Skills Development Scotland

The Skills Development Scotland Co. Limited

Annual Report and Financial Statements for the year ended 31 March 2024

Company Registration Number: SC202659

Contents

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Chair & Chief Executive Foreword

Welcome to our Annual Report and Financial Statements for the financial year 2023-24.

Alongside our extensive network of local, regional and national partners, Skills Development Scotland (SDS) strives to ensure that individuals have the skills and confidence to get a job and progress in the workplace, that employers have the right skills at the right time to develop high-performing, fair and equal workplaces and that together we realise the ambitions of the Scottish Government's National Strategy for Economic Transformation, transforming the Scottish economy over the next decade.

In practice, this means maintaining a detailed understanding of employers' current and future skills requirements and ensuring this insight directly underpins the services we provide, including apprenticeship and career service delivery, whilst seeking to influence broader provision across the skills landscape to meet the needs of business and individuals.

The past year has presented new and complex challenges for both individuals and employers across the country. The cost-of-living crisis continues to have a significant effect on many aspects of people's lives. Whilst inflation has fallen substantially from its peak, it remains above the Bank of England's 2% target.

The economic growth outlook remains muted with contraction at the end of 2023 coupled with a reduction in recruitment activity and current forecasts pointing towards subdued growth for the UK as a whole.

This has occurred whilst broader trends and factors continue to impact our economy and workplaces. Geo-political instability, global conflict, climate change, technological disruption and the emerging influence of artificial intelligence are all contributing to an unpredictable and uncertain environment.

At the same time, key sectors continue to experience growth and the supply of skills and talent remains highly constrained. Scotland's drive to net zero and 'generational' investments like 'ScotWind' alongside the upgrading of transmission and distribution infrastructure present enormous opportunities to enable more of Scotland's people to secure higher skilled, higher wage jobs.

These challenges and opportunities underline the fact that the services delivered by SDS and our partners to Scotland's people and businesses have never been more important.

Like many organisations across the public sector, SDS has had to prioritise the delivery of frontline products and services as we face into increasingly constrained public finances.

SDS's Grant-in-Aid (GIA) allocation for 2023-24 was £206.2 million, a 2% reduction on the previous year and a cumulative 12% reduction since 2021-22 when SDS's GIA was £234.4 million.

As Scottish Government funding has reduced so too have revenues from European Structural Funds which have fallen from a high of £21.8 million in 2019-20 to £1.6 million this year.

Within that substantially reduced funding envelope, SDS has actively managed a range of additional budget pressures to secure the positive budget outcome reported later in this document.

In line with Scottish Government pay strategy and the precedent set by Scottish Government's own pay award, we implemented a two-year pay award to SDS colleagues. The first year of this award covering 2023-24 represented a 7% increase for the majority of SDS staff, a tapered 5.5% increase for leadership roles, and a 1% increase for senior management, reflecting our ambition to be a Fair Work employer and acknowledging the cost-of-living pressures we are all experiencing. As part of this agreement staff will receive 3% award in 2024-25.

In addition, the full realisation of COVID related delayed payments will see a significant increase in Modern Apprenticeship costs in 2025.

These combined pressures make delivering on the ambition of our 2022-27 Strategic Plan, 'Skills for a Changing World' an increasing challenge.

In order to meet that challenge, SDS initiated an organisational transformation programme, entitled Transform 27, which will accelerate a managed transition to a sustainable delivery model by 2027/28.

Transform 27 is fully aligned to the strategic ambitions of our Strategic Plan and involves Board members and colleagues across the entire organisation. The programme is structured around defined workstreams that combine short, medium and long-term activities and aim to drive costs savings and efficiencies, increased productivity and build greater organisational agility and responsiveness.

Notable achievements of this programme during 2023/24 included our Career Information Advice and Guidance, service transition to local community employability hubs, the launch of early retirement and voluntary severance schemes, our EIS shared services and co-location of the Scottish National Investment Bank into our Monteith House head office.

We have also sought to fully engage with Scottish Government in supporting the Independent Review of the Skills Delivery Landscape. June 2023 saw the publication of the James Withers' independent review and the Scottish Government's response via the 'Purpose and Principles for Post-School Education, Research and Skills'.

Since then, we have sought to work constructively with Scottish Government to take forward actions to better define the success criteria, enhanced outcomes and cost benefits of the skills delivery landscape with a focus on protecting services for the people and businesses of Scotland in support of sustainable economic growth.

Against this backdrop of uncertainty in our operating environment, we are proud to report another year of exceptional operational performance, maintaining strong delivery against our core service targets.

We thank our employees, Board members, trade union partners and partners across the skills delivery landscape for their continued focus on securing such positive outcomes for the people and businesses of Scotland.

Frank Mitchell, Chair

Damien Yeates, Chief Executive

Strategic Report

Strategic Report

Introduction

Skills Development Scotland is a non-departmental body of the Scottish Government, and the national skills agency for Scotland.

Our ambition is that skills contribute to a thriving, productive and inclusive Scotland and that Scotland's people and businesses are inspired and enabled to develop the right skills for a changing world. We achieve this through multi-faceted service delivery and while our services are universally available to any individual or business requiring support, they are targeted to help those most in need.

We engage extensively with partners at national, regional, and local level, sharing expertise and intelligence and flexing and shaping our delivery to meet local needs and priorities. The development and delivery of innovative solutions to Scotland's skills and labour market challenges is informed by best practice from across the country and beyond.

By increasing innovation, efficiency, and productivity in our own organisation, we aim to model the change we want to see in others.

For more information visit our website **www.skillsdevelopmentscotland.co.uk**.

Performance Overview

As the year began, Scotland's people, businesses and public sector were continuing to face many challenges in the wake of the pandemic and Brexit, as well as broader economic and societal challenges including climate change. Meeting the skills demands arising from these challenges is the focus of our Strategic Plan 2022-27, Skills for a Changing World. We, therefore, continued to focus on achieving its ambition including the specific deliverables in our Annual Operating Plan for the year.

This annual plan reflected the expectations for SDS delivery set out by the Scottish Government in their 2023-24 Letter of Guidance to SDS, issued on 1st June 2023[1]. As the year progressed, Scottish Ministers published and reaffirmed their priorities for reform of the post-school skills and education system as well as wider public sector reform in response to increasing fiscal constraint in the Scottish budget. While engaging closely with Scottish Government on reform proposals, SDS remained focused on customer delivery throughout the year.

In the following sections, we provide an overview of delivery and achievements in relation to each of our strategic goals. These are:

- **Industry-focused skills:** People develop skills and competencies that drive productive businesses and regions, and help create a fairer, more equal society;
- **Inclusive talent pool:** Talent is diverse and resilient, with people who can all adapt and thrive in the changing world of work;
- **Invested employers:** Employers invest in Scotland's workforce through job opportunities, skills development, and fair work;
- **Intelligence-led skills system:** An agile, responsive, resilient, and inclusive skills ecosystem consistently delivers the skills the Scottish economy needs; and
- **Impactful organisation:** Team SDS maximises return on investment, collaborating to deliver better outcomes and experiences for our customers, colleagues, and the economy.

1 The Letter of Guidance is the usual means by which the Scottish Government sets performance targets for SDS's operational delivery. Letter of Guidance for 2023-24 available here.

Note: Most figures in this report relate to the 2023-24 financial year. However, as the CIAG offer in schools is delivered on an academic year basis (June – May each year), school service offer figures are for the last complete academic year (2022/23).

Goal 1: Industry-focused Skills

Lifelong learning in and for the workplace is integral to delivering the skills that the economy needs. SDS's work under this strategic goal comprises our direct delivery of training, upskilling and reskilling opportunities to individuals in Scotland, with our primary focus on Modern Apprenticeships. We aim to ensure that people in Scotland have, and continue to develop, skills which are relevant to the Scottish economy. We have two corporate level key performance indicators for this goal and our performance highlights for this year are illustrated against these.

KPI 1: Individuals across Scotland participate in work-based learning throughout their working lives.
The contracting methodology for Modern Apprenticeships in 2023-24 was impacted by more stringent and complex budget approvals across Scottish Government and, together with the delayed approval of the broader Scottish public sector budget position, led to delays in awarding new start contracts and, subsequently, in-year reallocations. The combined impact was the loss of around 12 weeks and is reflected in the 0.3% reduction in MA starts relative to last year.

Like last year, we saw further improvements in participation amongst disabled, minority ethnic and care experienced individuals and continue to work hard to ensure that any barriers to entry they may face are dealt with proactively. Our **2023 Equality Mainstreaming Report** describes our progression against the ambitious equality outcomes we set in 2021.

Budget restrictions limited volumes of activity, most markedly for Individual Training Accounts which were available in the first quarter of 2023-24 only, with applications restricted to 6,000. Our Teaching Bursary (previously STEM Bursary) was also limited to 84 places, relative to 150 in previous years.

Work-based Learning

25,365 Modern Apprenticeship starts
(25,447 in 2022/23)

38,607 MAs in training at 31st March 2024
(39,006 in 2023)

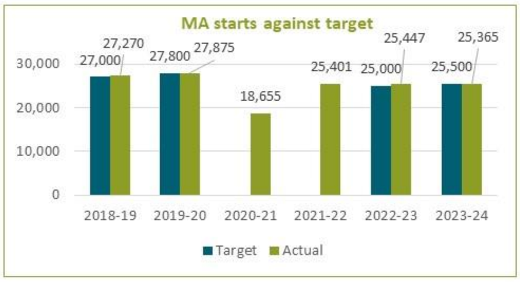
7,034 job opportunities advertised via **www.apprenticeships.scot**
(11,769 in 2023)

3,263 Individual Training Account applications approved (14,822 in 2023). Applications were limited, by budget, to 6,000 this year.

70 teaching bursary awards approved
(84 in 2023)

Increase in starts across all equality groups this year

MA Equalities	% MA starts	
	2023/24	2022/23
Disability	17.0%	15.3%
Minority Ethnic	4.5%	3.3%
Care Experienced	2.3%	2.1%



Target for 2023/24 was **up to** 25,500 MA starts. This was made challenging by the uncertainty around budget allocation from Government and the knock-on delays to contracting with learning providers. No targets were set 2020-22.

Our universal career information, advice, and guidance (CIAG) service offered support to more than 33,000 people during the year, providing them with evidence-based careers advice and guidance to enable them to develop their career management skills to better navigate the world of work.

SDS Universal services are available to all adults, regardless of age or circumstance

33,109* people accessed our universal careers service, supported by **66,690** individual or group sessions in 2023/24 (34,995/70,166 in 2022/23)
*figures include PACE customers

1,551 calls handled by the CIAG helpline (3,782* in 2022/23)
*figure updated

KPI 2: On completion of work-based learning, individuals sustain in employment or other positive outcomes.

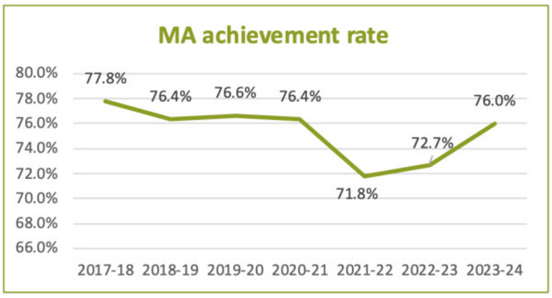
Building on the extensive feedback we already gather, enhancements to our FIPS system now enable SDS to collect feedback from across the apprenticeship family using an automated real-time approach instead of bi-annual telephone surveys. This provides a more timely, cost-effective means for data collection and will enable us to respond to feedback more quickly than we have been able to, previously.

Work-based Learning achievements

76.0% Modern Apprenticeship achievement rate (72.7% in 2022/23)

MA Equalities	Achievement rate 2023/24	2022/23
Disability	71.7%	67.0%
Minority Ethnic	73.4%	70.4%
Care Experienced	64.8%	59.9%

Achievement rates across all equality groups above have improved relative to last year. This is the highest achievement rate on record for MAs who have self-declared a disability.



MA achievement rates dropped by 1.4 percentage points in the years leading up to the outbreak of the pandemic, in line with trends reported for Further Education. This year continues the recovery we began to see last year.

Goal 2: Inclusive Talent Pool

SDS is committed to helping people to navigate the changing world of work throughout their lives so they can experience rewarding careers. Fundamental to achieving this goal is the delivery of all-age, person-centred, and experiential CIAG services and working to address known barriers to participation so that individuals can access the learning and work they choose. The majority of our resource is invested in schools to support career learning and positive post-school destinations, while a smaller but still important contribution is made to supporting unemployed 16-19 year olds post-school (our 'Next Steps' offer). We have three corporate level key performance indicators for this goal. Performance highlights for this year are illustrated against these.

KPI 3: 16–19-year-olds in Scotland are in learning, training, or employment.
SDS is responsible for reporting the Annual Participation Measure, which is regarded as a national statistic. This measure, reported in August each year shows the level of participation among 16-19 year olds in Scotland. In August 2023, the level of participation reached 94.3%, up 1.9 pp on the previous year, continuing the upward trend since this measure was first published in 2016. Additional detail, including Local Authority and equality breakdowns, is available via an online interactive report.

Annual Participation measure (APM)

Measure to identify the proportion of 16-19 year olds in education, training or employment each year.

