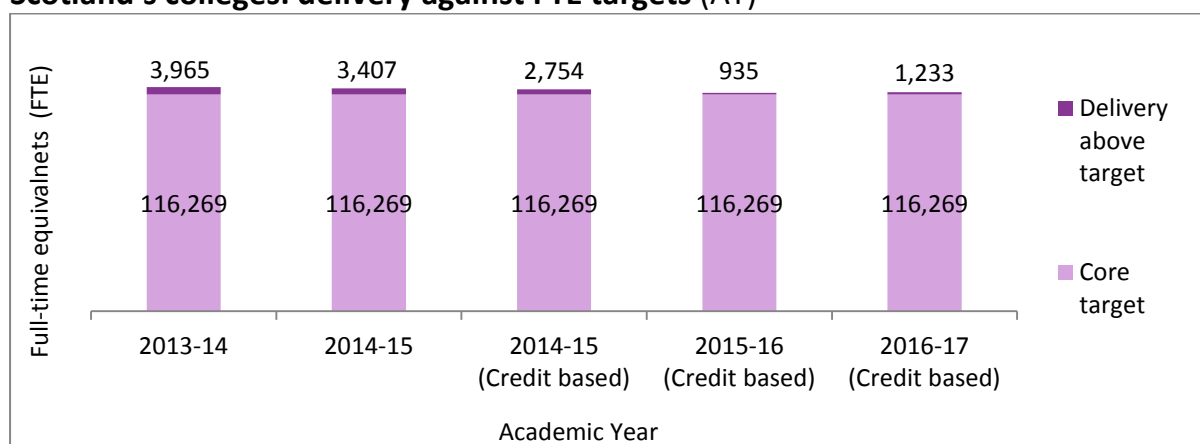
Our progress over the last year is summarised below¹.

Outcome: High-performing colleges and universities

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

In AY 2016-17, both the college and university sectors provided more learning opportunities for students across Scotland by meeting or exceeding SFC's student activity targets. In the college sector, meeting the target of 116,269 Full Time Equivalent (FTE) places for AY 2017-18 has been challenging, although we expect that it will be met. In the university sector, we expect that the target of 127,444 FTE places for 2017-18 will be met comfortably.

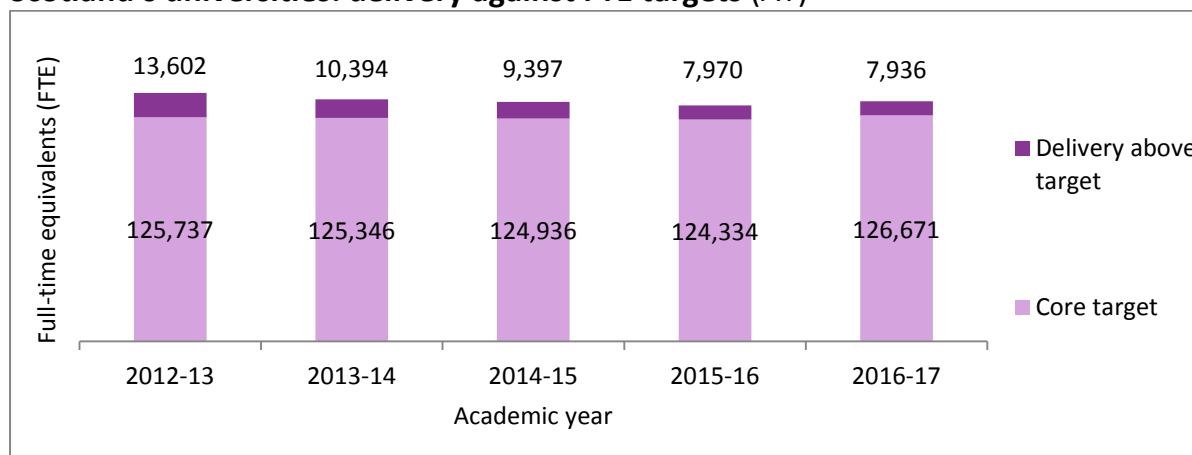
Scotland's colleges: delivery against FTE targets (AY)



Source: SFC further Education Statistics (FES)

¹ The commentary in the Performance Analysis refers to the latest published data. Where the data is collected on an Academic Year basis, the latest data is for AY 2016-17.

Scotland's universities: delivery against FTE targets (AY)



Source: Higher Education Statistics Agency (HESA)

The introduction of a regional structure is continuing to transform the college sector in Scotland and improve the opportunities for students. During the year, we supported the development of this regional approach, including by working with the University of the Highlands and Islands (UHI) on the development of an integrated structure, and by supporting Scotland's Rural College (SRUC) on its long-term strategy.

Work which began in FY 2017-18 on the building of Forth Valley College's new £78 million Falkirk Campus marked another important stage in our programme of capital investment over a decade and more to transform radically the learning environment for students. We are investing £65 million in the construction of the new campus, which is scheduled for completion in late 2019.

We play an important role in protecting the interests of learners and the reputation of the sectors by promoting strong governance and the long-term financial sustainability of colleges and universities. As part of this work, we have continued to develop our arrangements for monitoring and assessing the financial health of colleges and universities through a risk-based assurance framework. Our framework shows that colleges continue to face some underlying long-term financial challenges.

In the college sector, we provided support during the year for the national bargaining process to ensure a robust evidence base was established and decisions taken on the basis of validated information. We allocated additional funding to enable the sector to address the impact of the agreement in AY 2017-18.

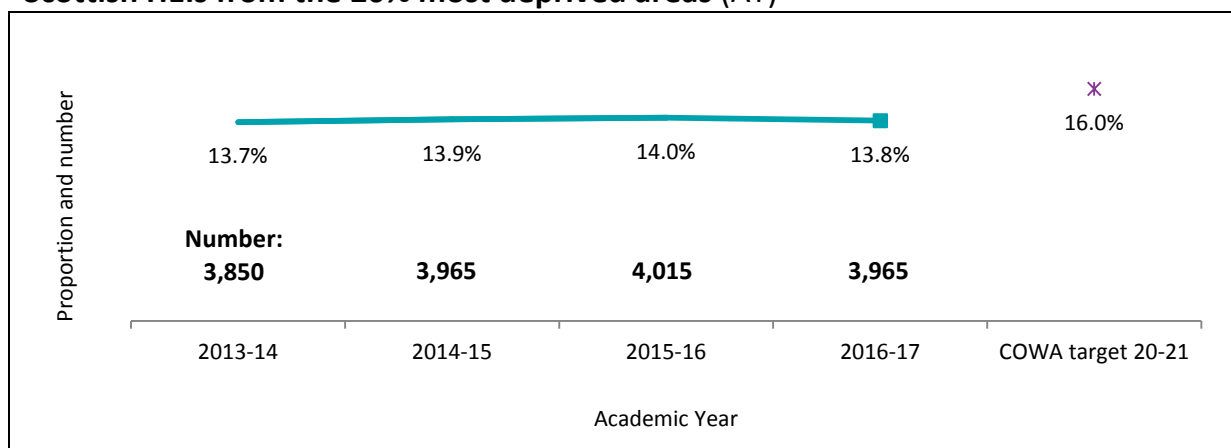
We have given priority to supporting the work that colleges and universities do to become more accessible and diverse. We published a progress report on our Gender Action Plan in December 2017, which highlighted progress that we are taking, with colleges and universities, to address gender imbalances in recruitment in further and higher education. The publication of the report coincided with a successful national gender conference, bringing together experts and practitioners from across Scotland.

We have also given priority during the year to promoting environmental sustainability within colleges and universities. We piloted a Central Energy Efficiency Programme with Scottish Government, involving four colleges, aimed at promoting developments in renewable energy and reductions in carbon emissions. In the university sector, we awarded £16.2million to support university carbon reduction projects through recoverable loans.

Outcome: High-quality teaching and learning

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

Proportion and number of Scottish domiciled full-time first degree entrants to Scottish HEIs from the 20% most deprived areas (AY)



Source: High Education Statistics Agency (HESA)

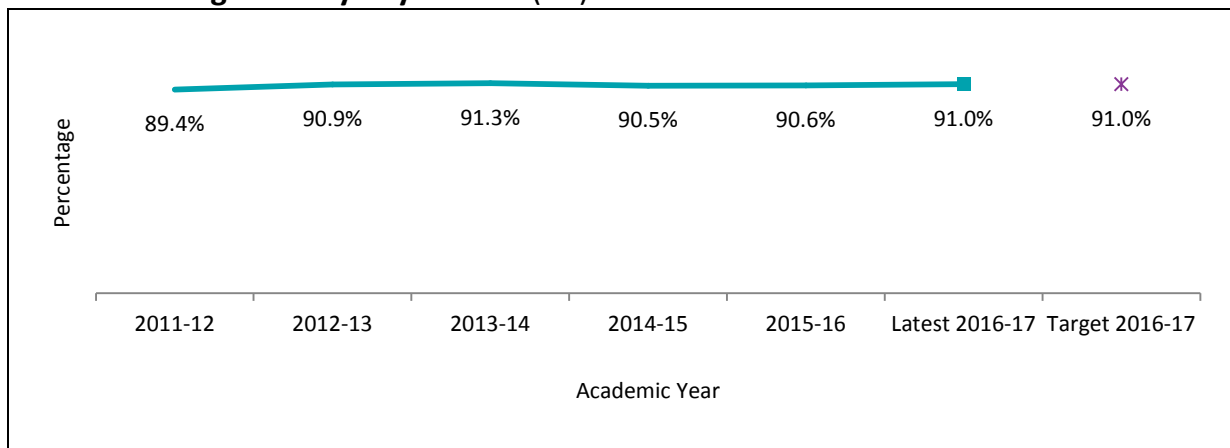
We have given priority throughout the year to widening access to higher education for students from deprived areas. Although there has been progress in recent years in recruiting students from the 20% most deprived areas of Scotland into universities, the latest data shows a slight decline in performance for AY 2016-17. However, as 2016-17 entrants applied to university in 2015, this data represents the baseline position prior to publication of the final report from the Commission on Widening Access (COWA) in 2016.

With the appointment of a Commissioner for Fair Access, there is now a greater focus on widening access, which has been supported by a range of activity promoted by SFC during 2017-18, including regional events and a national Fair Access Conference in June 2017. We are confident that, through strong commitments in draft Outcome Agreements for AY2018-21, the sector will be on track to achieve the interim target set by COWA of an intake of 16% from the most deprived areas of Scotland by 2021.

Ensuring that students have a high-quality learning experience and are able to progress successfully through their learning are also important priorities for SFC. In

the university sector, the latest data for AY 2016-17 shows a continuing increase in the retention of students. In AY 2016-17, we achieved our national ambition of retaining 91% of full-time first degree Scottish domiciled undergraduates.

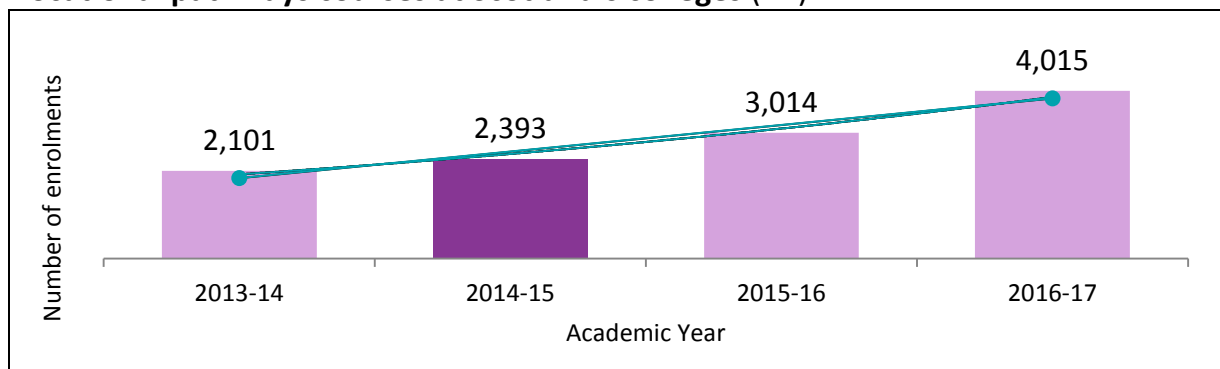
Percentage of Scottish domiciled entrants to full-time undergraduate courses at HEIs returning to study in year two (AY)



Source: Higher Education Statistics Agency (HESA)

We have supported activity aimed at improving the connections in the learning system, particularly through our work on progression from college to university (articulation) and through the important role that colleges are playing in implementing the Scottish Government’s youth employment strategy, Developing the Young Workforce (DYW). In particular, colleges have been supporting DYW by introducing new vocational learning pathways in the senior phase of Curriculum for Excellence in schools. The latest data shows an increasing uptake of senior phase vocational courses delivered by colleges, rising from 2,101 in AY 2013-14 to 4,015 in 2016-17.

Developing the Young Workforce: Number of enrolments to senior phase vocational pathways courses at Scotland’s colleges (AY)



Source: SFC Further Education Statistics (FES)

We have continued to act as a lead partner in the FY 2014-2020 European Social Fund (ESF) Programme, and have two approved Strategic Interventions: ‘Youth Employment Initiative’ and ‘Developing Scotland’s Workforce’. The Youth Employment Initiative (YEI) is focused on young people (aged 16-29) who are not in employment, education or training in areas of high youth unemployment (South-

West Scotland) and runs for the period AY 2015-16 to 2017-18. Developing Scotland's Workforce (DSW) focusses on higher and advanced level skills for or to meet needs of key employment sectors and runs initially for the period AY 2015-16 to 2017-18. Subject to approval, we expect the DSW programme to run for another four years to AY 2021-22.

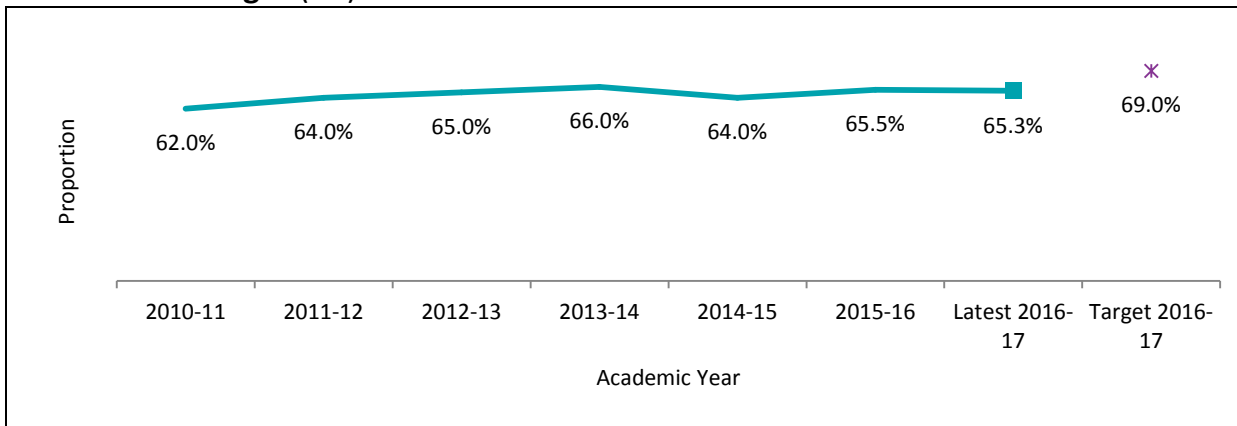
During the year, we have continued to develop our arrangements for enhancing and assessing the quality of learning in the college and university sectors. In the college sector, we have introduced new arrangements, which contain a greater focus on the integration of performance monitoring of our Outcome Agreements with the quality framework for colleges. In the university sector, we introduced a revised Quality Enhancement Framework (QEF) with a greater focus on evidence-based enhancement of the learning experience, and increased student engagement.

In terms of students' experience of learning, the proportion of students who were satisfied overall with their college experience remains high. The results for AY 2016-17 showed an improvement on the results for 2015-16: there was a satisfaction rate of over 90% in all modes of study: full-time (90.2%), part-time (94.6%), and distance and flexible learning (91.7%).

In the university sector, the results for AY 2016-17 showed a decline in the number of universities achieving their student satisfaction benchmark from 13 in AY 2015-16 to nine in 2016-17. However, during the year, through our Outcome Agreement process, we have put a strong focus on improving student satisfaction over the period AY 2018-21.

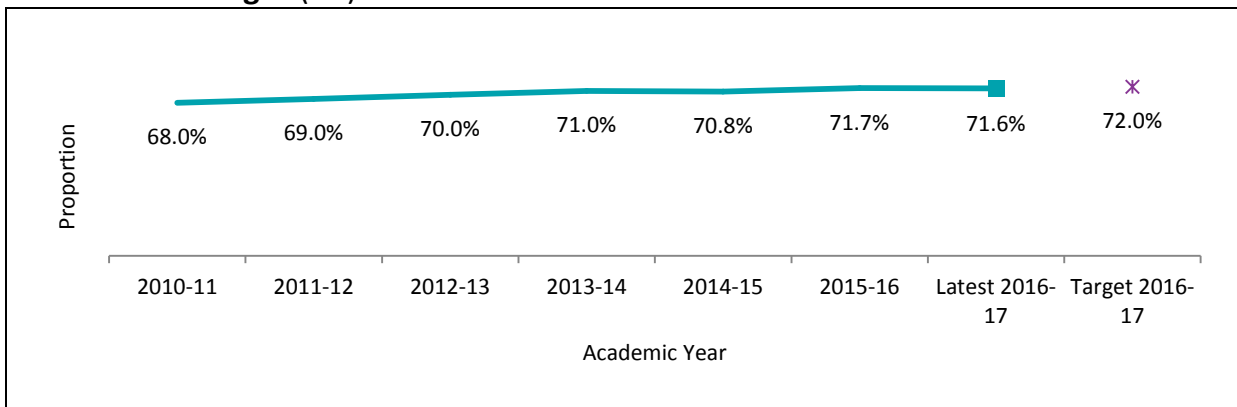
We want students to progress successfully into employment or further study with the ability, ideas and ambition to make a difference. Over FY 2017-18, we have given priority to developing our relationship with Skills Development Scotland. As part of the work of the Scottish Government's review of Enterprise and skills, we have agreed a framework for enhanced skills planning, comprising five stages, from assessment through to review and evaluation.

The proportion of full-time FE learners gaining recognised qualifications at Scotland’s colleges (AY)



Source: SFC Further Education Statistics (FES)

The proportion of full-time HE learners gaining recognised qualifications at Scotland’s colleges (AY)



Source: SFC Further Education Statistics (FES)

Levels of successful completion in colleges for AY 2016-17 dropped slightly for full-time FE from 65.5% to 65.3% and from full-time HE from 71.7% to 71.6%. However, the performance for part-time FE was an improving one, with an increase from 74.3% to 77.1%, although there was a slight drop in HE from 78.8% to 78.6%. Through their draft Outcome Agreements for AY 2018-21, which were negotiated during the year, colleges have predicted that they will significantly improve successful completion rates.

During the year, we published new information on the destinations of full-time college leavers in Scotland. Our publication showed that, in AY 2015-16, 18,062 qualified students left the college sector, with 48% moving into work and 40% enrolling at a Higher Education Institution.

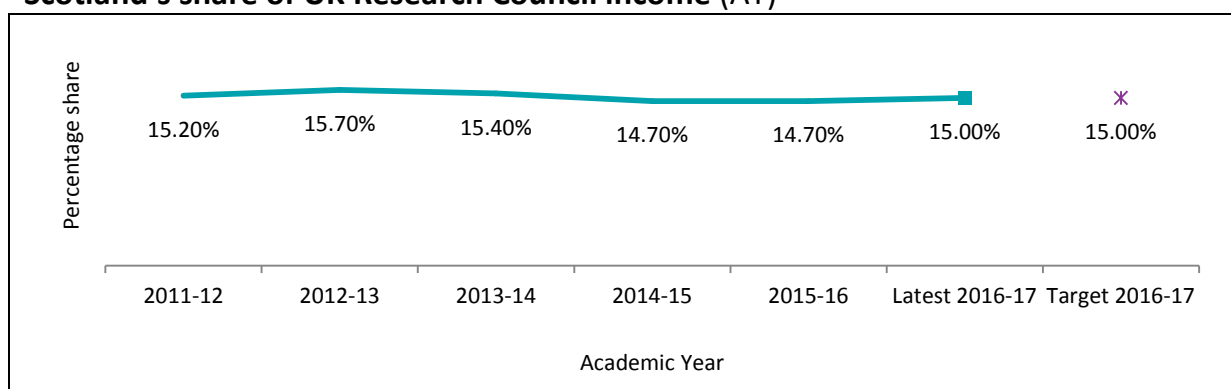
Outcome: World-leading research

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

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

Key performance indicators continue to show that Scotland's research base is performing well. In AY 2016-17, Scotland's share of UK Research Council income reached 15%, which is well above Scotland's population share of the UK (8.2%).

Scotland's share of UK Research Council income (AY)

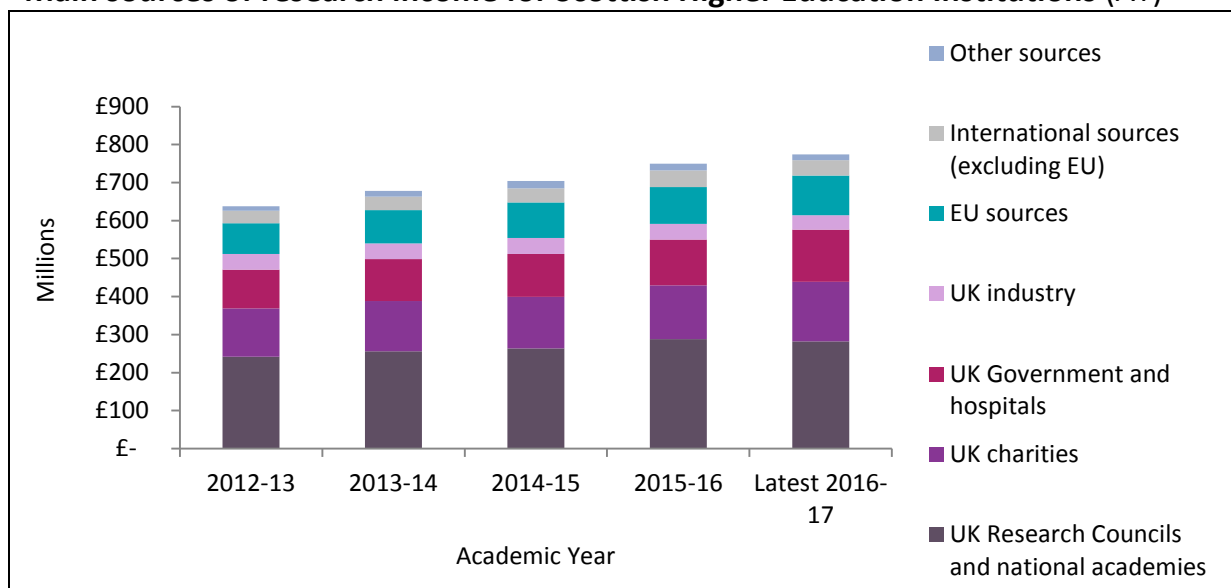


Source: Higher Education Statistics Agency (HESA)

Scotland's universities also increased the level of research income that they attract from industry, charities and other sources, and their recruitment of postgraduate students.

The latest data shows an increase in research income from £748 million in AY 2015-16 to £774 million in 2016-17.

Main sources of research income for Scottish Higher Education Institutions (AY)*

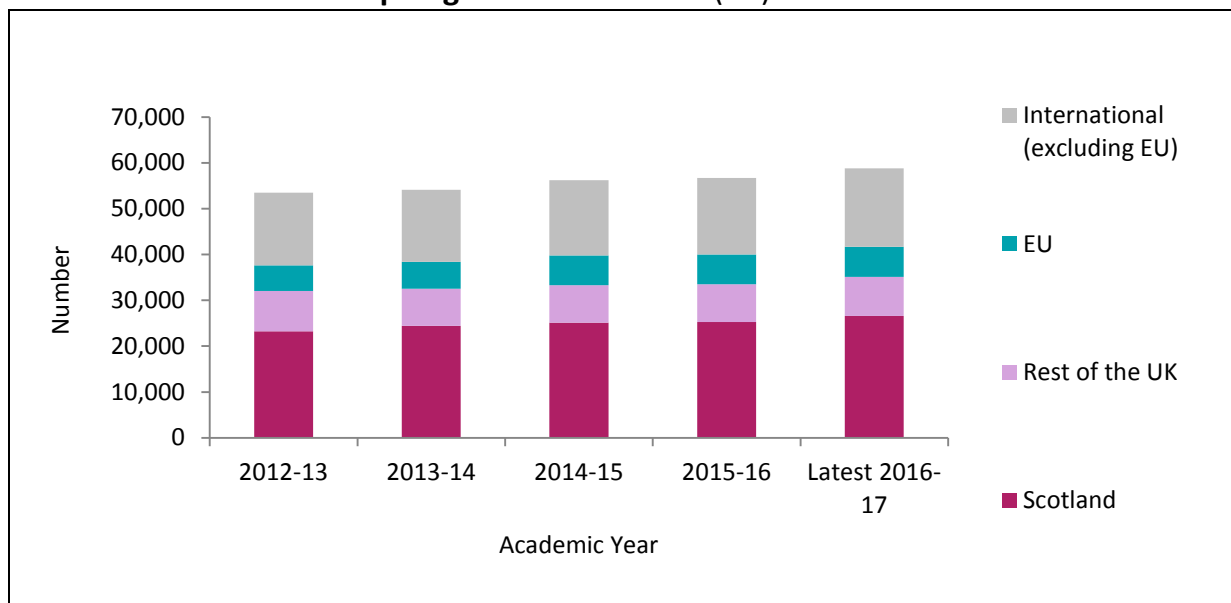


Source: Higher Education Statistics Agency (HESA)

*Excludes central government tax credits for research and development expenditure.

The recruitment of postgraduate students increased from 56,710 in AY 2015-16 to 58,825 in 2016-17.

Number and domicile of postgraduate students (AY)



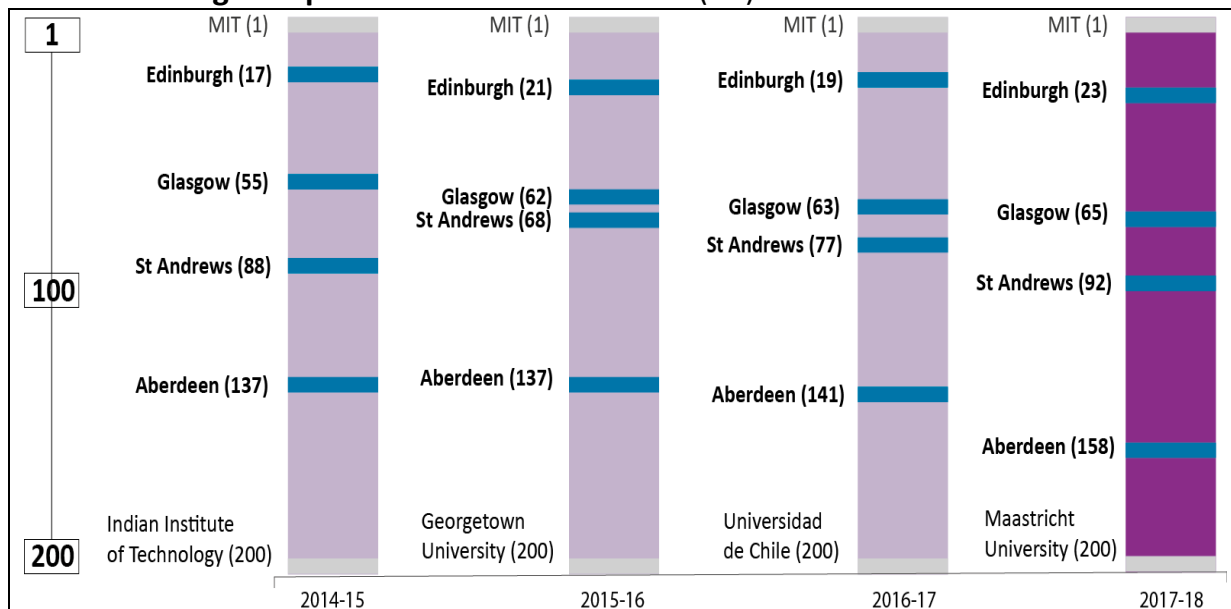
Source: Higher Education Statistics Agency (HESA)

We have continued to focus our investment on world-leading and internationally excellent research and, following the publication of the Scottish Government’s draft Budget for FY 2018-19, announced our decision to provide an inflationary uplift of 1.8% to our Research Excellence Grant (REG); increasing it by £4.2 million to £236 million (from £231.8 million).