94.3%

92.4% in August 2022

% of 16-19s in education, training or employment reached **94.3% in August 2023**, relative to 90.4% in 2016

KPI 4: SDS careers services support individuals to sustain in learning, training, or employment.
As is the case each year, data on our school careers service is provided for the last complete academic year (in this case 2022/23). This is because the current academic year (at time of writing) has not yet finished. The 2022/23 Academic Year ended with improved performance across all elements of the Broad General Education service offer and most of the senior phase offer (except maximum pupils) when compared to the previous academic year, assisted by a more stable operating environment. We reached a greater proportion of the school population and improved the level of engagement for those pupils entitled to specific interventions, as detailed in the graphics below.

Broad General Education – Primary 7 to S3

We delivered face-to-face services to **153,449** school pupils across Scotland in 2022/23

88.9%
Of all S1-S3

85.3% in 2021/22

93% of pupils transitioning from P7 to S1 received a group engagement (87.2% in 2021/22)

83% of pupils making subject choices in S2/S3 received individual support (78.9% in 2021/22)

Senior Phase – S4-S6

We delivered CIAG services to **93,083** pupils across Scotland in 2021/22

72.7%
Of all S4-S6

69% in 2020/21

92% of targeted S4 -S6 pupils received one -to-one coaching guidance (89.8% in 2021/22)

Additional detail can be found in our annual CIAG report, Delivering Scotland's Careers Service for the 2022/23 academic year.

SDS post-school careers services are delivered on a financial year basis. During 2023-24 we delivered intensive support to 6,840 Next Steps customers. Continued tightening of the labour market meant that the cohort of potential Next Steps customers has largely consisted of those furthest from the workforce who have much more complex needs. Relative to last year, there was an improvement in Next Steps customer outcomes – both progressing to a positive destination and sustaining that for at least 6 months (+0.9pp and +4.2pp on 2022/23).

Next Steps customers are young people aged 16-18.5 years (or 16-25 years with care experience) who are unemployed and seeking work

6,840* customers were supported by **20,608** individual or group sessions in 2023/24 (6,778/21,010 in 2022/23)

*figures now exclude those only accessing digital services due to change in recording.

68.9% NS customers supported by SDS progressed to learning, training or work (68% in 2022/23)

73.2% Next Steps customers supported progressed to learning, training or work and sustained it for 6 months (69% in 2022/23)

For customers facing redundancy, SDS's Partnership Action for Continuing Employment (PACE) service continued to assist them – through either in-person or structured CIAG session engagements, or through signposting. Key performance metrics are similar to those posted in 2022/23 and reflect market demand. The Women Returners programme was not funded this year, due to budget restrictions.

Our support through PACE is demand-led and we are responsive to direct requests for assistance from employers, as well as any breaking news about potential redundancy situations across Scotland.

8,958 PACE guides distributed to individuals facing or at threat of redundancy (9,899 in 2022/23)

1,425 individuals supported through our PACE service with one-to-one or group CIAG sessions (1,758 in 2022/23)

2,636 engagements delivered (3,217 in 2022/23)

KPI 5: Young people can participate in experiential work-related learning as part of their education.
Foundation apprenticeships (FA) offer young people the opportunity to experience work-based learning while still at secondary school. Introduced in 2016, there are 12 FA frameworks available at SCQF level 6 and 3 at SCQF 4/5. Each FA framework has been developed and mapped to key sectors in the Scottish economy where there are current or projected skills gaps and future job growth. FAs are designed to enhance and expand existing pathways from school, with multiple progression routes to work (including Modern and Graduate Apprenticeships), college or university. Delivery of FA learning takes place in a variety of settings including college/learning provider premises and the workplace. In 2021-22, the funding mechanism for Foundation Apprenticeships was changed, with learning delivered via colleges funded through core Scottish Funding Council (SFC) budgets and learning delivered via private learning providers and Local Authorities funded by SDS. The latest published FA report is based on 2021/22 enrolment data. Data for 2023/24 is based on SDS funded enrolments only, as college enrolment data is released later in the year. Demand for non-college places steadily increased with 2023/24 enrolments up 655 on 2021/22 (+31.5pp).

Foundation Apprenticeships

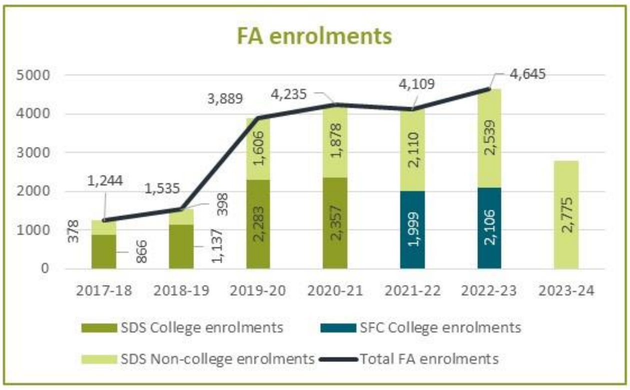
A total of **2,775** non-college Foundation Apprenticeship enrolments in 2023-24

Of those, **1,631** were at SCQF level 6 and **1,144** were at SCQF level 4 or 5

Foundation Apprenticeship leaver survey 2023

Satisfaction with FA
8.3
Mean score

Likelihood to recommend FA
8.3
Mean score



Between 2017-18 and 2020-21, all Foundation Apprenticeships were funded by SDS. In 2021-22, the funding was split between SDS and SFC. SDS remains accountable for funding any non-college FAs (delivered via private learning providers or Local Authorities) and SFC is accountable for those delivered via colleges.

Note: Due to the availability of college data, the last year of enrolment data charted above relates only to SDS funded Foundation Apprenticeships. SDS data for 2022-23 enrolments has been updated to include those funded directly by Local Authorities, for completeness. In 2023-24, 2,500 enrolments were funded by SDS with the remainder self-funded by Local Authorities.

Goal 3: Invested Employers

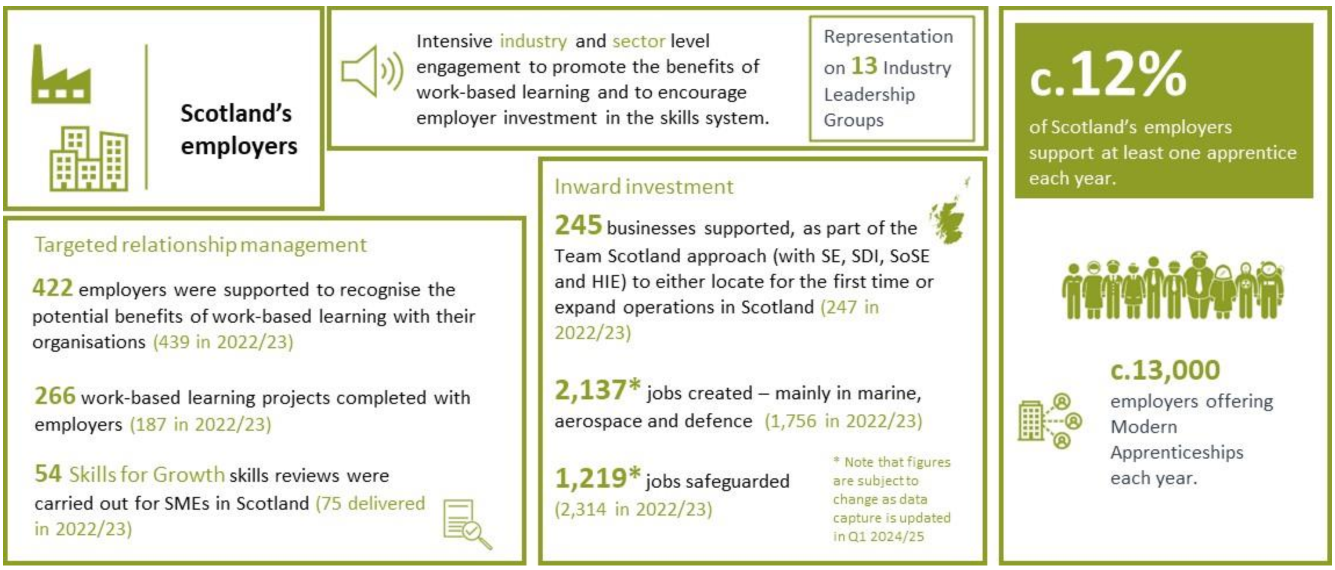
Meaningful and effective engagement with employers of all sizes, and their representative bodies, is critical to the achievement of all our strategic goals. We collaborate extensively to encourage employer involvement in the development and delivery of Scotland's skills system, and to deliver efficient and effective employer services. Through doing so, we aim to create more and better learning and employment opportunities for people. We have one corporate level key performance indicator for this goal. Performance highlights for this year are summarised below.

KPI 6: Scotland's employers invest in work-based learning, training, and growth opportunities.
On-going budget cuts continued to impact the financial leverage we had to deliver much of our employer offer in 2023-24. Despite that, SDS Sector Managers continued to engage with Industry Leadership Groups across all key sectors in Scotland to influence partner investment in skills-related activity and to encourage a greater level of commitment and participation from employers.

As at March 2022, there were 109,435 businesses in Scotland with at least one employee[2] meaning that c. 12% of employers in Scotland currently offer apprenticeships. While there are differences in context, employer engagement in apprenticeships in some European countries is in the region of 20-24%. To sustain and potentially grow the figure in Scotland requires intensive industry engagement to ensure that sector skills strategies incorporate a focus on work-based learning, keeping it relevant and communicating the benefits for employers, individuals, and the wider economy.

At a micro level, our targeted relationship management activity with SMEs helped more than 400 employers realise the potential benefits that apprenticeships can bring to their business, with 266 work-based learning projects delivered by our in-house team. We also brought our Skills for Growth service in-house which will eventually enable us to deliver more skills reviews in future, so that SMEs recognise the skills-related actions they need to take to grow and remain sustainable in a fast-changing economic environment.

In addition, we had a busy period of inward investment activity, working as part of Team Scotland with Scottish Enterprise, Highlands & Islands Enterprise and Scotland Development International. We helped to broker arrangements with 245 businesses that are either looking to come to Scotland for the first time or expand their operations here. This led to the creation of over 2,000 new jobs and the safeguarding of over 1,000 existing jobs for Scotland.



2 Businesses in Scotland 2022, Scottish Government: https://www.gov.scot/publications/businesses-in-scotland-2022/pages/business-size/

Goal 4: Intelligence-led System

Scotland needs an agile learning, skills and careers ecosystem which can adapt in response to the ever-changing external environment, occupational change, and realities of work. Our work towards this goal includes extensive collaboration to help inform and shape the design and delivery of career and skills interventions, ensuring that provision increasingly meets the needs of Scotland's people, businesses, and economy. We have two corporate level key performance indicators for this goal. Performance highlights for this year are summarised below.

KPI 7: Skills investment and delivery in Scotland is increasingly intelligence-led.
At the core of our service design and delivery is evidence and intelligence. Every year, we undertake intensive research, impact, and analysis activity to ensure that our careers services have relevant, up-to-date economic and labour market insights at their foundation to enable our Careers Advisers to give informed, contextualised advice and guidance.

Our insight and evidence work also includes understanding the market demand for our apprenticeships. The focus on skills planning aims to better align the demand for and supply of skills in Scotland and SDS works closely with employers and employer bodies (Industry Leadership Groups, business federations, Chambers of Commerce, etc.) to understand the specific skills needs of Scotland's businesses. Actively engaging with employers helps us to ensure that apprenticeships and other learning and training opportunities meet those needs.

SDS continues to deliver economy and labour insight publications for external audiences, including our monthly Economy, People and Skills publication and the monthly refresh of our online interactive **Data Matrix**. Our publications and resources support our partners with understanding their current and future economic and skills-related challenges and the opportunities that lie within their regions and sectors. During 2023-24 we launched a series of webinars for partners, based on our Regional and Sector Skills Assessment publications, which were well received, with over 900 attendees.

Intelligence led

Intensive activity undertaken to produce core internal Economy and Labour Market Insights to support the delivery of our CIAG service, ensuring that Careers Advisers have up-to-date real-time and future-looking labour market intelligence to enable them to give relevant and informed advice to SDS customers.

Regional skills leads have worked closely with partners, sharing evidence and insight to inform regional plans and sectoral responses to economic challenges and opportunities.

Apprenticeship Frameworks & Standards

This is a 4-year programme (2022-2026) to review MA and GA frameworks (and each pathway within) to ensure Scotland's apprenticeships meet industry expectations and encompass Scotland-specific occupational standards and meta-skills.

6 MA frameworks completed with 12 more MA frameworks and 1 GA framework due to complete in 2024/25.

Delivery of core external Economy and Labour Market Insight publications and supporting dashboards, including a series of Regional Skills Assessment and Sector Skills Assessment webinars, reaching more than 900 attendees, to support our partners in understanding their economic and skills related opportunities and challenges.

March 2024 publication:
https://www.skillsdevelopmentscotland.co.uk/media/hnghdvmd/economy-people-and-skills-march-2024.pdf

KPI 8: Scotland's learning and training opportunities are better aligned with current and future economic need.
With Scottish Government indicating its intention to take responsibility for national skills planning in response to the recommendations from the Independent Review of the Skills Delivery Landscape, it was agreed that all but essential and committed work in this area be paused by SDS in early 2023-24.

We continued to advance work on the climate emergency skills action plan (CESAP), completing two work packages that will help inform the transition to net zero. Work package one produced a **published report** that was designed to establish a shared view of the breadth and quality of skills evidence in relation to the transition to net zero. Work package two focused on the decarbonisation of domestic and commercial heating, which involved multiple partners in the co-design of actions to meet the future demand for heat decarbonisation skills across Scotland's regions.

We also prioritised the completion of year one actions in the Digital Economy Skills Action Plan, as well as working with regional partners to ensure labour market intelligence is used to inform future investment in skills.