Evidence from international rankings of research universities continues to show a strong performance from Scotland. In 2017, Scotland had more universities ranked in

the top 200 in the world per head of population than any other country except Luxembourg. In the 2017 QS World University rankings, three Scottish universities appeared in the top 100, although there was a slight decline in performance compared to 2016, which reflects increasing international competition.

World ranking of top 200 research universities (AY)



Source: [QS World University Rankings](#)

The research pooling initiative is one of our key Strategic Plan strategies for maintaining and enhancing the international competitiveness of Scotland’s research base, by establishing critical mass in key disciplines, attracting leading international researchers, and by providing access to advanced equipment and technology on a shared basis. During the year, we allocated the final elements of our continuation funding for the first tranche of research pools. We also agreed to commission an independent review of the research pooling programme in FY 2018-19, which will inform our future strategies for research.

At the UK level, during FY 2017-18, we worked with the other UK Funding Bodies on the planning for the Research Excellence Framework (REF) 2021, which will assess the quality of research in universities across the UK. We also gave priority to developing our connections with UK Research and innovation (UKRI) to ensure that Scotland continues to have a strong voice in UK research investment decisions.

Finally, at the international level, we continued our strategy of working with the Connected Scotland partnership, with Scotland Europa, Universities Scotland and Universities UK to strengthen the international reputation and potential of Scotland’s research base.

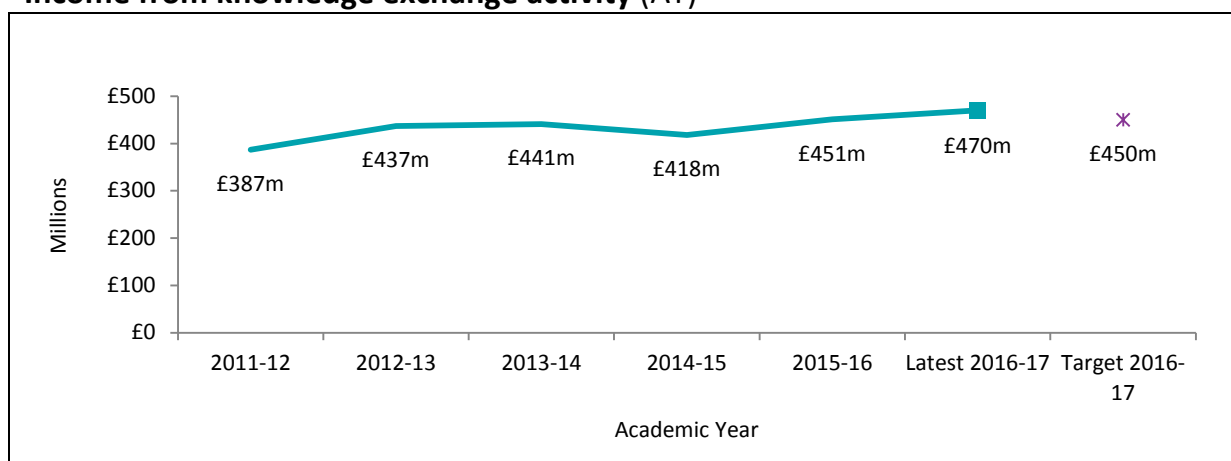
Outcome: Greater innovation in the economy

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

We have continued to invest in strategic initiatives aimed at improving university-business interaction and, through that, greater business innovation; in particular, through our planned investment of over £120 million in Innovation Centres in key sectors of the economy, our Innovation Voucher Scheme, our College and University Innovation Funds, and the Converge Challenge entrepreneurship development programme.

There is evidence of increasing links between universities and businesses; for example, income to universities from knowledge exchange activity increased from £451 million in AY 2015-16 to £470 million in 2016-17, exceeding our target of £450 million.

Income from knowledge exchange activity (AY)



Source: Higher Education Statistics Agency (HESA)

An important feature of our work in FY 2016-17 on innovation has been in partnership with Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, and other stakeholders to develop our approach nationally to innovation. This work is helping to ensure that there is a coherent approach towards developing the infrastructure to support innovation in Scotland, and that we are achieving the cultural change that is needed to make it sustainable. We have, for example, worked with the Scottish Government and others on the implementation of the CAN DO Innovation Action Plan, and on the national review of Enterprise and Skills.

We have given priority to developing the role that colleges can play in supporting innovation-driven growth, particularly through their links with small businesses. This work includes supporting a major proposal for funding a pilot project between a group of colleges, the Construction Scotland Innovation Centre, and the Digital Health Innovation Centre.

In the university sector, we have established seven outcomes for the use of our University Innovation Fund (UIF), which are intended to ensure that the fund is more closely aligned to Scotland's Economic Strategy, Universities Scotland 5-point action plan and the CAN DO Innovation Action Plan.

During the year, we used our leadership and influence to develop the environment for innovation in Scotland. For example, we played an active role in the development of proposals for a new £65 million National Manufacturing Institute for Scotland. We also worked with Scottish Government, universities and others to maximise the opportunities provided by the UK Industrial Strategy Challenge Fund.

Outcome: Effective use of resources

Our purpose here is to ensure that:

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

We play an important role in advising Scottish Ministers on long-term financial planning in the college and university sectors. One of our main activities in FY 2017-18 was working strategically with the Scottish Government on preparations for the Spending Review and our planning for the publication of our Outcome Agreement funding for colleges and universities for AY 2018-19. Following the publication of the draft Scottish Budget, we published successfully our indicative funding allocations for colleges and universities for AY 2018-19 in February 2018.

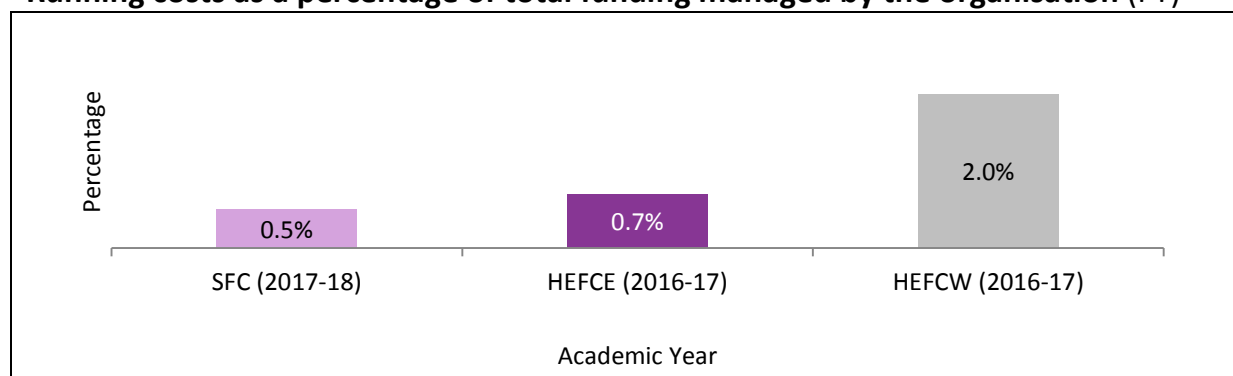
In the university sector, we were able to announce an inflationary uplift of 1.8% to all core teaching grants and to the Research Excellence Grant (REG) and Research Postgraduate Grant (RPG) for AY 2018-19. In addition, we were able to announce an increase to the University Innovation Fund (UIF) of 10% for AY 2018-19. In the college sector, we announced an overall increase to the core teaching grant of 9.7%, which includes the full estimated National Bargaining harmonisation costs for AY 2018-19. We also announced an inflationary increase of 1.5% for Student Support funding.

In line with our Strategic Plan commitment, our Finance operation has continued to perform well with payments being made accurately and on-time, and budgets being managed throughout the year. Internal audits and external audits continue to report a well-managed and well-controlled Finance function.

In terms of our own operational budget, the data shows that SFC continues to be an efficient organisation, with a running cost budget which represents 0.5% of total funding. This compares favourably with the latest available results for our sister

Funding Bodies in the UK, the Higher Education Funding Council for England (HEFCE) and the Higher Education Funding Council for Wales (HEFCW).

Running costs as a percentage of total funding managed by the organisation (FY)



Source: SFC

Outcome: High-performing Scottish Funding Council

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

We play an important leadership role in supporting the Scottish Government's priorities for further and higher education through our Outcome Agreement approach to funding. Outcome Agreements are negotiated with colleges and universities and reflect the return that we and the Scottish Government expect for the public investment in further and higher education. They are also an opportunity for colleges and universities to make clear the contribution that they plan to make to the outcomes set out in our Strategic Plan. We have continued to develop our approach to Outcome Agreements, including through a process of 'intensification', and, in October 2017, published our priorities for the period AYs 2017-18 to 2020-21.

As the national, strategic body for the funding of colleges and universities, SFC is an important source of evidence, data and information on further and higher education, and plays a major role in advising the Scottish Government and others on the learning system in Scotland. During FY 2017-18, we used our expertise to contribute to a range of important policy reviews, including the independent review of student support and the Scottish Government's review of the learner journey, and the national review of the Enterprise and Skills agencies in Scotland.

We also devoted a significant amount of senior staff time to proposals for a new national Enterprise and Skills Strategic Board, particularly in relation to strategic planning, performance reporting, governance structures, and skills planning.

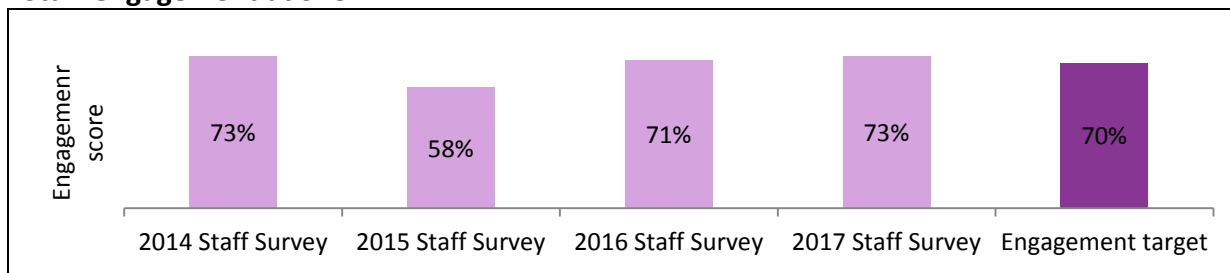
We have continued to publish a wide range of data, statistics and evidence about further and higher education, including performance indicators.

Throughout the year, we have continued to see growth in SFC's influence on social media helped by our strategy of inviting leading researchers and senior academics to

provide guest blogs. The growing number of platforms that we are using to communicate with our audiences is making a significant contribution to our Strategic Plan commitment to communicate effectively with colleges, universities, and all our partners.

Towards the end of the year, we undertook our annual Staff Survey for 2017. The results showed a further improvement in staff engagement, from a score of 71% in December 2016 to 73% in December 2017.

Staff engagement at SFC



Source: SFC

In the context of our Strategic Plan commitment to deliver value-for-money as a public body, we completed a major refurbishment of our office accommodation in FY 2017-18, which is improving cross-organisational collaboration through smarter working, as well as improving our efficiency as an organisation.

Financial Performance Report

The Council's funding grant disbursements and operating costs for the year ended 31 March 2018 are contained in the Financial Statements in Section 3. The accounts have been prepared under a direction issued by the Scottish Ministers in accordance with paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005. The accounts comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FRoM).

Statement of Financial Position

The Council's net expenditure for the year was £1,759,979,000 (FY 2016-17: £1,764,464,000). Grants are disbursed and expenditure incurred in relation to the Council's Strategic Plan priorities.

The Council received Financial Transactions funding of £16.2 million from the Scottish Government for the specific purpose of the Council providing of loans to higher education institutions. Financial Transactions are recognised as a current and non-current asset depending on the repayment terms of the loans and this has contributed to the surplus of £14.8 million for the year (2016-17: deficit £0.7 million).

Funds for distribution to institutions

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

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

Performance against Departmental Expenditure Limits (DEL) in 2017-18

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

Performance	Final budget £'000	Actual outturn £'000	Overspend/ (underspend) £'000
Resource DEL	1,635,421	1,632,521	(2,900)
NPD unitary charge	29,100	29,397	297
Capital additions funded by financial transactions	16,902	16,189	(713)
Capital DEL	92,880	74,592	(18,288)
Total DEL	1,774,303	1,752,699	(21,604)

The Council underspent its DEL budget by £21.6 million in 2017-18 (2016-17: £18.8 million). The underspend mainly comprises:

- £6 million from underspend from colleges repaying loans entered into before April 2014 which do not score as resource expenditure offset by an additional £2 million teaching grant provided to colleges in-year.
- Working capital movements.
- £17.4 million slippage on capital projects. These funds will be made available by the Scottish Government when required.
- £1.3 million underspend on the college low carbon programme.
- £0.7 million underspend on the higher education institutions ring-fenced financial transaction budget.