In addition, we built on the work undertaken on the Education and Skills Impact Framework (ESIF) last year, which analysed the Return on Investment (ROI) associated with post-16 education and training in Scotland, and we have now shared lessons learned with partners to inform future associated activity.

Learning and training

Economic need

Facilitated the OECD workshop on Futureproofing the Skills System in Glasgow City Region.

Developed draft Regional Skills Collaboration Plan for Edinburgh to increase awareness of Labour Market Intelligence and understand where regional work can add value in future.

The Digital Economy Skills Action Plan (2023 - 28) was published in March 2023. This aims to address digital skills challenges, given their criticality in key industries.

Focus on year one priority actions resulted in:

- Completion of equalities baselining for the Digital sector to support small businesses to implement inclusive recruitment practices and working environments.
- Mainstreaming of Digital World content into the rebuild of My World of Work, improving the accessibility of digital career information.

Climate Emergency Skills Action Plan
Work Package 1: Completed with the publication (in Nov '23) of report "An Evidence based approach to Supporting the Transition to Net Zero"

Evidence and insight on skills shortages across 17 sectors gathered to support National Skills Planning with Scottish Government

First draft of the Forth Valley Skills Action Plan complete and presented to partners

Strategic skills input to development and delivery of all City and Regional Growth Deals and Scotland's Regional Economic Partnerships

Skills input and leadership across all of Scotland's Regional Economic Partnerships and the Conventions of the Highlands and Islands and South of Scotland

Strategic partner engagement to shape critical skills response to opportunities flowing from the transition to net zero

Goal 5: Impactful Organisation

SDS has long recognised the importance of investing in the skills and resilience of its people and our data and digital capability, as keystones to organisational effectiveness and positive customer outcomes. In the current context, we are also acutely aware of the fiscal constraints affecting the public sector and are committed to transforming to a new, sustainable operating model through our Transform 27 programme. The programme is set to transform our services to meet the changing needs of our customers while also supporting the collective challenge across the public sector to reduce costs. In 2023-24 this focussed transitioning our estates footprint to a new community-based model and a strict management of vacancies and headcount.

KPI 9: SDS has satisfied customers and employees.

Employee Engagement

SDS continued to work closely with trade union partners, Unison and PCS, to ensure effective employee voice. This included extensive national partnership consultation on the early phases of initiatives under our Transform 27 programme, and with extensive consultation at a local level on changes in operational delivery to a more community-based delivery approach.

The June 2023 publication of the Withers Recommendations for the Review of the Skills delivery landscape and the Scottish Government's initial priorities under the purpose and principles for the reform of the post school education system has created significant uncertainty on the future function and remit of SDS. There is the potential for transfer of undertakings which may include employment obligations to alternative organisations, which understandably created significant uncertainty for the working lives of all colleagues. The Executive and the Chair, on behalf of the SDS Board, have consistently worked to seek clarity from Scottish Government on timescales and implications of reform for our customers and for our organisation. This included facilitating staff engagements with Scottish Government officials to provide clear understanding of the range of services delivered and interdependent nature of the work of teams across SDS operations to deliver customer outcomes. We have also offered solutions to improve and enhance effectiveness in the skills system.

Due to the continued uncertainty around the remit and function of SDS, we undertook a 'pulse' survey to gain a better understanding of the impact of the reform agenda on those employees most directly referenced within reform proposals. At 87%, the response rate was strong. Covering awareness and engagement, information and influence, impact and support, the survey results were compared with Fair Work principles. The response profile was in the main strongly negative, which is in contrast to the six-year trend on employee feedback which had been consistently strongly positive and had culminated in EFQM 7-star award for excellence. Key issues for respondents were a lack of engagement or employee voice in the process, significant feelings of insecurity around the future of their jobs, and negative impacts on employee wellbeing. In consequence, the SDS Board has secured Scottish Government commitment to greater engagement, openness and transparency as the reform work progresses. Action will continue to be taken by the SDS leadership, in consultation with employees and SG officials, to address the feedback and mitigate impact on employee engagement levels to ensure no detriment to employee fulfilment or customer satisfaction levels.

The bi-annual Your Views employee survey was open for responses throughout March 2024 and, in line with previous years, achieved a strong response rate (85%). Detailed results will be available at a directorate and team level across the organisation in the first quarter of the new financial year and associated action planning will progress to ensure we can act on feedback to sustain levels of employee engagement as a core driver of overall organisational effectiveness and resilience.

SDS continued to utilise formal and informal mechanisms for engaging colleagues learning throughout the year with a heightened focus on building a cyber positive culture, diversity in action, ways to wellbeing and keeping colleagues informed on the progress of our Estates programme. These included continuing Thematic Leadership Calls, Yammer group discussions, CEO Monthly Leadership Calls, and our weekly all-colleague email. Many of our mechanisms continue to be colleague-led, demonstrating colleague ability to create community and connect with each other, whilst also providing feedback on what more SDS could consider to better support colleagues. We continue to deliver our Everyday Leadership campaign and awards which recognise colleagues who demonstrate our corporate values.

3 CIPD Health and Wellbeing at Work report (Sept 23)

KPI 10: SDS is a resilient and sustainable organisation.

Health and Wellbeing

Sickness absence was marginally higher than last year, with an average length of sickness absence of 10.9 days per FTE in 2023-24 (+0.1pp on 2022-23) and an overall absence rate of 4.2% (+0.1%). This is consistent with post-pandemic sickness trends across the UK. The 2023 CIPD Health and Wellbeing at Work Report[3] indicates that absence levels are higher in the public sector (10.6 days per employee) than in other sectors, particularly private sector services (5.8 days). However, all sectors are experiencing higher levels of absence than in previous years.

As shown by the trends below, short-term absence fell, with the increase in SDS sickness absence driven by an increase in long-term absence. Although there was a drop in the number of employees with long-term sickness, the average duration of long-term sickness increased. Of those on long-term sick leave, over half (53.5%) were absent due to mental health issues. Mental health related absence accounted for a third of all absence. This is also consistent with trends across the UK. The CIPD report notes a workplace wellbeing paradox where, despite an increasing number of workplace health and wellbeing services in place, employees have an increasing number of mental health issues.

It is also notable that since Covid, there has been a change in etiquette around sickness, particularly cold/flu, with colleagues less likely to attend for work to minimise infection of others. This accounts for an increase in 'cold' related absence, which is the top reason for short-term sickness.

Figure 1: % SDS Sickness Absence Rates from 2018-19 – 2023/24

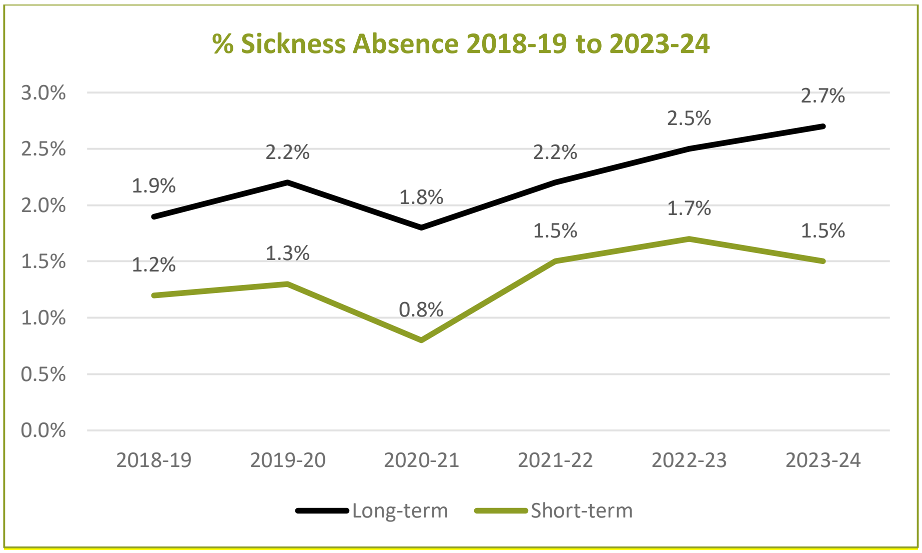
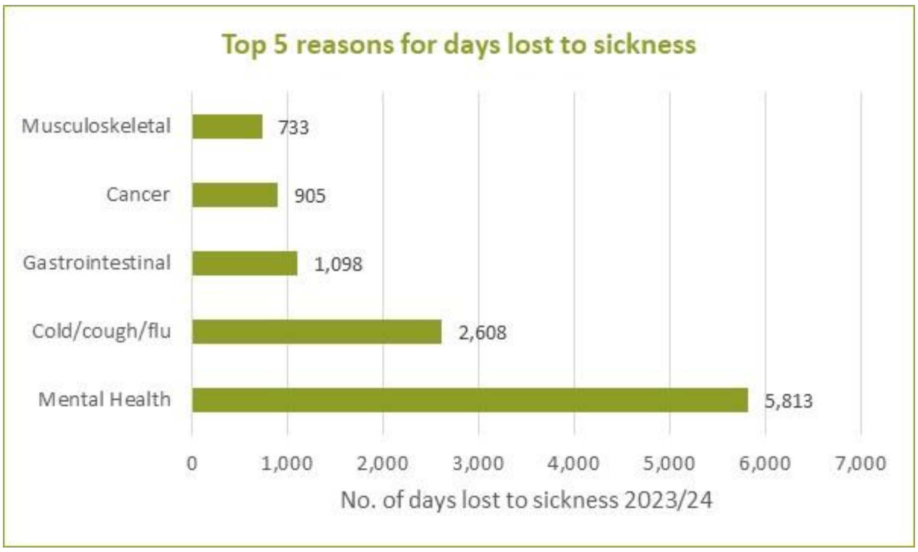


Figure 2: No. of days lost to sickness – Top 5 absence reasons



With a rising absence trend, we recognised the benefit in undertaking a review and analysis of our approach to supporting the health and wellbeing of colleagues. In 2023 we launched a Health and Wellbeing Project to provide a deeper understanding of our current sickness absence practices and our approach to support health and wellbeing at work. This project is due to make recommendations and highlight areas for improvement at the start of the new financial year. We are also refreshing our Wellbeing at Work Strategy aligned to our Strategic Plan timeline. Our vision is to help our people thrive and achieve their potential at work by enabling them to take ownership of their wellbeing.

SDS continues to offer a variety of ways to support health and wellbeing at work. This includes engaging with our occupational health provider, implementing reasonable adjustments, having mental health first aiders embedded in the organisation, and delivering interactive all-colleague wellbeing campaigns.

SDS Academy

As an Investors in People (IIP) platinum accredited organisation, we continue to guarantee every colleague a minimum of 21 hours Continuous Professional Development (CPD) each year (pro rata), enabling employees to invest in developing their personal capability. This year, 91% of colleagues achieved this, with an average of 32 hours CPD per employee. The SDS Academy continues to provide relevant and accessible learning for all employees, with 6,578 days of learning recorded by colleagues in 2023-24. SDS also sponsored 48 colleagues to achieve or continue with a qualification.

Every employee has a digital personal learning record to track their development activities and inform discussions with their manager, as part of our 'My Contribution' approach to managing and developing performance. Colleagues recorded an average of eight conversations through My Contribution, this financial year.

Equality and Diversity

SDS is committed to achieving a diverse workforce and inclusive workplace culture. Equality factors are systematically considered in Board discussions while mainstreaming within the organisation has been enhanced through the launch of a new integrated impact assessment process and the establishment of an Equality Programme Board to monitor and support delivery of Mainstreaming Report commitments.

SDS Equality and Diversity Mainstreaming Report 2023 provides detail on progress against our five Equality Outcomes. We continue to focus on ensuring that SDS benefits from increased diversity, particularly in relation to gender, race and disability, and that colleagues with protected characteristics are respected and fulfilled at work. An updated Equality, Diversity and Mainstreaming Report is scheduled for publication in April 2025

All staff have mandatory equality and diversity e-learning and CPD, and additional targeted learning is provided for people managers. In 2023-24 SDS colleagues were also able to make use of a recently introduced form of special leave, an 'Inclusion and Wellbeing Day'. This gives colleagues the opportunity to use one paid day per year for cultural, community or other activities that are important to them and their sense of self, enabling inclusion. This opportunity was taken by 1,251 colleagues during 2023-24.

SDS continues to be a Disability Confident and Carer Positive employer. This year saw the launch of a new 'Diversability' employee network and a pilot of targeted additional coaching for colleagues with identified additional support needs.

We also continued to progress activity on race equality in SDS as we work to fulfil our strategic commitment to become an anti-racist organisation. 'It's About Race' Training sessions have continued to be delivered to colleagues by the Diversity Trust to positively impact culture and improve the race competence of colleagues. We also sought colleague engagement and input to maintaining our commitment to race equality via an online Q&A with leaders and colleagues.

As of 31 March 2024, the gender balance within SDS was:

	Male	Female
Non-executive directors and co-opted board members	6	9
Executive directors and senior executive managers	5	1
Employees	405	1,012

Young Talent

Despite budget constraints, we remained committed to supporting young people. Whilst we had to scale back recruitment of new cohorts in this financial year, we supported 61 young people through our young talent development programmes during the period. This included non-employed Foundation Apprentices. This offer extends across the full programme: Foundation, Modern (MA) and Graduate Apprenticeships, and Graduate Internships. We also deliver and grow our own talent for our Careers Service through our Trainee programme creating a succession plan and career path for young people from entry at MA to a Post Graduate Qualification. Of those completing the Young Talent Programme, 53% transitioned into positive destinations, which is lower than previous years due to limited opportunity to retain our young talent. However, through our programme we ensured all young people departed with the onward job search skills and networks required to seek future employment.

Gaelic Language

SDS continues to support the use and development of the Gaelic language. We understand our contribution to the recognition of Gaelic as an economic, social and cultural asset and this is reflected in our **SDS Gaelic Language Plan (2022-2025)**, published September 2022.

Key activities in 2023-24 included:

- Continued partnership with Highlands and Islands Enterprise to deliver the Economy and Skills workstream of the Scottish Government's Gaelic – A Faster Rate of Progress initiative;
- Continued promotion and delivery of Gaelic work-based learning opportunities, such as Foundation Apprenticeships, particularly in communities where Gaelic is the language of the workplace;
- Completion of an Islands Communities Impact Assessment (ICIA) on the Third edition of Skills Development Scotland Gaelic Language Plan (GLP); and
- The return of face-to-face Gaelic Careers events during the latter part of 2023.

SDS also continued to produce resources, documents, and events in Gaelic, including:

- Gaelic Career profile videos for the **My World of Work** website;
- Promotion of World Gaelic week and development of new Gaelic resources for Scottish Apprenticeship week 2024; and
- Issue of Gaelic Media Releases and Gaelic social media posts.

Procurement (incl. Modern Slavery, anti-corruption, and bribery)

During 2023-24, the SDS Procurement team continued to monitor, update, implement and provide support and guidance to SDS colleagues on all areas of Public Procurement.

SDS Procurement policy updates conducted in 2023-24 as follows:

- Procurement Policy – updated to include reference to prompt payment. Inclusion of new Public Procurement Strategy for Scotland (PPSS) which provides high-level vision and direction for Scottish public procurement.
- Contract Management Policy – updates to strategic context
- Modern Slavery Policy was updated in January 2024 including the following changes:
  - Inclusion of mandatory e-learning and MS helpline
  - Prompt payment included to ensure all suppliers and sub-contractors paid in 30 days and incorporated into SDS terms and conditions.
  - Further guidance section with links added as well as footnotes to reference docs.

SDS Procurement continued to update and improve data analysis via our contract register, and reporting functionality. Further ongoing continuous improvements were made across our procurement documentation for our procurement personnel and SDS colleagues.

Task Force on Climate-related Financial Disclosures

SDS has reported on climate-related financial disclosures consistent with HM Treasury's TCFD-aligned disclosure application guidance, which interprets and adapts the framework for the UK public sector. SDS considers climate to be a material risk, and has therefore complied with the TCFD recommendations and recommended disclosures around:

- Governance – recommended disclosures (a) and (b)
- Metrics and Targets – recommended disclosure (b), where data is available.

This is in line with the UK public sector TCFD-aligned disclosure implementation timetable for Phase 1. SDS plans to provide recommended disclosures for Strategy and Risk Management in future reporting periods in line with the public sector implementation timetable.

SDS's board is responsible for overseeing the organisation's implementation of government policy. This includes its role in ensuring climate-related issues are appropriately considered when formulating SDS's strategic direction within the policy, planning and resources framework determined by Scottish Ministers. To achieve this responsibility, the board is assisted by two committees:

- The Audit and Risk Committee assists in managing risk systems, including managing climate change at a corporate and directorate risk level.
- The Executive Governance Board has senior level oversight of climate related issues and is chaired by the Chief Executive.

Climate-related responsibilities are assigned to specific management-level positions that co-ordinate activity within each directorate.

- Chief Executive – overall responsibility for climate-related risks and opportunities and for ensuring that climate issues are appropriately considered at board level;
- Director of Finance, Information Governance, Resilience and Risk – adapt risk policies and identify climate-related risks to align with operational activities; and
- Senior Director of Delivery – deliver on SDS's sustainability initiatives and commitments, including those relating to climate change.

The second two-year action plan for our Climate Change Strategy 2020-2030 got underway in 2023-24. Actions from across the organisation are proceeding across four workstreams: Supporting a Green Economy, Digital Capability, Business Processes, and Organisational Culture. Example actions include: CESAP Pathfinders delivery, undertaking quality assurance reviews using digital technology, surveying providers to highlight effective sustainability practice, and updating the all-colleague Climate Change eLearning.

In December 2023, SDS published a Biodiversity Duty Report, required every three years under the Nature Conservation (Scotland) Act 2004. This provides an overview of activity which SDS has led on or supported over the past three years which assists conservation of biodiversity. For SDS our activity is largely partnership working, engagement with the public through publication of blogs and case studies, examples of staff volunteering, inclusion of biodiversity within the procurement process and products such as the Green Jobs Workforce Academy and My WoW with their nature-based areas.

In 2023-24, SDS's carbon footprint decreased by 51% relative to the 2019-20 baseline. This is ahead of the 27% reduction required to be on track for our target of a 67% reduction by 2030. This does not include emissions from commute travel as the annual survey has been delayed due to redevelopment of the analysis tool by Zero Waste Scotland. Emissions from commuting will be included in our standalone Sustainability Report. Emissions from business travel saw the biggest reduction (59%) against our 2019-20 baseline, showing that colleagues are continuing to make use of our digital capability to work remotely where appropriate.

The biggest annual emissions decrease came from energy use (-37% compared to 2022-23) due to the rationalisation of our estate as part of our Transform 27 programme. Although not the sole driver, estate rationalisation is an ambition identified in our Climate Change Strategy 2020-2030. Additionally, the use of an online energy dashboard continues to allow for any discrepancies in electricity and gas usage to be identified promptly, ensuring that systems are timed to operate optimally.

Section 172(1) Statement

SDS is committed to effective engagement at all levels, including the Board, with all our stakeholders, customers and partners. The Directors are aware of their duty under s.172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

The Board is mindful that SDS's success depends on its ability to engage effectively, work together constructively, and to take customer and stakeholder views into account when designing, delivering and managing our products and services. Our Board engages with a range of stakeholders, partners and customers via various routes, and in doing so, we gain a better understanding of the areas they are interested in or concerned about and how our decisions have impacted them. This has been particularly relevant during 2023-24 as we engaged with stakeholders and our own staff around the Scottish Government's reform agenda.

Stakeholder engagement underpins our governance framework, which is embedded throughout SDS, helping to ensure we maintain high standards of conduct. The Executive regularly updates the Board on stakeholder engagement and wherever possible, members of the Board engage directly with our stakeholders.

The Board appreciates that there may be situations where conflicts will arise between different stakeholder groups. In such circumstances, the Board will seek to understand the needs and priorities of each stakeholder group during its discussions and as part of its decision-making process. It will manage any such conflicts by assessing stakeholder and partner interests from the perspective of the long-term sustainability of the organisation. The Board remains mindful of the implications that their decisions have on our stakeholders, particularly in the current context of the development and implementation of the Scottish Government's reform agenda, constrained public finances, ensuring best value for the public purse whilst maintaining high standards of service delivery. Below we set out some ways in which we have engaged with, and taken into consideration, the interests and concerns of our stakeholders who are material to the long-term success of the Company.

Overview

Engagement with stakeholders supports the Board's regard to the likely consequences of any decision in the long term. SDS Board members take part in direct stakeholder engagement activity through:

- induction materials provided on appointment, which include an explanation of Directors' duties, and the Board is regularly reminded of their s.172(1) duties;
- scheduled Board and Committee meetings – stakeholder engagement is built into these meetings, with all papers clearly outlining what actions have been taken to consult with stakeholders on each matter to be discussed. Members can then decide as to whether additional consultation or activity to address stakeholder concerns should be carried out; and
- all Board members receive a monthly Stakeholder Engagement briefing which outlines high-level activity undertaken within SDS over the period and detailing future opportunities for board members to engage with stakeholders. The briefing has been very well-received by the members, being a useful tool to enable them to interact more effectively with stakeholders.

Customer engagement	
Examples of Engagement	**Outcomes**
■ The Evaluation & Research team evaluates all SDS products and services to support continuous improvement. They also lead on colleague, customer and stakeholder research at SDS. SDS has a sponsored PhD programme which is managed by the Evaluation & Research team, delivered in collaboration with the Scottish Graduate School of Social Science; ■ Extensive engagement with the 32 Local Employability Partnerships (LEPs) involving local authorities, third sector and other employability partners to design local services to support their communities informed by bringing together equality data, annual and interim participation rates and regional skills assessments; ■ Community of Practice events which bring together partners, stakeholders, providers, and delivery partners together regularly throughout the year to share successful practice and identify enhancements to delivery that improve the experience of our customers; ■ Work with industry and employer representatives to understand the current and future demand for skills in the Scottish economy. Regional and Sectoral Skills Assessments we develop with these partners provide the basis for informing the skills elements of the City and Regional Growth Deals that have been developed between UK Government, Scottish Government and groups of Scottish Local Authorities; ■ Extensive engagement support with Developing the Young Workforce; and ■ Ongoing work with the Scottish Apprenticeships Advisory Board (SAAB) to help us shape products and services inclusive of the employer voice and ensure we deliver services in line with employer needs in Scotland.	**Priority areas for evaluation and research agreed by SDS senior management and Board. Board commitment to the needs of customers, partners and stakeholders through ongoing dialogue on evaluation and research. Ongoing Board work with strategic partners to help us shape how we will work collaboratively to achieve our purpose**

Colleague engagement	
Examples of Engagement	**Outcomes**
■ Your Views Survey - to gain insight into how colleagues are feeling about working at SDS and put an action plan into place to resolve issues where possible. Received an 85% colleague response rate; ■ Transform 27 - regular colleague engagement on the development and implementation of our transformation to a more sustainable and effective delivery model, such as calls, senior comms, dedicated intranet articles and web pages; ■ Scottish Government reform agenda survey - to seek a sample of employee views on awareness, impact and support needed in relation to the Scottish Government reform agenda. Received an 87% response from those in scope of the survey; ■ Focus on health and wellbeing engagement through a dedicated "Ways to Wellbeing" campaign. This is part of a wider, ongoing "Life at SDS" campaign on environmental issues, company benefits and social/volunteering activities; ■ Senior leadership engagement programme encouraging two-way dialogue and feedback on key issues; and	**Continued commitment of the Board to our employees' health, safety and wellbeing. Any issues or concerns brought to Board attention and addressed. Reassurance identifying colleague concerns especially in the context of the Scottish Government's reform agenda.**
■ Regular weekly engagement via all colleague communications channels such as the "Weekly Update", the SDS intranet and Yammer (Viva Engage), as well as a six weekly Leadership Update with senior colleagues.	

Procurement

Examples of Engagement	Outcomes
■ Engagement with suppliers to ensure we meet our needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis and generates benefits not only to the organisation but also to society, the economy and the environment; and ■ Engagement with over 300 suppliers (businesses of all sizes) who provide or sub-contract work-based learning provision. This activity aims to address the needs of employers to have a highly skilled workforce that meets the current and future needs of their business.	**Supports Board commitment to SDS championing the Scottish Procurement Model by embedding sustainable procurement.**

Community work and the environment

Examples of Engagement	Outcomes
■ SDS is part of cross-agency collaborative focussed on net zero which meets monthly to share best practice on actions to address the climate emergency within organisations; ■ An SDS Green Champion Network of approximately 70 colleagues from teams across SDS meets every quarter to discuss actions SDS can take to address the climate emergency and disseminate important information on progress to wider colleagues; ■ Promote and engage in national initiatives such as Climate Week to encourage colleagues to open conversations on climate change and take action as individuals and in their teams; ■ Volunteering is encouraged under SDS's special leave policy, with links to environmental focussed opportunities available on the intranet; ■ SDS - supported by colleagues in the Scottish Funding Council and Scottish Government - are leading on a Climate Emergency Skills Action Plan Pathfinder. The first of these work packages 'An Evidence Based Approach to Supporting the Transition to Net Zero' was published in November 2023; and ■ Case studies have focused on retrofit with Historic Scotland and Zero Waste Scotland.	**Supports Board commitment for SDS to work towards Scottish Government net-zero commitment as part of Climate Emergency and SDS working in alignment with local, national and international best practice. Stakeholder concerns discussed and taken forward as appropriate.**

Local and national employer and business groups

Examples of Engagement	Outcomes
■ Regular skills system policy updates/engagement to support employer groups' skills policy publications. Provides an understanding of the skills system in Scotland and where future change would be most beneficial to individuals/employers; and ■ Work with employers on their input and assurances on suitability of employer marketing messaging and our general approach.	**Provides deeper Board awareness of employer skills challenges and supports asks of government and Government agencies. SDS Board members occasionally lead and attend employer group meetings where required.**

Enterprise and Skills Agencies, Parliament, Government and Local Authorities	
Examples of Engagement	**Outcomes**
■ Ongoing collaboration with enterprise and skills agencies along with other partners as part of the Business Support Partnership on the design, development and delivery of a business support landscape that is focused on the needs of the businesses and communities; ■ Daily interaction and direct and ongoing dialogue with Scottish Government policy officials at all levels, plus Parliamentary Committee and Cross-Party group engagement alongside engagement with individual MSPs; and ■ CEO, Chair and SDS regional colleague focused engagement with Local Authority Leaders e.g., Convention of the Highlands and Islands (COHI) and Convention of the South of Scotland (COSS) to directly engage with Council Leaders.	**Provides Board intelligence for decision-making by seeking support for, and endorsement of, SDS key aims. Supports Scottish Government ambition for agencies to work together on ambition for Scotland to rank in the top quartile of OECD countries for productivity, equality, wellbeing and sustainability. Parliamentary and Government issues or concerns brought to Board attention and addressed directly with political representatives.**

Financial Overview

The results for the year to 31 March 2024 are contained in the attached financial statements, prepared in accordance with the 2023-24 Government Financial Reporting Manual (FReM) and in the form directed by the Scottish Ministers, taking account of the Scottish Public Finance Manual.