The Council monitors its financial position for further and higher education throughout the year through resource returns to the Scottish Government. The Council manages its budget through an annual re-profiling exercise to reallocate funds between the further education, higher education and running costs budgets. The Scottish Government approved total re-profiling of £18.3 million (2016-17: £4.6 million) which equates to 1% (2016-17: 0.25%) of the total Grant-in-Aid budget from the Scottish Government.

Payment of creditors

The Council observed the principles of the Government-backed Better Payment Practice Group, www.payontime.co.uk. The Council aims to pay 100% of invoices, including disputed invoices once settled, within ten days.

An analysis of the Council's payment performance for the year to 31 March 2018 showed that 98.2% (FY 2016-17: 98.2%) of invoices were paid within 10 days of the presentation of a valid invoice and 99.2% (FY 2016-17: 99.7%) of invoices were paid within 30 days.

At the year end, our trade payables balance – that is to say, the amount owing to our suppliers – was £93,637. Comparing this balance with the aggregate amount invoiced by suppliers in year (£1,956,752), and expressing this as a number of days, gives an indication of the average time we take to pay our bills: for the year ended 31 March 2018 our figure for ‘creditor days’ was 17.47 days (FY 2016-17: 1.47). The increase in ‘creditor days’ arises due to the late receipt of invoices over a holiday period.

Pension liabilities

Details of the accounting policy for pension liabilities and information regarding the relevant pension schemes for the Council are given in the remuneration report.

Company directorships and other significant interests held by Board members

The register of interests for Board members of the Council can be found at:

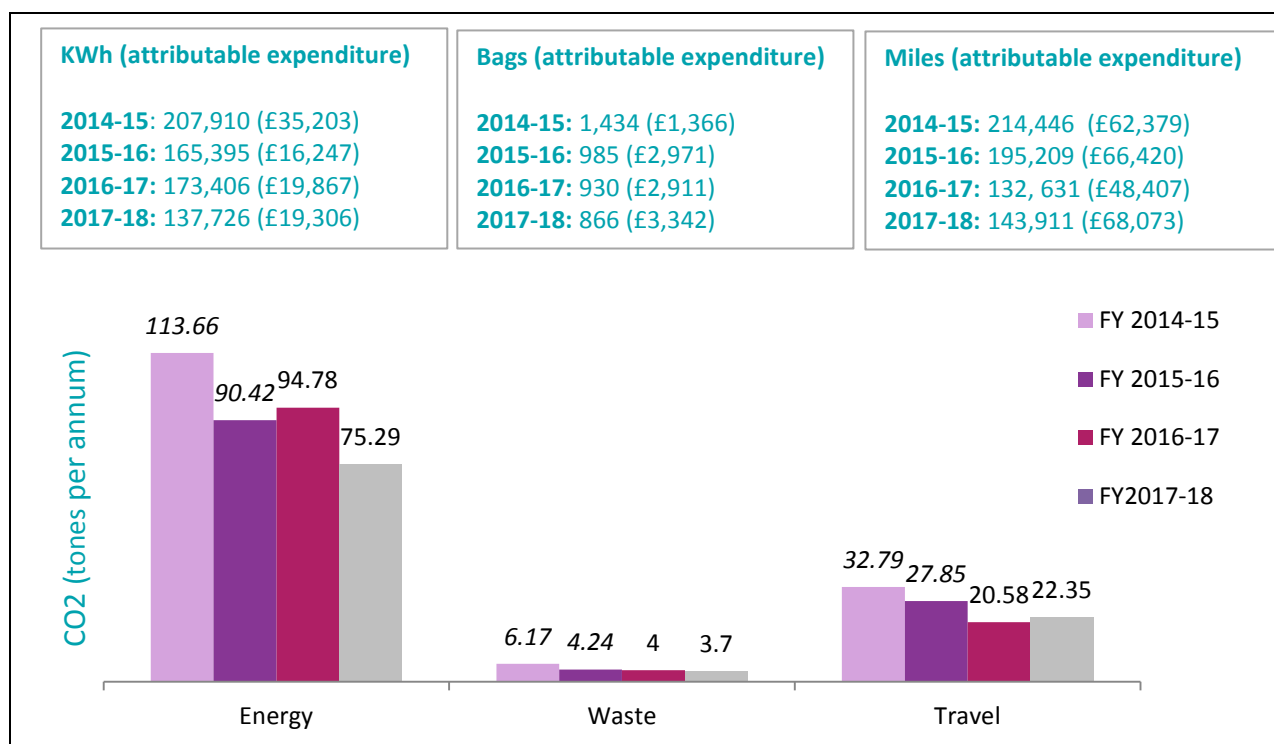
<http://www.sfc.ac.uk/about-sfc/council-board/council-membership/council-membership.aspx>

Audit

The audit of the accounts of the Council has been undertaken by Audit Scotland, appointed by the Auditor General for Scotland. The audit fee from 1 April 2017 to 31 March 2018 was £71,500 (FY 2016-17: £70,480). No non-audit services were supplied during the year.

Sustainability Report

The following table summarises our environmental performance data.



Energy

Overall our energy usage during FY 2017-18 has decreased by 20% as a result of changes in our office accommodation. Our total usage this year was 75.29 tonnes of CO₂ (FY 2016-17: 94.78).

Information technology

Our work with the Scottish Government Digital Transformation team on the Data Hosting and Data Centre Strategy for the Scottish Public Sector allows us to look continually for ways to reduce our ICT carbon footprint and running costs. We also liaise with the Scottish Government Smarter Work Place team to access their knowledge as we develop an agile-working office environment. With regard to cyber security, we continue to adopt a layered multi-vendor approach with a combination of anti-virus, anti-malware and anti-exploit technology.

Waste

Our paper consumption in FY 2017-18 was 226,000 sheets. This is a decrease on FY 2016-17 (321,500) of 30% and is mainly attributable to changes in our office accommodation and the introduction of agile working technology, including the allocation of a computer laptop to every member of staff.

Due to a change in the Building Management we have now changed the way we recycle. Instead of paper, plastics and cans being separated, these are now taken as a combined item (mixed recycling).

All documents and publications are now disposed of as confidential waste and reported as such. Our total waste for FY 2017-18 was 16.00 tonnes – a decrease of 3% on FY 2016-17 (16.50 tonnes). Recycling at source (mixed recycling and confidential waste) was 12.30 tonnes – a very slight decrease on FY2016-17 (12.50 tonnes). Percentage of total waste recycled at source was 76.87% an increase of 1% on FY2016-17 (75.85%).

During the refurbishment of the Council’s new office space, we donated the majority of our old furniture to Police Scotland, St Marys Music School in Edinburgh, Citizens Advice Bureau and various smaller charities.

Facilities are in place to recycle glass and we have recently started to recycle food waste, neither of these are measured.

	2017-18 Tonnes	2016-17 Tonnes
Total waste	16.00	16.50
Waste to landfill	3.70	4.00
Waste recycled at source	12.30	12.50
Percentage of total waste recycled at source	76.87	75.85

Water

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

Travel

In terms of our travel, the following changes have taken place in FY 2017-18:

- Car mileage has decreased by 18.68%.
- Train travel has increased by 6.02%.
- Air travel has increased by 59.36%.

Train travel has increased because of a greater need for European Social Fund audits, and meetings in London associated with the preparations for the next UK-wide Research Excellence Framework. Air travel has increased for similar reasons and because of the need for additional visits to Orkney and Shetland.

Key activities

We sponsored the Student Engagement category in the Environmental Association of Colleges and Universities (EAUC) Green Gown Awards. Five Scottish colleges and universities won awards at the awards held in Manchester. The Scottish winners were:

- Borders College – Best Newcomer for the UK's first heat system that runs on sewage.
- Perth College – Employability, for its Waste Electrical and Electronic Equipment Centre (WEEE) Centre where students refurbish waste IT equipment for resale.
- Ayrshire College – Student Engagement, for their Park Life project with students volunteering at a local park.
- Edinburgh University – Enterprise, for their Swap and Reuse Hub (SHRUB) Co-operative.
- South Lanarkshire College – Leadership Award, Angus Allan, Depute Principal.

Ayrshire College was also Highly Commended in the Community category for its “Older Adult” project supporting health and wellbeing for older people.

Within the organisation, we have continued to promote sustainability activity and communications to staff throughout the year in support of various national campaigns; for example, Fair Trade Fortnight, Earth Hour 2017, and increase physical activity at work, including promoting lunch-time walks. We also:

- Encourage sustainable travel, promoting the use of buses over taxis and trains over planes.
 - Introduced the recycling of food-waste.
- Use motion detectors to save energy costs when areas of our office are unoccupied.
- Embed sustainability into the tendering of procurement contracts by awarding 5% of the evaluation scoring for corporate and social responsibility aims.
- Continue a policy of e-documents for our corporate publications.

The reduction of our office space from two floors to one, combined with a complete redesign of the available space has resulted in savings in rent, heating and electricity. As part of this process, we have invested in energy-efficient IT equipment which helps facilitate agile working and greatly reduces the need for travel.

Corporate social responsibility

Through staff awareness campaigns, we encourage staff to support environmental and social responsibility initiatives. Staff are also offered three volunteering days each year to use their business skills to help charities.

During the year, we took part in the Edinburgh Jobs, Education and Training (JET) initiative, which aims to reduce youth unemployment by providing work experience for a young person, who worked with us on Fridays during the school terms from September 2017 to April 2018.

We continue to be a Pioneering Partner in MCR Pathways, a mentoring programme, which works to change the lives of some of Glasgow's most disadvantaged young people. From February 2018, staff volunteers have participated in the Paired Reading Scheme run by Business in the Community Scotland. This scheme is aimed at developing and improving literacy and reading skills amongst primary-aged children.

We use local charity 'Social Bite' for catering.

Public service

Our staff seek to conduct themselves to the highest standards of public service. A Code of Conduct is in place which governs conflicts of interest, promotes integrity, impartiality and honesty, and ensures compliance with relevant legislation dealing with human rights, bribery, and corruption.



John Kemp
Accountable Officer

Date: 21 June 2018

Section 2: The Accountability Report

The Accountability Report contains three parts:

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

Corporate Governance Report

Directors' Report

SFC's structure

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

In FY 2017-18, membership of the board was as follows:

Chair	Dr Mike Cantlay: appointed 3 October 2017 Professor Alice Brown CBE: term of office ended on 2 October 2017
Interim Chief Executive	John Kemp
Members	David Alexander: appointed 3 October 2017 Robin Crawford: term of office ended on 2 October 2017 Audrey Cumberland: term of office ended on 2 October 2017 Mhairi Harrington: appointed 3 October 2017 Professor Maggie Kinloch Paul Little Lorraine McMillan: term of office ended on 2 October 2017 Douglas Mundie Professor Sir Anton Muscatelli Dr Keith Nicholson Dr Veena O'Halloran Professor Albert Rodger: term of office ended on 2 October 2017 Caroline Stuart Marlene Wood Professor Lesley Yellowlees: appointed 3 October 2017

SFC Board meetings are attended by a representative of the Scottish Government and observers from the Higher Education Funding Council for England (HEFCE), the Higher Education Funding Council for Wales (HEFCW) and NUS Scotland.

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

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

- Access, Skills, and Outcome Agreements.
- Research and Innovation.
- Finance.
- Corporate Services.

The Senior Management Team (SMT) provides leadership to the executive. The membership of SMT comprises of the Chief Executive and four Directors.

Estate strategy

The Council signed a new lease for office accommodation on the ground floor only at 97 Haymarket Terrace in Edinburgh which began in September 2017 and ends in April 2031.

Information security

There have been no breaches of data security or reported incidents of loss of personal data by the Council during FY 2017-18.

Statement of Accountable Officer's Responsibilities

Under paragraph 17 of Schedule 1 to the Further and Higher Education (Scotland) Act 2005, the Council is required to prepare a statement of accounts in respect of the year ended 31 March 2018 in the form, and on the basis, determined by Scottish Ministers. The accounts are prepared on an accruals basis and must give a true and fair view of the Council's state of affairs at 31 March 2018 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 (FReM)* and, in particular, to:

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

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

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

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

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

The Governance Statement

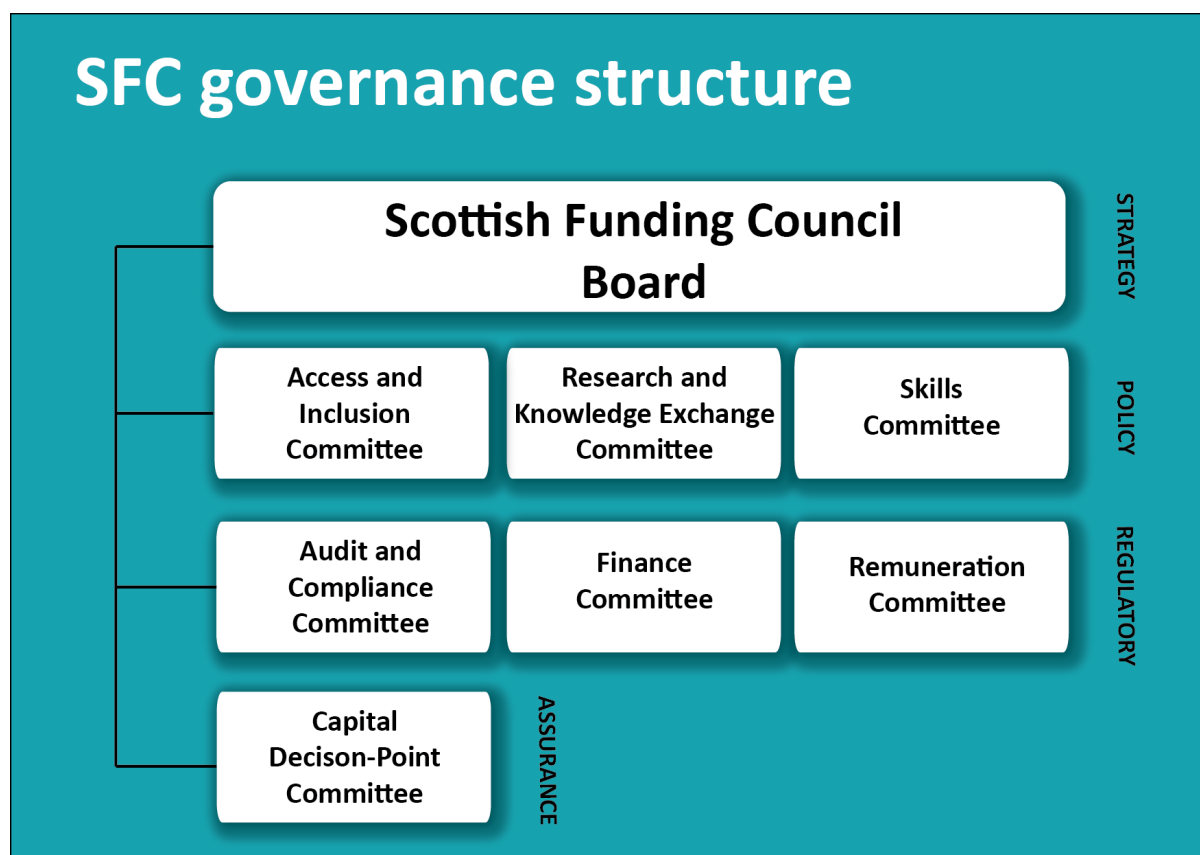
Introduction

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

The purpose of the Governance Statement is to explain the composition and organisation of SFC's governance structures and how they support the achievement of SFC's objectives. It sets out the governance structures, risk management and internal control processes that have been operating in SFC during FY 2017-18 and reports my assessment of the effectiveness of these arrangements.

Governance framework

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



The Council reviews and updates its governance framework in the light of developments in good practice, changes in external regulation, and in the light of its

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

The Board

The role of the Board is set out in the Framework Document between the Scottish Government and SFC. The Board is responsible for providing 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 the Council's affairs. Members have full and timely access to all relevant information to enable them to perform their roles effectively.

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

Board effectiveness

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

Committees of Council

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

Three committees are responsible mainly for organisational or regulatory matters: Audit and Compliance Committee, Finance Committee, and the Remuneration Committee.

The seventh Committee provides the Board with assurance on capital issues: Capital Decision-Point Committee.

The Access and Inclusion Committee advises the Council on access and inclusion matters and on the implementation of the recommendations from the Commission on Widening Access (COWA) – including monitoring the progress of key targets – and Scottish Government priorities for access to learning.

The Skills Committee is a joint committee with Skills Development Scotland (SDS), advising both Boards on skills needs of, and policies for, Scotland. The Committee collects monitors and evaluates evidence on skills needs in Scotland and on the supply of, and demand for, learning and training solutions. Its advice informs the development of Outcome Agreements with colleges and universities. Recent meetings have been suspended while the Council and SDS consider the implications for Joint Skills Committee of the new Strategic Board for Enterprise and Skills.

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

The Council is advised on risk, internal control and governance matters by its Audit and Compliance Committee. The Committee's responsibilities include: Best Value and value for money; monitoring the Council executive's management of the Council's Risk Register; the review of internal controls and other internal audit matters; receiving and reviewing all reports from Internal Audit and External Audit; consideration of the Council's Annual Report and Accounts, and oversight of the management of the Council's compliance with legislation and regulation.

The Finance Committee has a remit to review the Council's financial strategy, oversee the Council's governance and financial monitoring of institutions, scrutinise the annual budgets for programme funds, scrutinise the financial position of the Council, and review the annual report and accounts for consistency with financial information reviewed by the Committee during the year.

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

The remit of the Capital Decision-Point Committee is to ensure that there is appropriate governance arrangements, proper scrutiny, and due diligence of major capital projects funded by SFC.

Further details of the remits and memberships of all the Council committees are published on the Council's website at:

<http://www.sfc.ac.uk/about-sfc/council-committees/council-committees.aspx>

Council members' attendance at Board and committee meetings in FY 2017-18 is shown in the table on page 39.

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

Council members' attendance at meetings

Council members attending Council and Committee meetings	Council <i>8 meetings</i>	Access and Inclusion <i>3 meetings</i>	Audit and Compliance <i>4 meetings</i>	Capital Decision Point <i>1 meeting</i>	Finance <i>5 meetings</i>	Remuneration <i>3 meetings</i>	Research and Knowledge Exchange <i>6 meetings</i>	Skills <i>2 meetings</i>
Professor Alice Brown (Chair)	4 (c)							
Dr Mike Cantlay (Chair)	4 (c)							
John Kemp (Interim Chief Executive)	8		4	1	5			
David Alexander	5 of 5		2 (c) of 2					
Robin Crawford	4 of 4				2 (c) of 2			
Audrey Cumberland	4 of 4	1 of 1					3 of 3	
Mhairi Harrington	5 of 5							
Professor Maggie Kinloch	5 of 8	3 (c)						
Paul Little	6 of 8		3					1
Professor Sir Anton Muscatelli	5 of 8				5			0
Lorraine McMillan	4 of 4							2 (c)
Douglas Mundie	8			1 (c)	1(c) of 4	3 (c)	4	
Dr Keith Nicholson	5 of 8		2				2	
Dr Veena O'Halloran	7 of 8	2				2		
Professor Albert Rodger	4 of 4			0			3 (c) of 3	
Caroline Stuart	8		3					2
Marlene Wood	7 of 8		2 (c) of 2	1	2 (c) of 2	3		
Lesley Yellowlees	5 of 5						3 (c) of 3	

c = Chairperson

Assessment of corporate governance

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

Risk management

The Council's risk management strategy is to:

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

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

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

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

The Council has developed its approach to risk management during FY 2017-18. At its meeting in February 2018, the Board agreed a Statement of Risk Appetite for SFC:

“The Scottish Funding Council (SFC) recognises that it must take risks if it is to achieve fully its Strategic Plan aims and deliver these effectively. However, it will always approach risk in a controlled manner, reducing its exposure in a way deemed acceptable to the Board, the Scottish Government, and external regulators such as Audit Scotland.

SFC’s appetite for risk will vary depending on the functions of the organisation, the context, and the anticipated benefits.

In relation to its core funding of colleges and universities, and its regulatory role, it will seek to minimise the risks to SFC and to institutions, particularly where these may pose a threat to the financial sustainability of colleges and universities, or where they may create significant instability or uncertainty in the sectors.

In its negotiation of Outcome Agreements, its use of strategic funding, and its work with other partners and stakeholders, the organisation is willing to accept a higher level of risk where it identifies opportunities to achieve highly successful outcomes for SFC and the Scottish Government.

In its internal management and functions, SFC will avoid any activity that poses a threat to its budgeting, the health, safety and well-being of staff, or its ability to meet all legislative and regulatory requirements. While always striving to protect its reputation, SFC will nevertheless accept a moderate level of risk if it allows it to communicate its role, objectives, and achievements more successfully.”

Information governance

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

There were no breaches in information security in FY2017-18.

Internal audit

Internal audit is a key independent source of assurance. The strategic and annual planning of internal audit reviews is risk based, meaning their work is targeted to the areas identified as greatest risk and strategic importance. Internal audit carried out five reviews in FY 2017-18, none of which identified any major control weakness. Implementation of internal audit recommendations is closely monitored and reported to each meeting of the Audit and Compliance Committee. In addition, our internal auditor carries out an independent review of progress with implementation to validate the executive's monitoring and reporting. The majority of internal audit recommendations have been implemented.

Significant Issues

Significant issues are raised through the assurance framework and certificates of assurance process. During FY 2017-18, the following significant issues were brought to my attention.

Significant issue	Action
Financial health of colleges.	<p>The financial health of colleges was a significant issue in FY 2017-18. Two colleges received Section 22² reports from Audit Scotland in relation to their annual accounts for Academic Year 2016-17. These were Edinburgh and New College Lanarkshire.</p> <p>Edinburgh College has agreed a Business Transformation Plan with us and is on track to return to a sustainable financial position. We are continuing to monitor financial performance closely at the College.</p> <p>New College Lanarkshire is in the process of agreeing a Business Transformation Plan with us to achieve a sustainable financial position. Audit Scotland has noted that the College has taken steps to improve the quality of its financial monitoring and forecasting.</p>
Achievement of Scottish Government targets for student numbers in the college sector.	Meeting the Scottish Government student number targets is challenging. However, continually monitor the targets closely, identifying potential risks, and take action at an early stage to reallocate activity across

² Section 22 reports are prepared by the Auditor General if any specific concerns or issues have been raised in the [audit](#) of one of the public bodies for which she is responsible. This is done under Section 22 of the Public Finance and Accountability (Scotland) Act 2000.

	Scotland so that the sector overall meets the national target.
Meeting European Social Fund (ESF) audit requirements.	We are required to meet ESF audit requirements in order to claim successfully for funding to meet the two ESF programmes for which SFC is the Lead Partner. As a result of our engagements with the ESF Managing Authority over our claims, we are conducting 100% checks on all college participant documentation and student support cost payments.
Industrial relation challenges in the college and sector.	We took action to mitigate the risk of industrial relations problems in the college sector in response to the introduction of national bargaining. We supported the national bargaining process by validating the data that was used in negotiations and by giving a view on affordability of the proposals.
Breach of the Office of National Statistics Code of Practice for Official Statistics.	We reported a breach of the Office of National Statistics (ONS) Code of Practice for Official Statistics to the Scottish Government's Chief Statistician during FY 2017-18. The breach was the result of a limited circulation of information about college performance to the members of the new Strategic Board for Enterprise and Skills as part of their induction.

Review of the Effectiveness of the System of Internal Control

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The *Scottish Public Finance Manual (SPFM)* is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be

realised and to manage them efficiently, effectively and economically. My review of internal control is informed by:

- The Council's Audit and Compliance Committee, which assesses the effectiveness of assurances in relation to the systems of governance, risk management and internal control.
- The executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework.
- The line management process within the organisation.
- Regular meetings between Council staff and our sponsor directorate at the Scottish Government to review the risk register and our process for risk management.
- The work of the internal auditors, contracted to Scott-Moncrieff for the year to 31 March 2018, who submit to the Council's Audit and Compliance Committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement.
- 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 2018, the Head of Internal Audit reported completion of all reviews in the Audit Plan. Internal Audit was of the opinion that the Council's systems provided a reasonable basis for maintaining control and that the control framework provided reasonable assurance regarding the effective and efficient achievement of the Council's objectives. This opinion is based on recommendations in the audit reports being satisfactorily implemented.

On the basis of the assurances provided from the sources of assurance outlined above, I can confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the SPFM, have operated for the year ended 31 March 2018 and up to the date of approval of the annual report and accounts.



John Kemp
Accountable Officer

Date: 21 June 2018

Remuneration and Staff Report

Remuneration report

The sections marked ‘*’ in this Remuneration Report have been audited by Audit Scotland. The other sections of the Remuneration Report were reviewed by Audit Scotland 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 Council 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 three non-executive members of the Council’s Board.

Chair and Council members

Members of the Council are appointed by Scottish Ministers and have a collective responsibility for the proper conduct of the Council’s affairs. Council membership during 2017-18 is detailed on page 32.

*** Council members’ remuneration (including Chair and Chief Executive)**

	Year ended 31 March 2018 £’000	Year ended 31 March 2017 £’000
Salary and allowances	308	312
Social security costs	27	27
Other pension costs	30	29
	365	368

***Council membership for the period 1 April 2017 to 31 March 2018**

Member	Appointment start date	Appointment end date	Remuneration year ended 31 March 2018 £	Remuneration year ended 31 March 2017 £
Professor Alice Brown (Chair)	3 October 2013	2 October 2017	24,189	47,898
Dr Mike Cantlay (Chair)	3 October 2017	2 April 2021	24,189	-
Laurence Howells (Chief Executive)	26 April 2013	8 August 2016	-	See page 48
John Kemp (Interim Chief Executive)	8 August 2016		See page 48	See page 48
David Alexander*	3 October 2017	2 October 2021	6,012	-
Robin Crawford*	3 October 2009	2 October 2017	6,012	11,906
Audrey Cumberford*	3 October 2009	2 October 2017	6,012	11,906
Mhairi Harrington*	3 October 2017	2 October 2021	6,012	-
Professor Maggie Kinloch	16 March 2012	3 October 2019	12,025	11,906
Paul Little	4 October 2015	3 October 2019	12,025	11,906
Lorraine McMillan**	1 September 2014	2 October 2017	6,012	11,906
Douglas Mundie	1 September 2014	2 October 2021	12,025	11,906
Professor Sir Anton Muscatelli	16 March 2012	3 October 2019	12,025	11,906
Dr Keith Nicholson	16 March 2012	3 October 2019	12,025	11,906
Dr Veena O'Halloran	4 October 2015	3 October 2019	12,025	11,906
Professor Albert Rodger*	3 October 2009	2 October 2017	6,012	11,906
Caroline Stuart	4 October 2015	3 October 2019	12,025	11,906
Marlene Wood	16 March 2012	3 October 2019	12,025	11,906
Professor Lesley Yellowlees*	3 October 2017	2 October 2021	6,012	-

The Chair receives a remuneration of £460 per day for a time commitment of two days per week. All other Board members are entitled to receive a fee of £334 per day (2016-17: £327), up to a maximum total fee of £12,025 (2016-17: £11,906) per financial year. Where a Board member's membership did not include a full year, but they received a full-year equivalent salary of £12,025, this is indicated by * in the above table. The daily fee is not pensionable. All members are paid the daily fee direct to them via payroll, except one who has elected to have her daily fee paid to her employer (indicated by ** in the above table).

Council members attendance at meetings are given on page 39

As at 31 March 2018 there were 13 council members of whom 6 were females and 7 were males.

Chief Executive

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

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

John Kemp was appointed Interim Chief Executive on 8 August 2016 following the retirement of Laurence Howells.