The FReM requires that the company should comply with the Companies Act, particularly with regard to the form and content of the annual report and financial statements, but, as a non-departmental public body, also follow the principles in the FReM where these go beyond the Companies Act. The accounting policies explain the basis on which the financial statements are prepared and transactions are recognised.

The resource budget allocation for 2023-24 comprised a revised grant-in-aid provision of £206.1 million (2023: £210.5 million). Revenue for the year was supplemented with other income generating activities of £10.4 million (2023: £12.5 million) on a cost recovery basis and £1.6 million (2023: £4.6 million) of European funding.

Removing the effects of actuarial adjustments, the financial statements for the year to 31 March 2024 report an operating deficit of £0.4 million (2023: £0.1 million).

Financial Management

In an uncertain and challenging economic environment, dominated by continued and significant budget pressures across the public sector, rigorous management of our financial resources was critical to the successful delivery of our operating plan within our budget allocations in the year to 31 March 2024.

In demonstrating our commitment to efficiently and effectively delivering sustainable and impactful services, an operating budget was set at the start of the year which required in-year savings of £2.5 million. This ambitious target was set in recognition of a reduction of £4.2 million in our available cash budget for the year in comparison with 2022-23. Ultimately, we were able to successfully achieve our operational delivery without the need to not draw on £0.1 million of the £206.2 million (2023: £210.5 million) available adjusted grant-in-aid allocation for the year.

In navigating the budget pressures, we have succeeded in increasing our overall spend on our core national training programmes. We have been able to invest £83.8 million in modern apprenticeships, an increase of £8.3 million on the £75.5 million invested in 2022-23. A further investment of £14.1 million (2023: £18.9 million) in graduate and foundation apprenticeships helped ensure the delivery target, as agreed with Scottish Government, was exceeded.

We also prioritised our important investment in other key initiatives in support of Scotland Government policy, including STEM Bursaries (£1.7 million) and Individual Training Accounts (£0.5 million).

With our commitment to public sector reform, the year saw significant activity, notably in the areas below, to ensure our service delivery to 2027, as set out in our Strategic Plan, will continue to be delivered within our budget allocations. It has been compellingly delivered with strategic oversight of our Transform 27 programme, and informed by extensive financial planning and analysis.

To protect our investment in frontline services we reviewed our estate profile, including Public Access Centres and admin offices, and negotiated new lease agreements which will reduce our future estate costs, taking advantage of opportunities to co-locate with partners to broaden our outreach footprint while ensuring no detriment to customers. We have utilised our capital budget to invest over £0.8 million in enhancing our IT infrastructure.

Through stringent vacancy management, we were able to exceed our budgeted vacancy savings target of £2.5 million which enabled SDS to support a negotiated, enhanced pay offer to our valued staff, recognising the prevailing cost of living pressures. We also invested £3.0 million in a cost-neutral voluntary severance programme, supporting 94 applications from staff, which will deliver significant and necessary annual savings of £4.4 million from 2024-25 while protecting our commitment to no compulsory redundancies.

Constructive engagement with the Scottish Government managing authority enabled significant progress to be made on the verification and settlement of SDS's outstanding claims for European Social Funding. As a result, during 2023-24, we were able to repay £13.2 million of previously advanced Scottish Government funding, leaving a remaining balance of £14.4 million at the year-end. The accrued ESF-supported income of £21.0 million at 31 March 2024 was settled in full in June 2024 and, as the 2018 ESF programme in Scotland concludes, enabled SDS to repay the balance of the advanced funding in July 2024.

Delivering our operating plan for 2023-24 with an outturn that was within the Resource and Capital budgets ultimately allocated by Scottish Ministers was not without challenge and compromise, bringing sharp focus on the requirement for the transformation programme ahead. Directed by Transform 27, our final outturn against all elements of the revised budget allocation from the Scottish Government for the year to 31 March 2024 was as follows:

	Expenditure	Income	Outturn	Allocation	Overspend/ (underspend)
	£'000	£'000	£'000	£'000	£'000
Resource budget (see below)	216,072	(12,624)	203,448	203,544	(96)
Capital budget	1,049	-	1,049	1,492	(443)
Non-cash costs including depreciation	2,890	-	2,890	3,252	(362)
Total budget	220,011	(12,624)	207,387	208,288	(901)
Annually managed expenditure	163	(10)	153	130	23

Reconciliation of the statement of comprehensive income to the resource outturn:

	£'000
Total expenditure on ordinary activities, including tax[4]	219,125
Depreciation charge allocated to non-cash costs	(2,890)
Net pension costs attributed to annually managed expenditure	(4)
Corporation tax charged to annually managed expenditure	(159)
Interest income on cash balances	(637)
Attributable to other sources, including European funding and IT services	(11,987)
	203,448

4 Derived from the sum of cost of sales, operating expenditure, administrative expenses, finance cost and tax expense.

Risk and Uncertainty

A small and highly focused team, acted as an important reference for all staff to help ensure at all levels that we managed the challenges presented internally and externally to SDS. 2023-24 was characterised by challenge and continued uncertainty around the Scottish Government reform agenda, reforms and the pace of reforms to the skills delivery landscape, threats to our Digital offer, developing and deploying Transform 27, and budgetary pressures across the whole of the public sector.

To support risk management, a review of the Risk Management Policy reset our attitude to risk, our approach to managing the potential barriers to achieving our objectives, and highlighted the importance of risk management and internal controls to achieving key business objectives and performing as planned.

These key risks once identified were included in our Corporate Risk Register and mitigated as the business dealt with uncertainties presented to it throughout the financial year. The Risk Register took account of strategic and operational risks including those stemming from current challenges to deliver the Goals as set out in the Strategic Plan. The Corporate Risk Register was regularly reviewed, and changes made by the SDS directors as they dealt with the changing environment during the year. It was updated by Directors Group/Executive Governance Board[5] members at each meeting, on behalf of the SDS Board, and was formally reported to the Audit and Risk Committee. A snapshot of the risks as at 31 March 2024 is provided below:

- Proposed reforms to the skills delivery landscape;
- Nature and pace of SG reforms;
- Grant-in-aid funding;
- Workforce challenges;
- Cyber threat; and
- Digital and data transformation.

Several corporate risks were identified during the year. The impacts of the budget challenges which SDS and the public sector in Scotland are encountering are both rapid and create an additional level of uncertainty for SDS. However, SDS has adopted several dynamic and robust actions and escalation outside the normal risk management process and these risks are being managed through our Transform 27 programme. SDS believes that possible performance risk to SDS can be mitigated by Transform 27 in the future.

Company Status

The Skills Development Scotland Co. Limited is a company limited by guarantee and registered in Scotland. The sole members are the Scottish Ministers. SDS is an Executive Non-Departmental Public Body, operated through a limited company structure.

Scottish Ministers appoint the Chair, Chief Executive and non-executive directors of SDS. The SDS Board is responsible for our overall direction and strategy and for securing the optimum performance from company assets. There is a formal policy of delegated authority, which includes matters specifically reserved to the board for decisions. All non-executive directors are independent of the company.

Going Concern

As at 31 March 2024, the company's Statement of Financial Position had net assets of £22.4 million (2023: £23.8 million). The directors are confident that the relationship with the Scottish Government is such that the company will have sufficient funding for the foreseeable future. In particular, the directors have taken cognisance of the sole membership of Skills Development Scotland which Scottish Ministers assumed in September 2004, and of the indication from Scottish Government of continued grant-in-aid funding in 2024-25. The directors have considered the Scottish Ministers' priorities for the reform of the skills delivery landscape and have determined they do not create a material uncertainty that casts doubt upon the company's ability to continue as a going concern. Accordingly, it is appropriate to prepare the financial statements on a going concern basis.

5 The Executive Governance Board succeeded the Directors Group and the Executive Board during Q4 as part of a general streamlining of governance arrangements.

Future Developments

The launch of the Withers Review of the Skills Delivery Landscape in June 2023 was followed by the publication of the Scottish Government's Purpose and Principles for Post-School Education and Skills. Although the Scottish Government has since set out and reaffirmed a number of reform priorities (including taking responsibility for national skills planning and consolidation of apprenticeship funding in one place), no decisions have yet been made on the way forward. SDS has and will continue to engage constructively with Scottish Government and other stakeholders to help shape the way forward through better definition of the success and outcome criteria and more robust cost benefit analysis. Importantly, the SDS Board continues to request more meaningful engagement with SDS staff consistent with the Scottish Government's Fair Work principles.

In parallel, the fiscal constraints on the Scottish budget have come into sharp focus with a recognition that wider public service reform will be required to deliver effective services within an increasingly constrained budget environment. Audit Scotland's report in October 2023[6] made clear that the Scottish Government will not be able to afford to pay for public services in their current form with clear challenges for the size of the public sector workforce.

This environment has resulted in a tightening of spend control across the public sector and is requiring public bodies to contribute to the collective public sector challenge to reduce costs by identify and implementing efficiency savings and taking decisions to ensure services remain affordable. SDS's Letter of Guidance 2024-25, issued on 29 March 2024, underlines these financial imperatives while recognising that SDS has, in the last year, already undertaken extensive work in the context of the Transform 27 programme.

In the year ahead, SDS will continue to progress its transformation programme, with extensive staff involvement, and with a broader focus on transforming the nature and means of service delivery in ways that will not only meet changing customer needs but also contribute to the collective need to reduce operating costs. At the same time there will be a sustained focus on core service delivery to customers. Our Annual Operating Plan 2024-25 will confirm our operational priorities, in line with the Scottish Government expectations in our Letter of Guidance.

By order of the Board

Damien Yeates
Director and Accountable Officer
17 July 2024

6 Audit Scotland (2023) The Scottish Government's workforce challenges; https://audit.scot/publications/the-scottish-governments-workforce-challenges

Directors’ Report

Directors' Report

Strategic Report

In accordance with section 414(c) (11) of the Companies Act 2006, Skills Development Scotland has chosen to include several matters in the Strategic Report which would otherwise be included in the Directors' Report.

These matters are:

- the review of the business and performance against performance indicators;
- future developments;
- diversity and equality matters for employees;
- employee consultation; and
- engagement with supplier and customers.

Directors and Their Interests

The directors of the company who held office during the year and to the date of signing of these financial statements were as follows:

Name	
T Black ^	
E Corcoran *	
S Cowan *	
Dr M Dames *	(reappointed 8 January 2024)
V Erasmus ^	(appointed 1 June 2023)
Dr C Evans *	
N Hamid *	
Prof D Hillier *	(reappointed 8 January 2024)
G Hutcheon ^	(appointed 1 June 2023)
Dr P Malik *	(reappointed 8 January 2024)
M McCaig *	
F Mitchell *	(Chair)
C Pollock *	
D Rankin ^	
E Russell *	(resigned 31 October 2023)
P Taylor *	(reappointed 8 January 2024)
D Yeates +	(Chief Executive)

+ executive   * non-executive   ^ co-opted board member

Dr M Dames, Prof D Hillier, Dr P Malik and P Taylor were reappointed as non-executive directors on 8 January 2024.

E Russell resigned as a non-executive director on 31 October 2023.

V Erasmus and G Hutcheon were appointed as co-opted board members on 1 June 2023.

No Board members held any significant interests in the company or its subsidiary companies at any time during the year that conflicted with their management responsibilities. Details of directors' interests are given in Note 20 Related Parties.

The Board of Skills Development Scotland, chaired by F Mitchell, met six times during the year (2023: five times).

Conflicts of Interest Procedures

We have in place strict and comprehensive procedures to deal with potential conflicts of interest. These include holding, and updating at least annually, registers of interests covering not only Board members but also members of staff.

Interests which must be registered, in terms of the name and nature of the organisation in which the interest is held, include: remuneration, other roles, contracts, election expenses, houses, land and buildings, investment or shares and securities, gifts and hospitality, non-financial interests, close family members interests. Whenever a Board member or member of staff has an interest in an application for assistance, they are required to declare the interest and thereafter to take no part in the consideration of the application. Such declarations by Board members are recorded in the minutes of the appropriate Board and committee meetings.

We publish the register of interests of our Board members on our website and all registers of interests are available for public review upon written request to the registered office.

Standing Committees

The Audit and Risk Committee oversees the strategic process for risk management, internal control, corporate governance and statutory financial obligations. The Committee is chaired by an independent non-executive director and is comprised of at least two non-executive directors of SDS. The Committee meets at least four times a year and has written terms of reference setting out its authority. Internal and external auditors attend the Audit and Risk Committee. In the year to 31 March 2024 the Committee met five times. (2023: five times).

The Finance and Operational Performance Committee oversees the operating performance and financial management of SDS. The Committee is chaired by an independent non-executive director and is comprised of at least two non-executive directors of SDS. The Committee meets at least four times a year and has written terms of reference setting out its authority. In the year to 31 March 2024 the Committee met six times. (2023: eight times).

The Remuneration and Human Resources Committee ensures detailed scrutiny of SDS remuneration matters including senior management team remuneration, company-wide pay awards and policy, pension arrangements and other human resources matters. The Committee is chaired by an independent non-executive director and is comprised of at least two non-executive directors of SDS. A trade union member also attends each meeting. The Committee meets at least three times a year and has written terms of reference setting out its authority. In the year to 31 March 2024 the Committee met four times (2023: three times).