Senior staff

The remuneration of senior staff is reviewed annually in line with Scottish Government policy and may provide for progression and a cost of living increase, subject to not exceeding the salary scale maximum. Apart from the general requirement to perform satisfactorily, there is no performance-related element. Senior staff are employed on an open-ended contract with a notice period of three months from employee or employer.

*Salary and pension entitlements for senior employees

Single total figure of remuneration

	Salary (£'000)		Pension benefits (to nearest (£1000) ³)		Total (£'000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
John Kemp (appointed Interim Chief Executive on 8 August 2016, FYE £115-120k.	120-125	110-115	33,000	152,000	150-155	260-265
Michael Cross (appointed Interim Director of Access, Skills and Outcome Agreements on 10 October 2016. FYE £80-85k)	80-85	35-40	80,000	84,000	160-165	120-125
Martin Fairbairn (Chief Operating Officer) ⁴	110-115	110-115	1,000	17,000	110-115	125-130
Stuart Fancey (Director of Research and Innovation)	80-85	80-85	41,000	111,000	125-130	190-195
Lorna MacDonald (Director of Finance)	95-100	95-100	39,000	39,000	135-140	135-140
Laurence Howells (Chief Executive, retired 8 August 2016, FYE £115-120k)	-	40-45	-	5,000	-	45-50
Dee Bird (Interim Secretary to the Council from 9 November 2015 to 30 April 2016) ⁵	-	0-5	-	4,000	-	5-10
Helen Gibson (Interim Chief Operating Officer from 9 November 2015 to 30 April 2016) ⁶	-	0-5	-	9,000	-	10-15

There were no bonus payments or benefits in kind payments made in either 2017-18 or 2016-17.

*Pay multiples

³ The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights.

⁴ In May 2015, Martin Fairbairn went on secondment to Glasgow Colleges' Regional Board. A part-time secondee from Napier University joined the Council for the period 19 May to 13 November 2015 to act as Interim Secretary to the Council. The secondment was extended beyond the originally anticipated date and arrangements were made to temporarily backfill his post in November 2015. This was done following interview and the role was shared 50:50 between two SFC Assistant Directors. Dee Bird was appointed as Interim Secretary to the Council whilst retaining 50% of her work as Assistant Director. Helen Gibson was appointed as Interim Chief Operating Officer for 0.5FTE and the balance of her contracted hours were retained to spend on her Assistant Director duties. Both these interim posts were extended up to 30 April 2016 to allow for Martin Fairbairn's secondment, to maintain continuity and for the gradual phasing back into SFC duties during the month of April 2016.

⁵ Dee Bird was appointed as Interim Secretary to the Council on 9 November 2015 whilst retaining 50% of her work as Assistant Director her composite salary was £65-70k 0.5FTE at Director salary of £75-80k with the balance at 0.5 of her Assistant Director salary. She reverted to her substantive salary on 30 April 2016.

⁶ Helen Gibson was appointed as Interim Chief Operating Officer on 9 November 2015 for 0.5FTE and the balance of her contracted hours were retained to spend on her Assistant Director duties. Her composite salary to 31hrs per week was £55-60k (0.5 of £75-80k plus the balance at her Assistant Director salary). She reverted to her substantive salary on 30 April 2016.

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

The banded remuneration of the highest-paid director in the SFC in the financial year 2017-18 was £120-125,000 (2016-17: £115-120,000). This was 3.29 times (2016-17: 3.19) the median remuneration of the workforce, which was £36,927 (2016-17: £37,089).

In FY 2017-18, nil (2016-17: nil) employees received remuneration in excess of the highest paid director. Remuneration ranged from £21,207 to £121,437 (2016-17: £20,085 to £118,473).

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

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

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

	Accrued pension at pension age as at 31 March 2018	Real increase in pension and related sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017 or start date	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
John Kemp Interim Chief Executive	40-45	0-2.5	738	664	27
Michael Cross, Director of Access, Skills and Outcome Agreements	40-45 plus a lump sum of 125-130	2.5-5 plus a lump sum of 10-12.5	968	835	78
Martin Fairbairn Chief Operating Officer	30-35 plus a lump sum of 100-105	0-2.5 plus a lump sum of 0-2.5	702	656	0
Stuart Fancey Director of Research and Innovation	25-30	0-2.5	374	328	21
Lorna MacDonald Director of Finance	5-10	0-2.5	67	40	19

Civil service pensions

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

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

Employee contributions are salary-related and range between 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 a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% 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.

*Staff numbers (excluding Chief Executive)				
	Year ended 31 March 2018			2017
	Directly employed staff	Seconded and agency staff	Total	Total
Average number of FTE employees	96	1	97	99

The Council employed 60 females and 44 males as at 31 March 2018. The Interim Chief Executive is a male employee, and there are one female and three male Directors. An analysis of staff costs is given in note 3 to the financial statements.

Disclosure of exit packages

Reporting of Civil Service and other compensation schemes – exit packages

SFC had no non-compulsory exit during the year 2017-18.

Staff report

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.

There was an increase in staff absence sickness rates in FY 2017-18: the 12-month rolling absence figure for the Council was 3.29% as at 31 March 2018 (as at 31 March 2017: 2.35%). The absence rate for public sector organisations in the same period was 4.3% (CIPD Annual Survey Report 2016 – Absence Management).

Staff relations

We recognise the importance of good industrial relations and effective communication with our staff. We have a Joint Consultation and Negotiation 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. We also have a health and safety committee which includes union representatives to help ensure the safety and wellbeing of staff working at the SFC.

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017 we provided the following support through paid facility time for union officials working at SFC in the period 1 April 2017 to 31 March 2018.

Relevant union officials

Number of employees who were relevant union officials during the relevant period:	Full-time equivalent employee number:
<ul style="list-style-type: none"> • Six Unite Committee members (including post holders) • Two Health and Safety representatives 	7.5 FTE

Percentage of time spent on facility time

Percentage:	Number of employees
0%	0
1-50%	8
51%-99%	0
100%	0

Percentage of pay bill spent on facility time

Total cost of facility time:	£15,514
Total pay bill:	£5.375 million
Percentage of the total pay bill spent on facility time:	0.3%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time hours:	100%
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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 the SFC made by disabled persons, having regard to their particular aptitudes and abilities.
- Continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company.
- Otherwise for the training, career development and promotion of disabled persons employed by the company.

The key policies which the SFC can apply are:

- Equality and Diversity Policy.
- The SFC Bullying and Harassment Policy which covers any negative action from staff towards staff with disabilities.
- Recruitment and Selection Procedure.
- Disciplinary Procedure.
- Fair Absence Management Guidance.

The Council offers workstation assessments to assess whether these meet individual needs. The Council 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 actively to improve diversity and equality. We have an Equality and Diversity Group, Chaired by our Interim Chief Executive, which monitors progress with our equality outcomes:

- We will better understand and improve equality and diversity within our workforce through improved disclosure and positive action and development initiatives.
- Equality and diversity responsibilities will be clearly established in our strategic and operational planning and advanced through forward job plans and evaluation processes.

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, the Council guarantees an interview.

During the year, we were pleased to receive accreditation from Carer Scotland as a Carer Positive Engaged Employer.

We undertake Equality Impact Assessments on our proposed policies or funding initiatives. Our equality impact assessments now review human rights as part of the methodology applied and we have carried out assessments on a number of projects and HR policies.

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.

The SFC suffered no losses. No special payments were made during financial year 2017-18 (2016-17: £153,000).

Fees and charges

The SFC applied no fees or charges during financial year 2017-18 (2016-17: none).

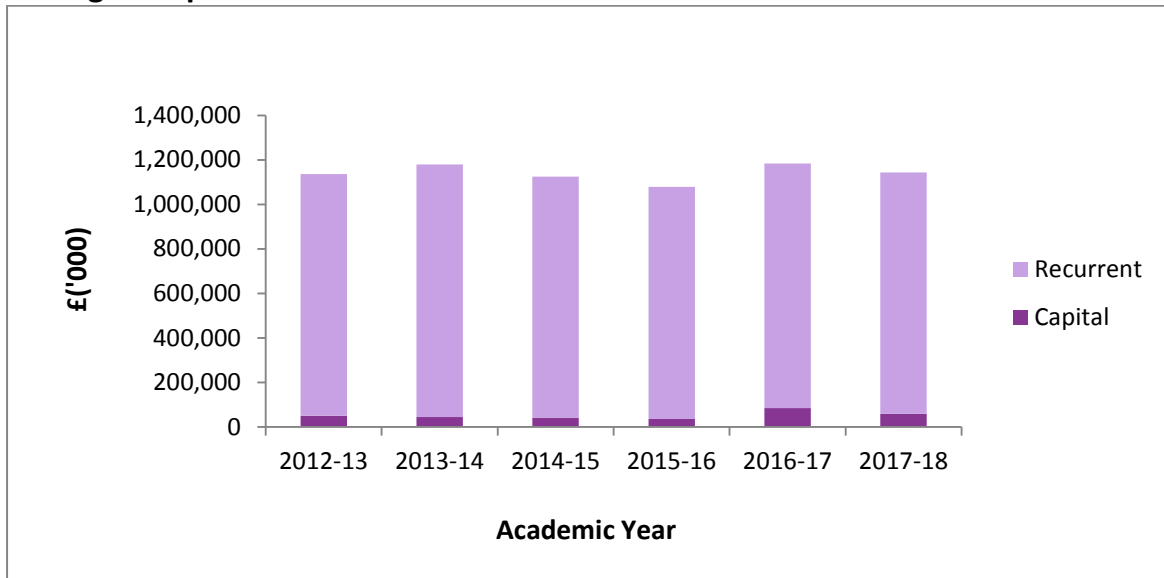
Remote contingent liabilities

The SFC has no remote contingent liabilities.

Long-term expenditure trends

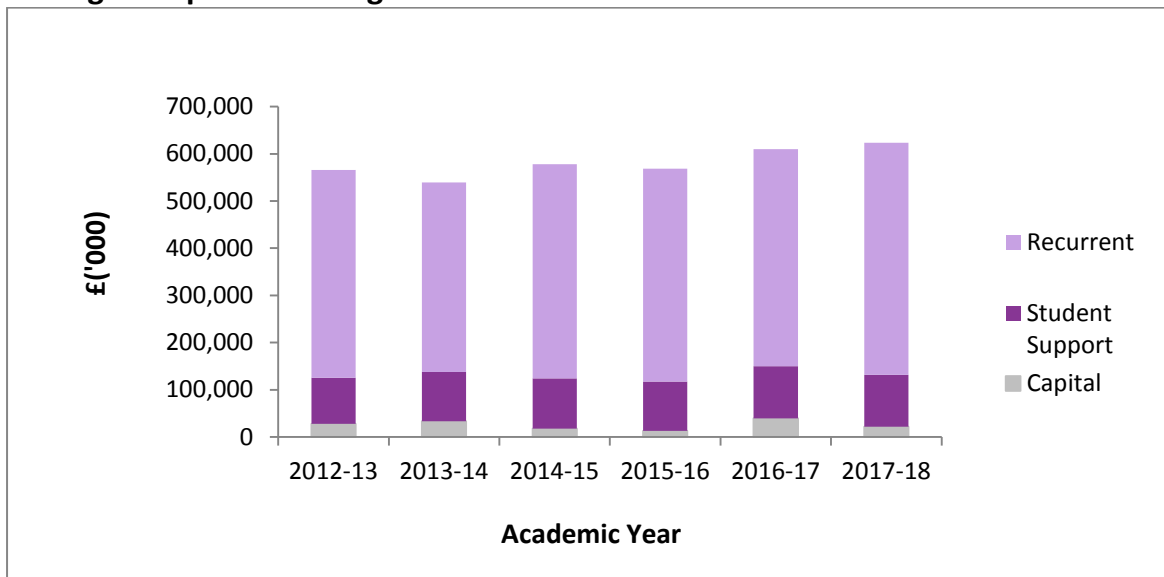
The Statement of Comprehensive Net Expenditure shows that total grants paid to HEIs and other bodies in year was £1,144 million, a decrease of 3% compared to the prior year (2016-17: £1,184 million). The year on year change shown above relates to a re-profiling between academic year and financial year ends to reflect more accurately the academic year expenditure profile and did not affect the academic year allocation to the higher education sector. The 6-year HEIs and other bodies expenditure graph on page 58 shows that expenditure was £1,136 million in 2012-13 and peaked in 2016-17 at £1,184 million.

Total grants paid to HEIs and other bodies



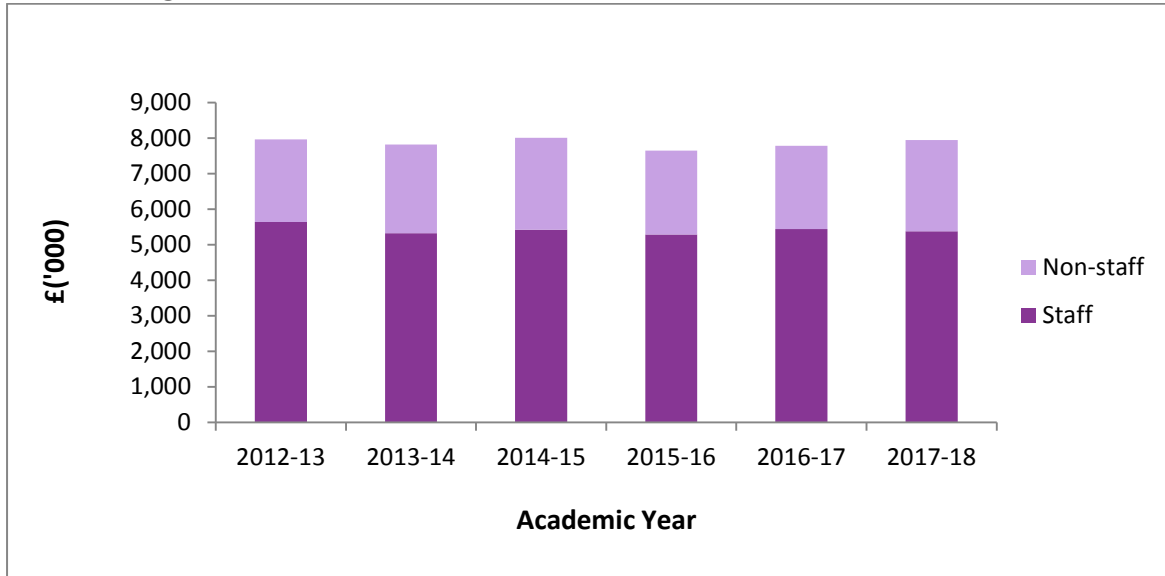
Total grants paid to Colleges and other bodies was £624 million, an increase of 2% on the prior year (2016-17: £610 million).