The Service Development Committee oversees service redesign and implementation. The Committee is chaired by an independent non-executive director and is comprised of at least two non-executive directors of SDS. The Committee meets at least four times a year and has written terms of reference setting out its authority. In the year to 31 March 2024 the Committee met four times (2023: four times).

The Nominations Committee meets on an ad hoc basis and provides advice and support to the SDS Chair in respect of Board member required skills and responsibilities and, in particular, to review the membership of SDS Board Committees. The Nominations Committee is chaired by an independent non-executive director and is comprised of at least three non-executive directors of SDS. In the year to 31 March 2024 the Committee did not meet (2023: no meetings).

Results

The financial statements report a total comprehensive expense for the year of £1.4 million (2023: comprehensive income £57.3 million) which is influenced by IAS 19 pension adjustments. Removing the effects of actuarial activities, the operating deficit is £0.4 million (2023: £0.1 million).

The directors recognise the impact of the actuarial valuation of pension assets and liabilities on the results for the year and are satisfied that the operating results are in accordance with management projections and within budgetary constraints and available reserves.

The directors are aware of no events between the Statement of Financial Position date and the date when the financial statements were authorised for issue which influence the results.

Accounting for Pension Scheme Liabilities

Pension assets and liabilities are recognised in the financial statements in line with the accounting policy at Note 1. IAS 19 Employee Benefits requires that the assets and liabilities of the pension scheme are incorporated into the balance sheet. As more fully explained in Note 9 the Statement of Financial Position reports a net liability of £1.0 million for the pension schemes at 31 March 2024 (2023: £nil).

Actuarial valuations are prepared at the request of the administering authority on a triennial basis for each of the two Local Government Pensions Schemes (LGPS) the company participates in, namely; Strathclyde Pension Fund and Highland Pension Fund. Details of the latest valuations, to 31 March 2023, can be obtained from published reports.

Financial Instruments

The company has exposure to liquidity risk, credit risk and market risk. The extent of this exposure is detailed in Note 21 Financial Instruments.

Supplier Payment Policy

SDS, like other public sector organisations, is bound by the Late Payments of Commercial Debts (Interest) Act 1998, which requires payment to be made within 30 days of receipt of a valid invoice, or any other period the contract terms may specify. It is our policy to agree terms of payment when orders for goods and services are placed and to adhere to those arrangements. In addition, it is our policy, where possible, to comply with the Scottish Government's target of making payment of authorised invoices within 10 days of receipt. While trade creditor days as at 31 March 2024 were eight days (2023: seven days), invoices for commercial goods and services were paid on average for the year within four days of receipt (2023: four days).

Political and Charitable Donations

The company made no charitable or political donations in the year.

Amounts Payable to Auditor for Non-Audit Work

Fees payable for non-audit services provided by the appointed auditor for the year ended 31 March 2024 were £nil (2023: £nil).

Freedom of Information

The Freedom of Information (Scotland) Act, which came into full force in January 2005, means members of the public can make a request to see information held by us. In the year to 31 March 2024, we received and responded to 32 Freedom of Information requests (2023: 42). There were no requests (2023: one request) for a review of a response and no referrals of SDS to the Scottish Information Commissioner.

Auditor

As a non-profit making public sector company, which appears to the Scottish Ministers in terms of section 483(2) of that Act to carry out functions of a public nature, under The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008, the Scottish Ministers have determined that the financial statements of the company shall be audited by the Auditor General for Scotland. The Auditor General for Scotland has appointed Audit Scotland to undertake the audit for the year ended 31 March 2024.

The directors present their report and the audited financial statements for the year ended 31 March 2024. These financial statements have been prepared in accordance with a form directed by the Scottish Ministers.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the Board

Damien Yeates
Director and Accountable Officer
17 July 2024

Remuneration Report

Remuneration Report

Chair and Non-Executive Directors
The Chair and non-executive directors are paid an annual amount, as salary, at a level agreed by Scottish Ministers. The salary rate is normally assessed on an annual basis. Appointments are made on a two and four-year basis.

Chief Executive
The Chief Executive's pay is reviewed annually, and any pay award is dependent on performance, and must be approved in accordance with Scottish Government protocols. The Chief Executive's performance is assessed formally by the Chair using pre-determined criteria.

Executive Governance Board
Details are disclosed for senior executives, comprising the Chief Executive and senior executive managers fulfilling the roles of Senior Director of Delivery, Senior Director of Transformation, Director of Human Resources, Director of Finance, Information Governance, Resilience and Risk, and Director of Corporate Affairs. The senior executive managers are not registered as directors of the company under the Companies Act.

Service Contracts
Staff appointments are based on merit and are on the basis of fair and open competition. The Chief Executive and senior executive managers are permanent employees with up to 12 months' notice periods. There are no early termination payment clauses within the contracts.

Remuneration & Appointments
Due to the company's NDPB status, remuneration is reviewed annually in accordance with Public Sector Pay Policy. A formal pay remit proposal is approved by the Remuneration and Human Resources Committee, prior to pay negotiations with recognised Trades Unions. The Remuneration and Human Resources Committee determines the total individual remuneration packages of the Senior Director appointments, in accordance with public sector pay policy and in consultation with the Chair and Chief Executive.

No benefits in kind were paid to and no long-term incentive schemes are held by the Chair or non-executive directors.

The Chief Executive and senior executive managers' posts are pensionable. The Chair and non-executive director appointments are not pensionable.

Appointments are carried out in line with employment legislation, with the exception of the Chair and non-executive directors' positions which are carried out within the guidelines for senior public sector appointments.

Salary and Allowances
Salary includes gross salary but not employer's pension contributions. There were no payments in respect of performance pay or bonuses during the year.

Allowances are taxable benefits relating to designation as essential users within our Car Scheme.

Pensions
Pension benefits are provided through one of two HM Revenue & Customs approved defined benefit schemes. Employee contributions are currently set at a tiered rate dependent on assumed pensionable pay. Typically for a senior executive manager this is c10%. This would exclude performance pay, bonus or ex-gratia payments if these had occurred. Employer contributions are c22%. Benefits accrue at the rate of 1/49th for each year of service.

Cash Equivalent Transfer Values
The Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of 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 pension benefits they have accrued in their former scheme. CETVs are calculated within the framework and guidelines prescribed by the Faculty of Actuaries.

Information Subject to Audit

The following sections of this report are presented for audit: total remuneration (including, salary and allowances, benefits in kind, compensation for loss of office, and accrued pension benefits), pension entitlements and fair pay disclosures.

Remuneration

Remuneration of the Chair, non-executive directors and co-opted board members for the year to 31 March 2024 was as follows:

	2023-24				2022-23			
	Salaries/ fees (banded)	Taxable benefits	Pension benefits (banded)	Total (banded)	Salaries/ fees (banded)	Taxable benefits	Pension benefits (banded)	Total (banded)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
F Mitchell (Chair)	40 - 45	-	-	40 - 45	40 - 45	-	-	40 - 45
T Black^	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
E Corcoran*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
S Cowan* (appointed 01/11/22)	10 - 15	-	-	10 - 15	0 - 5	-	-	0 - 5
M Dames*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
V Erasmus^ (appointed 01/06/23)	5 - 10	-	-	5 - 10				
C Evans*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
N Hamid*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
D Hillier*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
G Hutcheon^ (appointed 01/06/23)	5 - 10	-	-	5 - 10				
W Mackie* (term ended 31/10/22)					0 - 5	-	-	0 - 5
P Malik*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
M McCaig*	-	-	-	-	-	-	-	-
C Pollock*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
D Rankin^ (appointed 01/03/23)	5 - 10	-	-	5 - 10	0 - 5	-	-	0 - 5
E Russell* (resigned 31/10/23)	0 - 5	-	-	0 - 5	5 - 10	-	-	5 - 10
G Smith* (term ended 31/10/22)					25 - 30	-	-	25 - 30
P Taylor*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
T Trotter^ (resigned 08/09/22)					0 - 5	-	-	0 - 5

* non-executive ^ co-opted board member

M McCaig opted to waive their full year equivalent banded remuneration of £5,000 to £10,000 for the year to 31 March 2024.

The total emoluments of the Chair, non-executive directors and co-opted board members for the year to 31 March 2024 were £156,531 (2023: £162,018) and include £nil (2023: £nil) in respect of compensation payments for loss office.

Executive remuneration for the year to 31 March 2024 is summarised in accordance with criteria defined in the HM Government Financial Reporting Manual, published by HM Treasury, and UK Statutory Instrument 2013-1981. It is shown including a derived figure for pension benefits to comply with legislation.

	2023-24				2022-23			
	Salaries/ fees (banded)	Taxable benefits	Pension benefits* (banded)	Total (banded)	Salaries/ fees (banded)	Taxable benefits	Pension benefits* (banded)	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
D Yeates **Chief Executive**	145 - 150	6.2	45 - 50	195 - 200	140 - 145	6.2	40 - 45	190 -195
C Anderson **Director of Human Resources**	105 - 110	5.0	35-40	150 - 155	100 - 105	5.0	35 - 40	140 -145
E Gallanagh (resigned 07/06/22) **Senior Director of Enabling Services**					60 - 65	0.9	5 - 10	65 - 70
C Hutton **Director of National Training Programmes (resigned 31/03/23)**					105 - 110	5.0	65 - 70	180 -185
A Livingstone **Director of Finance, Information Governance, Resilience and Risk**	5 - 10	0.3	0 - 5	10 - 15				
J Prentice **Director of Corporate Affairs (Interim)**	5 - 10	0.3	0 - 5	5 - 10				
N Prentice **Senior Director of Delivery**	140 -145	5.0	25 - 30	175 - 180	140 -145	5.0	25 - 30	175 -180
J Russell **Senior Director of Transformation (Interim)**	25 - 30	1.3	5 - 10	35 - 40				

* This is a notional figure, the calculation of which is stipulated in the Government Financial Reporting Manual 2023-24 section 6.5.8 (d), and not the value of contributions made. Accordingly, the Total (banded) includes the notional value and not actual remuneration for each director. In the case of N Prentice, the value is that of pension equivalent allowance, per paragraph 7 (e) of Statutory Instrument 2013 number 1981.

The reported remuneration for A Livingstone and J Prentice represents their total remuneration since the inclusion of their roles in the Executive Governance Board on 6 March 2024. The full year equivalent banded salary for their roles for the year to 31 March 2024 was £105,000 to £110,000 and £95,000 to £100,000 respectively.

The reported remuneration for J Russell represents their total remuneration since their executive appointment on 1 January 2024. The full year equivalent banded salary for the role for the year to 31 March 2024 was £115,000 to £120,000.

Pension Entitlements

Executive pension benefits for the year to 31 March 2024 were as follows:

	Cash Equivalent Transfer Value				
	Accrued pension at age 65 and related lump sum as at 31 March 2024	Real increase in accrued pension and related lump sum at age 65	Cash Equivalent Transfer Value At 31 March 2024	At 31 March 2023	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
D Yeates	45 - 50	2.5 - 5.0	794	638	156
C Anderson	20 - 25	0.0 - 2.5	379	278	101
A Livingstone	0 - 5	0.0 - 2.5	774		3
J Prentice	0 - 5	0.0 - 2.5	314		2
N Prentice	-	-	-	-	-
J Russell	0 - 5	0.0 - 2.5	229		24

The accrued pension is inclusive of the lump sum payment that the member may elect to draw from their accrued pension entitlement. Members may elect to take a maximum of 25% of their accrued pension as a lump sum payment. This will subsequently reduce their future pension entitlement.

The real increase in the value of the CETV is the element in accrued pension funded by the employer. It excludes increases due to inflation and contributions paid by the member. It is worked out using common market valuation factors for the start and end of the period.

With the exception of CETV at 31 March 2024, the pension benefits for A Livingstone, J Prentice and J Russell have been disclosed for the period of their membership of the Executive Governance Board only, pursuant to their disclosed remuneration above.

Fair Pay Disclosures

Reporting bodies are required to disclose the relationship between the banded remuneration of the highest paid director in their organisation and the lower quartile, median, and upper quartile remuneration of the organisation's workforce. Banded remuneration for this purpose is the sum of salaries & fees, taxable benefits, and excludes pension benefits and cash equivalent transfer values. The banded remuneration of the highest paid director in Skills Development Scotland for the year to 31 March 2024 was £150,000 to £155,000 (2023: £150,000 to £155,000).

	2023-24			2022-23		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Pay ratio	3.6 : 1	3.4 : 1	2.9 : 1	3.9 : 1	3.6 : 1	3.1 : 1
Remuneration (Salary)	£42,908 (£42,908)	£45,408 (£45,408)	£53,188 (£53,188)	£38,991 (£38,927)	£42,772 (£42,772)	£49,053 (£48,242)

For the year to 31 March 2024, the remuneration of the highest paid director increased by 0.8% (2023: 0.3%) while the average remuneration for the organisation as a whole increased by 8.3% (2023: 6.6%). All employees have their salary reviewed annually at 1 April. All pay awards are equality impact assessed, supported by an equal pay audit every two years, and aligned with Scottish Government public sector pay policy. The increase of 6.2% (2023: 5.0%) in the median pay ratio is consistent with the pay and progression policy for the organisation as a whole for the year to 31 March 2024.

The minimum full-time equivalent salary on the organisation's Pay and Grading Framework for the year to 31 March 2024 was £22,687 (2023: £21,370).