Total grants paid to Colleges and other bodies



SFC running costs were £7,949,000 in 2017-18. This is an increase from £7,857,000 in 2016-17.

SFC running costs



John Kemp
Accountable Officer

Date: 21 June 2018

Section 3: Independent Auditor's Report to the Members of the Scottish Further and Higher Education Funding Council, the Auditor General for Scotland and the Scottish Parliament

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 120 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Scottish Further and Higher Education Funding Council for the year ended 31 March 2018 under the Further and Higher Education (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2017/18 Government Financial Reporting Manual (the 2017/18 FReM).

In my opinion the accompanying financial statements:

- Give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2018 and of its net expenditure for the year then ended.
- Have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM.
- 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 of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my

other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- The use of the going concern basis of accounting in the preparation of the financial statements is not appropriate.
- The body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the 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 deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve 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 my 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 economic decisions of users taken on the basis of these financial statements.

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 my auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

In my 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. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

In my 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.

- 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 I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- Adequate accounting records have not been kept.
- The financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records.
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Gordon Smail
Assistant Director
102 West Port
Edinburgh
EH3 9DN

22 June 2018

Section 4: the Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

	Notes	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Expenditure			
Grants paid to HEIs and other bodies	2	1,143,653	1,183,864
Grants paid to colleges and other bodies	2	623,506	610,211
Staff costs	3	5,375	5,514
Depreciation	4	50	26
Amortisation	5	60	105
Other operating charges	6	3,035	2,635
		1,775,679	1,802,355
Income			
European Social Fund income – colleges	8	-	-
European Social Fund income – SFC	8	(41)	(50)
Income from HEIs and colleges	9	(8,214)	(9,289)
Other grants	10	(7,444)	(26,540)
Other income	11	(1)	(2,012)
		(15,700)	(37,891)
Net expenditure		1,759,979	1,764,464
Total comprehensive net expenditure for the year		1,759,979	1,764,464
Funded by:			
Grant-in-aid	7	1,756,803	1,745,812
Other Scottish Government grants	7	1,180	1,180
Other Government grants	7	16,760	16,760
		1,774,743	1,763,752
Surplus/(deficit) transferred to reserves		14,764	(712)
		1,759,979	1,764,464

There are no recognised gains and losses other than those recorded above.
The notes on pages 68 to 87 form part of these accounts.

**Statement of Financial Position
as at 31 March 2018**

	Notes	31 March 2018 £'000	31 March 2017 £'000
Non-current assets			
Property, plant and equipment	4	155	3
Intangible assets	5	48	69
Trade and other receivables	12	18,500	2,685
Total non-current assets		18,703	2,757
Current assets			
Trade and other receivables	12&13	3,862	3,746
Cash and cash equivalents	14	4,430	4,715
Total current assets		8,292	8,461
Total assets		26,995	11,218
Current liabilities			
Trade and other payables	15	94	7
Other liabilities	15	2,989	2,063
Total current liabilities		3,083	2,070
Assets less liabilities		23,912	9,148
Taxpayers' equity		23,912	9,148

The financial statements on pages 64 to 67 were approved by Council on 21 June 2018 and signed on its behalf by:



John Kemp
Accountable Officer

Date: 21 June 2018

The Accountable Officer authorised these financial statements for issue on 21 June 2018. The notes on pages 68 to 87 form part of these accounts.

Statement of Cash Flows
for the year ended 31 March 2018

	Notes	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Cash flows from operating activities			
Net operating costs		(1,759,979)	(1,764,464)
Adjustments for non cash transactions			
Depreciation and amortisation charges	4&5	110	131
Loss on disposal of fixed assets	6	2	-
(Increase)/decrease in long term debtors	12	(15,815)	158
Movements in working capital (Increase)/decrease in trade and other receivables	13	(115)	247
Increase in trade and other payables	15	1,012	294
Net cash outflow from operating activities		(1,774,785)	(1,763,634)
Cash flows from investing activities			
Purchase of property, plant & equipment	4	(204)	-
Purchase of intangible assets	5	(39)	(66)
Net cash outflow from investing activities		(243)	(66)
Cash flows from financing activities			
Grant-in-aid	7	1,756,803	1,745,812
Other Scottish Government grants	7	1,180	1,180
Other Government grants	7	16,760	16,760
Net cash inflow from financing activities		1,774,743	1,763,752
Net (decrease)/increase in cash and cash equivalents		(285)	52
Cash and cash equivalents at 1 April 2017	14	4,715	4,663
Cash and cash equivalents at 31 March 2018	14	4,430	4,715
Net (decrease)/increase in cash		(285)	52

The notes on pages 68 to 87 form part of these accounts.

**Statement of Changes in Taxpayers' Equity
for the year ended 31 March 2018**

	Note	Year ended 31 March 2018 £'000
Changes in Taxpayers' Equity 2017-18		
Balance as at 1 April 2017		9,148
Net expenditure		(1,759,979)
Scottish Government grant-in-aid funding	7	1,756,803
Other Scottish Government grants	7	1,180
Other Government grants	7	16,760
Balance at 31 March 2018		<u>23,912</u>
Changes in Taxpayers' Equity 2016-17		
Balance as at 1 April 2016		9,860
Net expenditure		(1,764,464)
Scottish Government grant-in-aid funding	7	1,745,812
Other Scottish Government grants	7	1,180
Other Government grants	7	16,760
Balance at 31 March 2017		<u>9,148</u>

The Taxpayers' Equity balance includes £18,874,000 (2017: £2,843,000) in respect of recoverable grants advanced to institutions (note 12).

The notes on pages 68 to 87 form part of these accounts

Notes to the Accounts

For the year ended 31 March 2018

1. Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adapted and interpreted by 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 International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Council for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Council are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Significant judgements

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

The Council'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. Further details are given in Note 1 (Accounting policies) and Note 12 (Trade and other receivables: recoverable grants).

The Council 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 Council Executive may in some cases decide not to seek recoveries from institutions for periods prior to a certain year. In such cases the decision is taken on an individual basis with due regard to the overall financial position of the institution and the circumstances giving rise to a potential recovery.

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 Council to be a trade and the grant income received is not therefore liable to corporation tax. The Council is not currently VAT registered. VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

Grants and loans

Grants receivable

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

European Social Fund (ESF) and European Regional Development Fund (ERDF) income are treated on a cash basis in view of the uncertainty over the level of income SFC will receive. See note 8.

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

Grants payable

The Council pays grants on the basis of: monthly instalments which take into account the pattern of the institution's receipts and payments; or on agreed profiles; or on receipt of claims from institutions. This largely reflects the pattern of need at

institutions. Funds to institutions are distributed on an academic year basis as a result of which there may be prepayments at the end of the financial year.

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

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

Loans

During the course of its business, SFC may on occasion make loans to Higher Education Institutions. These are disclosed in Note 12. Loans are disclosed at cost as the discounted cashflows would not be materially different from cost. Loan repayment is recognised at the dates agreed with the organisations concerned.

Interest free loans are payable to staff for the purchase of season travel tickets.

Any other loans are payable under the terms set out in the Further and Higher Education (Scotland) Act 2005.

Statement of comprehensive net expenditure

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

Operating lease charges

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

Pension costs and other post-retirement benefits

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

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

Short-term employee benefits

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

Financial guarantees

In accordance with IAS 39, financial guarantees are considered for recognition as liabilities. The likelihood of a liability occurring is considered to be remote therefore the financial guarantees have been treated as a contingent liability in line with IAS 37 and are not recorded on the balance sheet. See note 20.

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 2018 the following IFRS, none of which will be material to SFC's annual accounts, have been issued but are not effective as they are not yet applied in the Government Financial Reporting Manual (FRm):

Amendment to IAS 7 Disclosure initiative

IFRS 9 – Financial instruments – effective date 1 January 2018

IFRS 16 – Lease – effective date 1 January 2019

2. Grants paid to institutions and other bodies

- a) The Management Statement between the Scottish Government and the Council requires the Council and Chief Executive of the Council to ensure that grant-in-aid receipts were used for their intended purpose. In turn, the Financial Memorandum between the Council and the institutions that it funds requires the governing bodies of those institutions to ensure that grant-in-aid has been used for its intended purpose. Institutions' external auditors are required to verify that grant-in-aid has been properly applied and to incorporate their opinion on this matter into their audit reports.

The most recently available accounts for institutions are to 31 July 2017. Grants to institutions for the period up to 31 March 2018 are yet to be verified by institutions and their auditors to ensure that grant-in-aid receipts from the Council have been used for their intended purpose. Any material differences arising, which are related to the regularity of grant-in-aid for the period covered by these accounts, will be subject to adjustment in subsequent financial years. Subject to the above, grant-in-aid receipts received from the sponsor department have been applied for their intended purpose.

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

Grants paid to HEIs and other bodies	Year ended 31 March 2018	Year ended 31 March 2017
	£'000	£'000
Recurrent grants	1,084,598	1,098,913
Capital grants	59,055	84,951
	<u>1,143,653</u>	<u>1,183,864</u>

Grants paid to colleges and other bodies	Year ended 31 March 2018	Year ended 31 March 2017
	£'000	£'000
Recurrent grants	492,084	479,834
Bursary and student support payments	109,262	110,355
Capital and major works	22,160	20,022
	<u>623,506</u>	<u>610,211</u>

3. Staff costs (excluding Chief Executive)

a) Salaries and related costs

	Year ended 31 March 2018			2017
	Directly employed staff	Seconded and agency staff	Total	Total
	£'000	£'000	£'000	£'000
Cost of employing staff:				
Wages and salaries	3,971	116	4,087	4,174
Social security costs	421	11	432	473
Other pension costs	828	21	849	867
Apprenticeship levy	7	-	7	-
	5,227	148	5,375	5,514

Staff numbers are analysed in the Remuneration and staff report on page 53.

b) Loans

Interest free loans are payable to staff for the purchase of season travel tickets. The loans are repayable through the Council's payroll over the period of the duration of the tickets. As at 31 March 2018, £12,026 (as at 31 March 2017: £9,878) was outstanding and this related to 11 members of staff. This amount is included in the other debtors figure in note 13.

4. Property, plant and equipment

	Furniture and fittings £'000	ICT £'000	Other equipment £'000	Total £'000
Historic cost				
At 1 April 2017	206	432	61	699
Additions	144	59	-	203
Disposals	(206)	(45)	-	(251)
At 31 March 2018	144	446	61	651
Depreciation				
At 1 April 2017	204	431	61	696
Provided during the year	30	20	-	50
Disposals	(205)	(45)	-	(250)
At 31 March 2018	29	406	61	496
Net Book Value				
At 31 March 2018	115	40	-	155
At 1 April 2017	2	1	-	3
Historic cost				
At 1 April 2016	206	454	61	721
Additions	-	-	-	-
Disposals	-	(22)	-	(22)
At 31 March 2017	206	432	61	699
Depreciation				
At 1 April 2016	202	429	61	692
Provided during the year	2	24	-	26
Disposals	-	(22)	-	(22)
At 31 March 2017	204	431	61	696
Net Book Value				
At 31 March 2017	2	1	-	3
At 1 April 2016	4	25	-	29

5. Intangible assets

Intangible assets comprise IT software and software licences.

	IT £'000	Software licences £'000	Total £'000
Cost			
At 1 April 2017	1,076	149	1,225
Additions	39	-	39
Disposals	-	-	-
At 31 March 2018	<u>1,115</u>	<u>149</u>	<u>1,264</u>
Amortisation			
At 1 April 2017	1,019	137	1,156
Provided during the year	48	12	60
Disposals	-	-	-
At 31 March 2018	<u>1,067</u>	<u>149</u>	<u>1,216</u>
Net Book Value			
At 31 March 2018	<u>48</u>	<u>-</u>	<u>48</u>
At 1 April 2017	<u>57</u>	<u>12</u>	<u>69</u>
Cost			
At 1 April 2016	1,010	149	1,159
Additions	66	-	66
Disposals	-	-	-
At 31 March 2017	<u>1,076</u>	<u>149</u>	<u>1,225</u>
Amortisation			
At 1 April 2016	914	137	1,051
Provided during the year	105	-	105
Disposals	-	-	-
At 31 March 2017	<u>1,019</u>	<u>137</u>	<u>1,156</u>
Net Book Value			
At 31 March 2017	<u>57</u>	<u>12</u>	<u>69</u>
At 1 April 2016	<u>96</u>	<u>12</u>	<u>108</u>

6. Other operating charges

	Year ended 31 March 2018			2017
	Running	Sectoral	Total	Total
	cost	expenditure		
	£'000	£'000	£'000	£'000
Operating leases – property rental	357		357	470
Accommodation costs	335		335	407
Council members' remuneration	365		365	368
Other support costs	474		474	454
Special payment	-		-	153
Professional services	-	528	528	382
Refurbishment	705		705	112
Staff recruitment and training	30		30	55
Legal costs	23		23	44
Travel and subsistence				
– Council members	8		8	11
– Staff	66		66	67
External Audit fee	29	43	72	70
Equipment and consumables	30		30	16
Hospitality costs				
– Council members	4		4	1
– Staff	6		6	4
Publication Costs	24		24	13
Committee costs	6		6	8
Loss on disposal of assets	2		2	-
	2,464	571	3,035	2,635

Sectoral expenditure has been used to meet operating charges where the benefit is to institutions within the Scottish further and higher education sectors. £571,000 (2016-17: £382,000) of this expenditure relates to professional services and their associated costs. These professional services are commissioned in accordance with the conditions of an agreement between the Council and Scottish Government that covers the use of funds for distribution to acquire consultancy and professional services.