Damien Yeates
Director and Accountable Officer
17 July 2024

Statement of Directors' and Accountable Officer's Responsibilities

Statement of Directors' and Accountable Officer's Responsibilities

The directors and accountable officer are responsible for preparing the annual report and financial statements of the company in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for the company for each financial year. As required by the Accounts Direction applicable for the year issued by the Scottish Ministers, they are required to prepare the company's financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of its surplus or deficit for that period. In preparing the company's financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU and the Accounts Direction applicable to the year issued by the Scottish Ministers; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006 and the Accounts Direction applicable to the year issued by the Scottish Ministers. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

As set out in the **Memorandum to Accountable Officers for Other Public Bodies**, the accountable officer is personally responsible for the propriety and regularity of the body's public finances and ensuring that its resources are used economically, efficiently and effectively. This includes compliance with relevant guidance issued by Scottish Ministers, in particular the Scottish Public Finance Manual, and the Framework Document defining the key roles and responsibilities which underpin the relationship between the body and the Scottish Government.

Damien Yeates
Director and Accountable Officer
17 July 2024

Governance Statement by the Accountable Officer

Governance Statement

Scope of Responsibility

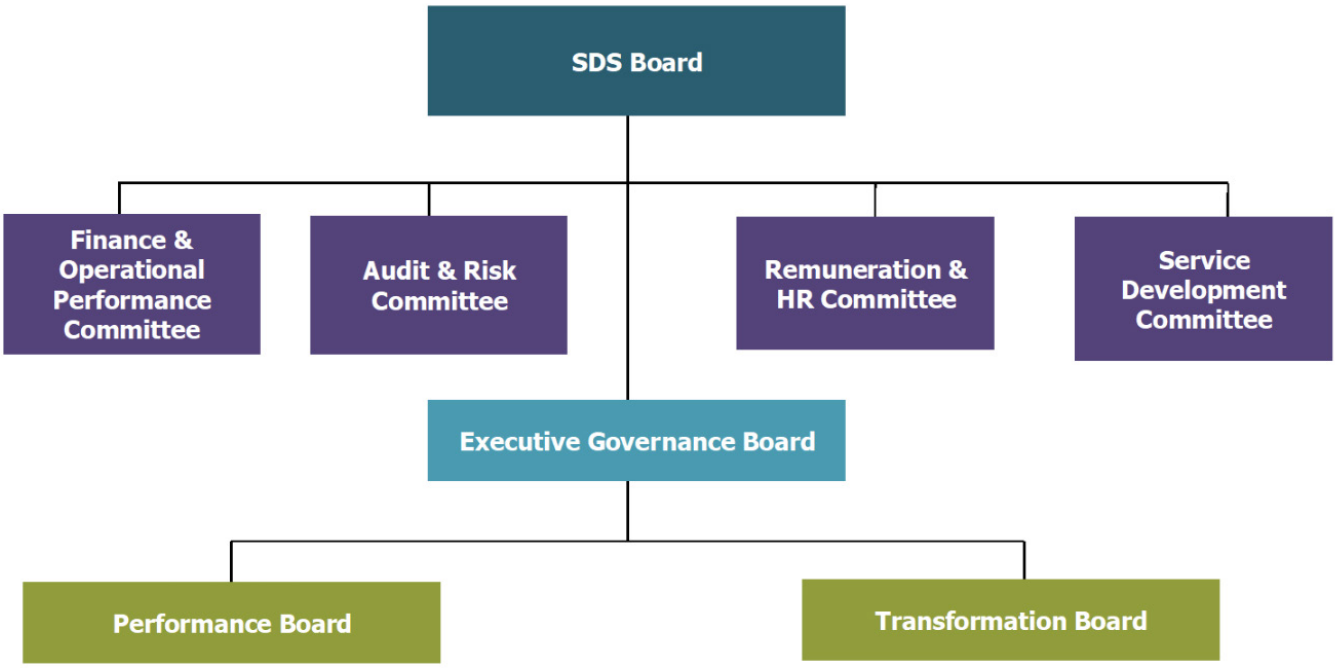
As Accountable Officer, I have responsibility for maintaining a sound system of governance that supports the achievement of Skills Development Scotland policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance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

As the Accountable Officer for Skills Development Scotland (SDS) I am responsible for accounting for activities, and I am required to:

- sign a Governance Statement regarding SDS's system of internal control and management of resources for inclusion in the annual report and financial statements; and
- obtain assurances from SDS's Directors on the maintenance and review of our internal control systems with reference to risk management, effectiveness of operations, economical and efficient use of resources, compliance with applicable policies, procedures, laws and regulations, safeguards against losses including those arising from fraud, irregularity or corruption and the integrity and reliability of information and data.

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.

Governance Framework of Skills Development Scotland



Skills Development Scotland has a Board in place to oversee the implementation of government policy. Amongst other things, the Board is responsible for the overall strategic direction of SDS within the policy, planning and resources framework determined by Scottish Ministers; for ensuring that the highest standards of governance are complied with; and that a prudent and effective framework of controls is in place to enable risks to be assessed and managed.

The Board met six times during the year and was supported in its work by the following committees, each of which was chaired by a non-executive director and comprised of at least two further non-executive directors:

- the Audit and Risk Committee, which oversees the strategic process for risk management, internal control, corporate governance, and statutory financial obligations met five times;

- the Finance and Operational Performance Committee, which oversees the operating performance and financial management of SDS met six times during the year;
- the Remuneration and Human Resources Committee, which ensures detailed scrutiny of SDS remuneration matters including senior management team remuneration, company-wide pay awards and policy, pension arrangements and other human resources matters, and which met four times during the year; and
- the Service Development Committee, which oversees service redesign and implementation, and which met four times during the year.

The SDS Board continues to undertake regular self-assessment of its effectiveness, with questions based on externally benchmarked good governance guidance. This exercise also considers the effectiveness of Board Committees. The self-assessment findings inform development of a Board Continuous Improvement Action Plan and a Board Continuing Professional Development (CPD) Plan. The Board and Committees also each review their Terms of Reference on an annual basis to ensure they are still fit for purpose.

Building on an SDS Board-led organisational effective review, the Executive Governance Board succeeded the Executive Board during 2023-24 as the top executive-level decision making body, reporting to the SDS Board. The purpose of the Executive Governance Board is to oversee SDS' overall performance, delivery and future transformation. The Executive Governance Board oversees a newly streamlined approach to governance and decision making and is supported by a Performance Board and a Transformation Board with the aim of building greater collaboration and cohesion across three interdependent portfolios of Delivery, Transformation and Governance.

Internal Audit report to the Audit and Risk Committee on the overall adequacy and effectiveness of SDS's framework of governance, risk management and control. The Director of Internal Audit has direct unimpeded access throughout the year to the Chief Executive and the Chair of the Audit and Risk Committee.

Skills Development Scotland's System of Internal Control

SDS's system of internal controls is in line with guidance from Scottish Ministers provided in the Scottish Public Finance Manual (SPFM) and has been in place for the year ended 31 March 2024 and up to the date of approval of the annual report and financial statements. It is designed to identify the principal risks to the achievement and delivery of SDS's performance targets, policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively, and economically. In line with any system of internal control it is designed to manage rather than eliminate the risk of failure to achieve our policies, aims and objectives and provides reasonable and not absolute assurance of effectiveness.

Internal Audit undertakes independent reviews of SDS's internal controls at least annually which cover key controls including financial, operational and compliance controls.

Internal Audit

In 2023-24 our Internal Audit service was provided by a shared service resourced by the Internal Audit Partnership, led by Scottish Enterprise, and shared across five public bodies. The service was supplemented by EY for technical IT and digital audits. The service providers operate in accordance with the UK Public Sector Internal Audit Standards.

The 2023-24 Internal Audit Plan, which was endorsed by SDS's Audit and Risk Committee, was informed by an analysis of the risks to which SDS is exposed and was made up of a programme of seven assurance reviews by Internal Audit, targeted at key risk areas, alongside two IT assurance reviews. The Plan also included ongoing real-time assurance on the internal Transform 27 programme, with due consideration of James Withers' Review of the Skills Delivery Landscape and Scottish Government's initial priorities and principles for the reform of the post-school education system. An end-of-year summary statement was provided as advisory input and a further real-time assurance review will be conducted in 2024-25 as the programme progresses. Acknowledging the uncertainty created by the public sector reform, the 2024-25 Internal Audit Plan will also include a review of SDS's risk management arrangements.

The Internal Audit Annual Report was presented to the 27 June 2024 meeting of the Audit and Risk Committee. The Internal Audit opinion concluded that the programme of internal audit work carried out in 2023-24 identified a satisfactory level of assurance on SDS's framework of governance, risk management and management control.

In alignment with Internal Audit findings, SDS has made improvements in several areas during the year, including enhancements to Whistleblowing, People Management, Financial Controls, Modern Apprenticeships, and Cyber Security.

At each quarterly Audit and Risk Committee meeting Internal Audit provided a report on their internal audit activity and the Risk and Internal Audit Manager reported on progress with Internal Audit recommendations. The Internal Audit Annual Report concluded there was effective progress in implementing internal audit recommendations, with a robust internal mechanism in place to monitor completion of actions.

Internal Financial Controls

Our system of internal financial controls is based on a framework of financial regulations; monitoring committees; delegation and accountability for officers; administrative procedures including the segregation of duties and regular financial management information review.

Our financial controls include:

- Financial systems which include:
    - comprehensive budgeting systems;
    - documented budget processes;
    - budgets aligned to plans;
    - accurate reporting of financial positions;
    - regular reviews by members of the Directors Group of Budgetary Control Reports which identify income and expenditure to date and compare projected outturn with approved budgets; appropriate committees also consider these reports
    - measuring financial and other performance against targets; and
    - clearly defined control guidelines.
- Joint HR and Payroll system controls to ensure staff remuneration and reimbursement payments are made correctly and on time;
- Procurement system controls to ensure orders for goods and services are properly authorised and creditor system controls to ensure payments made to suppliers are correct;
- Income and debtor's controls to ensure they are correctly identified, collected, and accounted for;
- Controls over the operation of computer systems and administrative procedures to ensure secure systems are developed to meet business and accounting needs, with particular regard to cyber security; and
- The Fraud and Financial Irregularity Policy is available on the SDS intranet and is communicated via new staff induction, mandatory Counter Fraud e-learning on the SDS Academy and via bespoke Fraud Awareness workshops. The Fraud and Financial Irregularity Response Plan embraces SPFM guidance and there are effective avenues for reporting suspicions of fraud, via the Fraud and Financial Irregularity Response Group (FFIRG) and via Whistleblowing and Concerns Portal arrangements.

Risk Management Arrangements

Our Risk Management Framework is designed to meet guidance issued by the Scottish Ministers. It conforms with SPFM direction and builds on several years of audited good practice which include components relating to:

- a Risk Management Strategy which sets out how we will augment current processes to manage our risks to the performance of SDS and delivery of our strategic and operational objectives;
- a Risk Assurance & Internal Audit Policy which sets out the SDS Risk Appetite and how risks should be identified and controlled. The Policy is available to all staff on the Skills Development Scotland intranet;
- a Risk Information Management System which is used to record, monitor, and report on risk on a consistent basis across SDS;
- a corporate risk register which records those risks that impact on the performance of SDS and are likely to affect our ability to achieve our strategic goals and objectives (including the impact of Scottish Government reforms and challenges). These risks are reviewed by the Executive Governance Board monthly, and on a quarterly basis by the Audit and Risk Committee and include consideration of progress on agreed actions to manage the risks;

- high-level operational, directorate, business area and project risk registers identify and document significant risks and outline the key reasons for the current risk exposure and plans in place to achieve optimum risk exposure;
- senior management each complete a detailed six-monthly Risk Assurance Statement and an Annual Internal Control Statement to assure the Accountable Officer that internal controls, including risk management arrangements, within their directorate and the three Portfolios are operating effectively and are being monitored on an ongoing basis;
- each identified risk, has an individual Risk Owner responsible for monitoring the risk and ensuring that any identified mitigating actions are implemented;
- the Audit and Risk Committee is responsible for reviewing the effectiveness of SDS's risk management approach and receives Risk Management Reports on a quarterly basis. The Board also receives regular updates on internal control from the Chair of the Audit and Risk Committee;
- a Risk Dashboard is reported to the Senior Directors, the Executive Governance Board and the Audit and Risk Committee identifying any weaknesses in our approach to risk management;
- directorates are responsible for ensuring early and full reporting of critical business risks. Specialist functions (business continuity, health and safety and cyber and information security) are in place to manage specific types of risk, and these provide the Board and management with assurance in these areas;
- risk management is a key component of SDS's project planning and appraisal process; and
- awareness and training sessions are held as required and a risk management element is included in the SDS Induction Programme for new members of staff. There is also a separate section on Risk Management Guidance on the SDS intranet.

The management of risk is the responsibility of all managers and staff throughout SDS and they have a responsibility to always be risk aware. All employees have a personal responsibility to:

- be aware of and comply with policies and procedures;
- be aware of risks and take reasonable action to identify, eliminate where possible, or control them; and
- notify line managers of risks they have identified which cannot be adequately managed; and participate in risk management education and training.

Details of significant risk-related matters during the year

The impacts of budget reduction and a commitment to sustainably support our valued employees with a pay award in recognition of the prevailing cost of living pressures, during a financial year dominated at all levels of the organisation with achieving best use of resources in support of Scottish Government priorities whilst avoiding detriment to service delivery, presented uncertainty for SDS and our stakeholders during the year. The budget challenges which SDS and the public sector in Scotland are encountering are both rapid and changing.