7. Government grant-in-aid received

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
a) Funds from Scottish Government for:		
HEI and other bodies	1,070,882	1,070,703
Financial transactions	16,189	-
Colleges and other bodies	588,258	574,182
Capital	74,205	93,458
Council running costs	7,269	7,469
	<u>1,756,803</u>	<u>1,745,812</u>
b) Other Scottish Government Grants Sabhal Mòr Ostaig	<u>1,180</u>	<u>1,180</u>
c) Other Government Grants Funds from Department for Business Energy and Industrial Strategy (DBEIS) for Research Capital	<u>16,760</u>	<u>16,760</u>

8. Income from European Social Fund (ESF)

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
ESF income received – colleges	-	-
European Regional Development Fund income received	-	-
ESF income received – SFC	<u>41</u>	<u>50</u>
	<u>41</u>	<u>50</u>

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

9. Income from higher education institutions and colleges

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Clawback from colleges	7,110	6,328
Clawback from higher education institutions	1,104	2,961
	<u>8,214</u>	<u>9,289</u>

Generally, a clawback of funds arises where institutions have under-enrolled beyond threshold against funded places, with the grant paid out in one financial year and taken back in another. In addition, a clawback arises in student support where there is a variance between payment based on 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.

10. Other grants

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Higher Education Funding Council for England (HEFCE)	2,329	23,338
Department for Business, Energy and Industrial Strategy (DBEIS)	4,012	2,392
Other grant income	1,103	810
	<u>7,444</u>	<u>26,540</u>

In 2016-17, SFC received funds from HEFCE for Edinburgh University through the UK Research Partnership Investment Fund which allows UK HEIs to compete for funding to support investment in higher education research facilities. The Council participated in a small number of programmes that were jointly funded by other bodies with an interest in the higher education sector. The grant distributed by the Council to the institutions it funded in respect of these programmes was recorded as 'grants paid to Higher Education institutions and other bodies' in the Statement of Comprehensive Net Expenditure.

11. Other income

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Miscellaneous income	1	-
Inverness College	-	2,012
	<u>1</u>	<u>2,012</u>

Inverness College committed to return all disposal receipts to SFC which arose as a result of its non-profit distribution estate redevelopment.

12. Trade and other receivables: recoverable grants

	31 March 2018 £'000	31 March 2017 £'000
(a) Balances due within one year:		
West Lothian College	158	158
University of Dundee	11	-
Edinburgh Napier University	29	-
Heriot-Watt University	104	-
Queen Margaret University, Edinburgh	11	-
University of Stirling	18	-
University of Strathclyde	23	-
University of the West of Scotland	20	-
	<u>374</u>	<u>158</u>
(b) Balances due after one year:		
West Lothian College	2,527	2,685
University of Abertay Dundee	1,076	-
University of Dundee	284	-
University of Edinburgh	5,192	-
Edinburgh Napier University	526	-
Heriot-Watt University	1,980	-
Queen Margaret University, Edinburgh	106	-
The Robert Gordon University	394	-
University of St Andrews	4,981	-
University of Stirling	317	-
University of Strathclyde	829	-
University of the West of Scotland	288	-
	<u>18,500</u>	<u>2,685</u>
Total	<u>18,874</u>	<u>2,843</u>

University recoverable grants are funds provided to institutions on an individual basis to support the costs of specific projects, which are recovered via an adjustment to their future funding. The SFC Board has agreed the principles for providing university recoverable grants. None of the above recoverable grants are interest bearing. Amounts provided are within the total funding for the programme approved by the Board. University recoverable grants are normally for five to seven years.

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

13. Trade and other receivables

	31 March 2018 £'000	31 March 2017 £'000
Prepayments and accrued income	1,860	1,771
Institutions clawback	1,587	1,746
Other HEI balances	-	7
Other debtors	41	64
	<hr/> 3,488	<hr/> 3,588
Balances due within one year (from note 12a)	374	158
Total balances due within one year	<hr/> 3,862 <hr/>	<hr/> 3,746 <hr/>

14. Cash and cash equivalents

	31 March 2018 £'000	31 March 2017 £'000
Funds held at Government Banking Service accounts	4,424	4,711
Funds held at commercial banks	6	4
	<hr/> 4,430 <hr/>	<hr/> 4,715 <hr/>

15. Trade and other payables

	31 March 2018 £'000	31 March 2017 £'000
Trade payables	94	7
Other HEI balances	2,403	1,191
Other liabilities	586	872
Total other liabilities	<hr/> 2,989	<hr/> 2,063
Total current liabilities	<hr/> 3,083 <hr/>	<hr/> 2,070 <hr/>

16. Capital and non-capital commitments

The level of funding for academic institutions is determined on the basis of the academic year; 1 August to 31 July each year. The Council's financial year runs from 1 April to 31 March each year. Grant commitments which fall outwith the Council's

current financial year, but within the remaining period of the current academic year, are disclosed as contracted grant.

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

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

Grants committed to be paid to HEIs and other bodies	31 March 2018 £'000	31 March 2017 £'000
Grant for distribution		
Recurrent grant	427,345	444,346
Capital grants	2,553	10,654
	429,898	455,000

Grants committed to be paid to colleges and other bodies	31 March 2018 £'000	31 March 2017 £'000
Grant for distribution		
Recurrent grant	170,165	161,450
Student support payments	40,756	38,049
Capital grants	15,893	197
Unitary charge	9,880	9,594
	236,694	209,290

17. Commitments under leases

Operating leases

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

Obligations under operating leases comprise:

	31 March 2018 £'000	31 March 2017 £'000
Equipment		
Not later than one year	9	11
Later than one year and not later than five years	11	24
	<u>20</u>	<u>35</u>
Buildings		
Not later than one year	259	-
Later than one year and not later than five years	1,035	-
Later than five years	2,092	-
	<u>3,386</u>	<u>-</u>

The Council does not own any land or buildings. Its premises in Edinburgh are leased. A new lease for the ground floor only of 97 Haymarket Terrace began in September 2017 and ends in April 2031.

18. Contingent liability

The Scottish Funding Council is currently in correspondence with HM Revenue & Customs regarding a potential VAT liability on our limited level of outward secondments. It is not possible to estimate the level of this potential liability and accordingly the Council does not believe it is appropriate to make any provision in these financial statements.

19. Related party transactions

The Council is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Government.

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

The universities and colleges the Council funds are regarded as related parties. Details of the major transactions between the Council and the funded institutions are set out in Appendix 2 to the Report and Accounts. Amounts due to and from related parties are shown in notes 12, 13 and 15.

In addition, the Council had various material transactions with other publicly funded bodies during the period, including Education Scotland (ES), Quality Assurance Agency (QAA) and the Higher Education (HE) Academy.

The transactions with ES and QAA relate to an SLA which requires them to perform specific functions with regard to quality assurance and quality improvement of learning and teaching. Payment to the HE Academy is to support the Academy's work which is undertaken on behalf of the university sector.

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

- David Alexander is Vice Principal Operations at West College Scotland.
- Robin Crawford was previously a member of the Court of the University of Strathclyde.
- Audrey Cumberland is Principal of West College Scotland.
- Mhairi Harrington is Principal and Chief Executive of West Lothian College.
- Professor Maggie Kinloch was previously Vice-Principal of the Royal Conservatoire of Scotland.
- Paul Little is Principal and Chief Executive of the City of Glasgow College.
- Douglas Mundie undertakes occasional consultancy work with universities and colleges. A company of which he is a Director worked with the University of St Andrews in the year 2017-18.
- Professor Sir Anton Muscatelli is Principal and Vice-Chancellor of the University of Glasgow.
- Veena O'Halloran is University Secretary and Compliance Officer at the University of Strathclyde.

- Professor Albert Rodger was previously Vice-Principal for External Affairs at the University of Aberdeen and previously Head of the College of Physical Sciences at the University of Aberdeen.
- Marlene Wood was previously Independent Chair of the Audit Committee and the Strategy Working Group of the University of the Highlands and Islands.
- Professor Lesley Yellowlees was previously Vice Principal and Head of the College of Science and Engineering at the University of Edinburgh.

The Register of Interests for the Council Members is available on the Council website at: <http://www.sfc.ac.uk/about-sfc/council-board/council-membership/council-membership.aspx>

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

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

20. Intra-government balances

	Trade receivables: amounts falling due within one year £'000	Trade receivables: amounts falling due after more than one year £'000	Trade payables: amounts falling due within one year £'000	Trade payables: amounts falling due after more than one year £'000
2017-18				
Balances with other Central Government bodies	161	2,527	72	-
Balances with bodies external to Government	3,701	15,973	3,011	-
At 31 March 2018	3,862	18,500	3,083	-
2016-17				
Balances with other Central Government bodies	158	2,685	130	-
Balances with bodies external to Government	3,588	-	1,940	-
At 31 March 2017	3,746	2,685	2,070	-

21. Financial instruments

As the cash requirements of the Scottish Funding Council are met through grant-in-aid provided by the Scottish Government, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Council's expected purchase and usage requirements and the Council is, therefore, exposed to little credit, liquidity or market risk.

The Council has provided a guarantee for an amount up to £8,900,000 to underwrite the loan support liability for New College Lanarkshire to Lloyds Banking Group. The balance of principal outstanding on the loan at 31 March 2018 was £1.9 million (as at 31 March 2017: £2.9 million).

The Council has provided a guarantee for an amount of up to £25,000,000 to underwrite the loan support liability for The Glasgow School of Art to Barclays Bank PLC. The balance of principal outstanding on the loan at 31 March 2018 was £3.8m (as at 31 March 2017: £8.8m).

The Council received agreement from the Scottish Government to issue the guarantees. The risk to the Council of realising payment is considered to be insignificant therefore there is no monetary impact in the Council's accounts.

During the course of its business, SFC may on occasion make loans to HEIs. These are disclosed in Note 12. SFC does not consider these to be a risk as repayments are deducted from future funding at source.

Appendix 1: Direction by the Scottish Ministers

1. The Scottish Ministers, in pursuance of paragraph 17 of Schedule 1 to The Further and Higher Education (Scotland) Act 2005, hereby give the following direction.
2. The statement of accounts for the period to 31 March 2006, and for subsequent financial years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 30 September 2005 is hereby revoked.

Aileen McKechnie

Signed by the authority of the Scottish Ministers

Dated: 14 December 2005

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

Distribution of grant-in-aid from the Scottish Government

Grants paid to colleges, regions and other bodies

College/regions	Total Year ended 31.3.18 £'000	Total Year ended 31.3.17 £'000
Forth Valley	33,153	25,907
West Lothian	14,613	13,469
Dumfries and Galloway	11,466	11,080
Borders	10,517	10,592
Edinburgh	59,446	60,088
Highlands and Islands	38,411	35,865
Inverness	6,983	6,905
Lews Castle	228	394
Moray	1,972	2,112
North Highland	1,548	1,552
Perth	2,678	2,472
Orkney	34	26
Shetland	44	78
Ayrshire	50,539	49,141
West	54,160	53,140
Glasgow Clyde	39,588	41,967
Glasgow Kelvin	24,529	28,474
City of Glasgow	59,257	65,133
Glasgow Colleges' Regional Board ⁷	11,071	-
Fife	43,426	45,732
New College Lanarkshire Regional Board ⁸	61,591	55,938
South Lanarkshire ⁸	-	5,085
Dundee and Angus	35,338	34,437
North East	41,026	41,007
SRUC	11,111	10,145
Newbattle	1,452	950
Sabhal Mòr Ostaig	1,911	1,866
Total grant distributed to colleges	616,092	603,555
Total grant distributed to other organisations	7,414	6,656
Total grant distributed	623,506	610,211

⁷ From 1 March 2018, all regional funding was paid to Glasgow Colleges' Regional Board

⁸ From 1 August 2016, all regional funding was paid to New College Lanarkshire Regional Board.

Grants paid to HEIs and other bodies

University or college	Total year ended 31.3.18 £'000	Total Year ended 31.3.17 £'000
Aberdeen	74,912	77,060
Abertay Dundee	20,291	20,503
Dundee	78,779	80,755
Edinburgh	185,932	215,385
Glasgow	157,658	161,792
Glasgow Caledonian	68,082	69,026
Glasgow School of Art	23,228	23,538
Heriot-Watt	46,054	45,811
Edinburgh Napier	57,373	58,026
Open University in Scotland	24,080	24,207
Queen Margaret Edinburgh	14,917	15,023
Robert Gordon	43,551	44,067
Royal Conservatoire of Scotland	11,680	11,067
St Andrews	38,366	39,465
Stirling	44,360	43,483
Strathclyde	106,729	105,464
Highlands and Islands	44,662	44,381
West of Scotland	68,281	69,168
SRUC	16,091	15,171
Glasgow Clyde College ⁹	-	28
Ayrshire College ¹⁰	4	-
Borders College ¹⁰	4	-
Dumfries and Galloway College ¹⁰	4	-
Dundee and Angus College ¹⁰	9	-
Edinburgh College ¹⁰	4	-
Fife College ¹⁰	4	-
Forth Valley College ¹⁰	4	-
Glasgow Colleges' Regional Board ¹⁰	12	-
North East College ¹⁰	4	-
New College Lanarkshire ¹⁰	8	-
West College ¹⁰	4	-
West Lothian College ¹⁰	4	-

⁹ Scottish Textiles Skills grant is led by Glasgow Clyde College on behalf of the university and college sectors.

¹⁰ College Innovation Accelerator Fund

Total grant distributed to institutions	1,125,091	1,163,420
Total grant distributed to other organisations	18,560	20,444
Total grant distributed	1,143,653	1,183,864