The Withers Recommendations for the Review of the Skills Delivery Landscape and the Scottish Government's initial priorities under the purpose and principles for the reform of the post school education system are a risk to the future function and remit of SDS. There is uncertainty around the potential for transfer of undertakings which may include employment obligations to alternative organisations, and this has been identified as a corporate risk.

In response to the above risks, early in the budget cycle SDS adopted dynamic and robust actions and escalations outside the normal risk management process. Both risks are being managed through our Transform 27 programme and Transformation Portfolio and SDS believes that possible performance risk to SDS and the sustainability of Transform 27 in the future are being managed and mitigated.

SDS, like most organisations and public sector agencies, are cognisant of ever-increasing levels of threats to SDS and our partners' cyber security in the face of regular and sophisticated cyber-attacks. Many public sector organisations have been the victim of cyber-attacks. SDS continues to mitigate the likelihood of a successful major cyber-attack and has developed and tested plans to recover from a successful attack should this occur. As a result SDS have developed and deployed key controls and mitigations based around the Cyber Action Plan. This includes regular and robust risk identification, cyber communication, cyber training, cyber reporting, and cyber assurance.

In addition to the uncertainties above, SDS continues to assess and quantify the level of potential risks arising from audit or verification of claims it makes for activity supported by the European Social Fund (ESF).

SDS submits funding claims to the Scottish Government (SG), while the Scottish Government submits funding claims to the European Commission (EC). SDS recognises that its claims are separate from audit discussions between SG and the EC in relation to the administration of ESF and the format of claims information to be provided by SG.

In collaboration with the Scottish Government Managing Authority for European Structural Funds and reflecting changing requirements from their negotiations with the European Commission, SDS designed, iterated, and executed compliant initiatives based on SG policy guidance and external legal advice. SDS considers its approach to identifying and processing qualifying expenditure to be compliant with the views of the EC Audit Mission in their assessment of programme management by SG. The SDS assessment is that there should be no impediment to successful verification of claims to SG, and recognition of income from these.

As an indirect consequence of delays in agreeing requirements between SG and the EC, and in confirming audit verification rules for claims, there is a risk that SG may not be able to process all eligible SDS claims before the EC declaration deadline in June 2024.

SDS believes that possible financial risk to SDS can be mitigated through regular dialogue with the SG managing authority and the collective management of a Risks and Mitigations register to support the verification and payment of the final claim. Cash advances, as already provided by SG, in lieu of claims being paid, continue to support working capital requirements.

Significant lapses of data security

In the year to 31 March 2024 there were no data breaches which were deemed to require reporting to the Information Commissioner's Office (ICO).

Conclusion

Having reviewed the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Skills Development Scotland's governance arrangements, internal control, and management of resources during the year ended 31 March 2024.

Informed by:

- the views of the Audit and Risk Committee on assurance arrangements;
- the views of the Risk and Internal Audit Manager on the quality of the organisation's management of risks;
- the opinion of Internal Audit on the quality of the systems of governance, management, and risk control;
- assurances from senior management provided by our Risk Framework in place across the organisation, including Risk Assurance Statements and Annual Internal Control Statements, in line with SPFM guidance;
- feedback from the business on our use of resources, responses to risk and the extent to which in-year budgets and other targets have been met; and
- comments made by the external auditor in its management letters and other reports.

Damien Yeates
Director and Accountable Officer
17 July 2024

Independent Auditor’s Report

Independent auditor's report to the members of The Skills Development Scotland Co. Limited, the Auditor General for Scotland and the Scottish Parliament

Reporting on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and financial statements of The Skills Development Scotland Co. Limited for the year ended 31 March 2024 under The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008. The financial statements comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the company as at 31 March 2024 and of the total comprehensive expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, and the Companies Act 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. 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 was appointed by the Auditor General on 3 April 2023. My period of appointment is five years, covering 2022/23 to 2026/27. Including a previous appointment, the period of total uninterrupted appointment will be six years. I am independent of the company 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. Non-audit services prohibited by the Ethical Standard were not provided to the company. 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Accountable Officer and directors for the financial statements

As explained more fully in the Statement of the Directors' and Accountable Officer's Responsibilities, the Accountable Officer and directors are 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 and directors determine 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 and directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the company's operations.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 decisions of users taken on the basis of these financial statements.

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

- using my understanding of the central government sector to identify that the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, and the Companies Act 2006 are significant in the context of the company;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the company;
- inquiring of the Accountable Officer concerning the company's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting 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. In addition to my responsibilities in respect of irregularities explained in the audit of the financial statements section of my report, 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.

Reporting on other requirements

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

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers and the Companies Act 2006.

Other information

The Accountable Officer and directors are responsible for the other information in the annual report and financial statements. The other information comprises the Strategic Report, Directors' Report, Remuneration Report excluding the audited parts of the Remuneration Report, Statement of Directors' and Accountable Officer's Responsibilities, Governance Statement, and the Chair and Chief Executive Foreword.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 the Strategic Report and Directors' Report and the Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Strategic Report and Directors' Report, and Governance Statement

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

- the information given in the Strategic Report and Directors' 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 directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers and the Companies Act 2006; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with directions made under the Public Finance and Accountability (Scotland) Act 2000 by the Scottish Ministers and the Companies Act 2006.

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; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Pauline Gillen
Audit Director
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT
17 July 2024

Statement of Financial Position

Statement of Financial Position

	Notes	2024 £'000	2023 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	**3,790**	4,184
Right of use assets	5	**4,933**	7,336
		8,723	11,520
CURRENT ASSETS			
Trade and other receivables	6	**23,656**	37,927
Cash and cash equivalents		**23,021**	23,163
		46,677	61,090
TOTAL ASSETS		**55,400**	72,610
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Retained earnings	7	**22,366**	23,753
TOTAL EQUITY		**22,366**	23,753
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities	8	**3,606**	5,665
Retirement benefit obligations	9	**989**	-
		4,595	5,665
CURRENT LIABILITIES			
Trade and other payables	10	**25,277**	39,878
Current income tax liabilities	11	**159**	19
Provisions for other liabilities and charges	12	**1,768**	1,759
Lease liabilities	8	**1,235**	1,536
		28,439	43,192
TOTAL LIABILITIES		**33,034**	48,857
TOTAL EQUITY AND LIABILITIES		**55,400**	72,610

The notes on pages 59 to 95 are an integral part of these financial statements.

The financial statements on pages 52 to 95 were approved by the board of directors and authorised for issue on 17 July 2024 and were signed on its behalf by:

Damien Yeates
Director and Accountable Officer

Statement of Comprehensive Income

		2024	2023
	Notes	£'000	£'000
Revenue	15	**218,086**	227,677
Cost of sales		**(9,695)**	(11,218)
Gross surplus		**208,391**	216,459
Operating expenditure	16	**(178,138)**	(197,763)
Administrative expenses	16	**(31,065)**	(35,750)
Operating deficit		**(812)**	(17,054)
Finance cost	18	**(68)**	(1,862)
Finance income	18	**647**	101
Deficit on ordinary activities before tax		**(233)**	(18,815)
Tax expense	11	**(159)**	(19)
Deficit on ordinary activities after tax		**(392)**	(18,834)
Other comprehensive (expense)/ income **Items that will not be reclassified to profit or loss:**			
Actuarial (losses)/gains recognised in retirement benefit scheme	9	**(995)**	76,102
Other comprehensive (expense)/income for the year		**(995)**	76,102
Total comprehensive (expense)/income for the year		**(1,387)**	57,268

All of the above results are derived from continuing operations and are due to the equity holders of the company.

The notes on pages 59 to 95 are an integral part of these financial statements.

The total comprehensive expense for the year is £1.4 million (2023: comprehensive income £57.3 million) and is influenced by IAS 19 pension adjustments. Removing the effects of those actuarial pension adjustments, the operating expense is £0.4 million (2023: £0.1 million).

Statement of Changes in Taxpayers' Equity

Statement of Changes in Taxpayers' Equity

	£'000
Balance at 1 April 2022	**(33,515)**
Total comprehensive income for the year	**57,268**
Balance at 31 March 2023	**23,753**
Total comprehensive expense for the year	**(1,387)**
Balance at 31 March 2024	**22,366**

Statement of Cash Flows

	Notes	2024	2023
		£'000	£'000
Cash flows from operating activities			
Cash receipts: Grant-in-aid		**206,099**	210,516
Cash receipts: Customers		**23,942**	44,943
Total cash received		**230,041**	255,459
Cash paid to suppliers and employees		**(228,293)**	(243,930)
Cash generated from operations		**1,748**	11,529
Interest received	18	**637**	101
Income tax paid		**(19)**	(1)
Net cash generated from operating activities		**2,366**	11,629
Cash flows from investing activities			
Purchase of property, plant and equipment		**(920)**	(656)
Proceeds on disposal of property, plant and equipment		**8**	-
Net cash generated from investing activities		**(912)**	(656)
Cash flows from financing activities			
Payment of lease liabilities		**(1,596)**	(1,639)
		(1,596)	(1,639)
Net (decrease)/ increase in cash and cash equivalents		**(142)**	9,334
Cash and cash equivalents at beginning of year		**23,163**	13,829
Cash and cash equivalents at end of year		**23,021**	23,163

Notes to Financial Statements

Note 1 - Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

(a) Basis of Preparation

The financial statements are prepared in a form determined by the Scottish Ministers in accordance with the Framework Document between the Company and the Scottish Ministers.

The financial statements have been prepared in accordance with the 2023-24 Government Financial Reporting Manual (FReM) issued by HM Treasury, International Financial Reporting Standards as adopted by the European Union (IFRS) and IFRIC Interpretations. The FReM requires that the company should comply with the Companies Act, but, as a non-departmental public body, also follow the principles in the FReM (for example, in preparing a remuneration report) where these go beyond the Companies Act.

The FReM states that non-departmental public bodies should account for grant-in-aid as a movement in reserves rather than income. However, the company has concluded that under the Companies Act it is appropriate to continue to account for grant-in-aid as income, on the basis that grant-in-aid received by the company is required in order to carry out a function which its owners have asked it to perform. On that basis, the company considers grant-in-aid to be an exchange transaction and, as such, requires to be accounted for in the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the company for the purpose of giving a true and fair view has been selected.

The financial statements have been prepared on a going concern basis, which assumes the continued support of the Scottish Government. Grant-in-aid for 2024-25 is £200.7 million and has already been included in the Scottish Government's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Scottish Government's full sponsorship and future Parliamentary approval will not be forthcoming. It is considered that the Scottish Ministers' priorities for the reform of the skills delivery landscape does not create a material uncertainty that casts doubt upon the company's ability to continue as a going concern.

(b) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

(c) Property, plant and equipment

The company does not own any land and buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The company capitalises individual items which have a cost of at least £10,000 or a group of related purchases which have an aggregate cost of at least £100,000.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method, pro-rata on the first and final year, to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Additions to leasehold property: 5 years
- Furniture & fittings: 5 years
- Computer equipment: 3 - 5 years
- Software: 3 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

(d) Intangible assets

Recognition

Intangible assets are recognised where the costs can be measured reliably and there is a clear future economic benefit attributable from the asset that will flow through to the company.

Intangible assets are internally generated assets without physical substance. All intangible assets recognised have finite useful lives and are measured at cost less accumulated amortisation. Cost is defined as the direct labour and other costs directly attributable to the development of the intangible asset.

Digital applications that deliver significant economic benefit are assumed to be digital developments that provide a means of delivering specific services to customers in line with the company's business objectives, or which deliver service benefits by way of savings or improvements to internal processes, and which have a cost of at least £250,000.

Amortisation

Amortisation is calculated over the life of the asset. Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the useful life of the intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The expected useful lives for the current and comparative periods are as follows:

- Digital applications that deliver significant economic benefit: over 3 years

Amortisation methods, useful lives and residual values are reviewed at the end of each financial year and adjusted if appropriate.

Impairment

Intangible assets are reviewed for impairment at each balance sheet date and any impairment losses are recognised in the income statement.

(e) Financial Instruments

Financial assets

Classification

The company classifies its financial assets in the following categories: at amortised cost, at fair value through other comprehensive income, and at fair value through the income statement. The classification depends on the company's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Management determines the classification of its financial assets at initial recognition and subsequently only when the company's business model for managing those financial assets changes.

(a) Financial assets at amortised cost

Financial assets at amortised cost are those assets held by the company for the purpose of collecting contractual cash flows only and where the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest. They are included in current assets and comprise trade and other receivables and cash at bank and in hand in the statement of financial position.

(b) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are either those assets held by the company with the objective of collecting contractual cash flows and selling the financial assets, where the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest, or are irrevocably elected equity instruments. They are included in current assets, except for maturities greater than 12 months after the year end, which are classified as non-current assets.

(c) Financial assets at fair value through the income statement

Financial assets at fair value through the income statement are those financial assets that are either not classified in any of the other categories or are irrevocably designated in this category to significantly reduce a measurement or recognition inconsistency. They are included in current assets, except for maturities greater than 12 months after the year end, which are classified as non-current assets.

Recognition and measurement

Financial assets are recognised when the company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

With the exception of trade receivables, financial assets are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Trade receivables are recognised initially at their transaction price.

After initial recognition, financial assets are measured in accordance with their financial instrument classification.

A loss allowance impairment for expected credit losses is recognised for assets classified as either financial assets at amortised cost or financial assets at fair value through other comprehensive income. The loss allowance for the financial instrument is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition. With the exception of trade receivables, if the credit risk on the financial instrument has not increased significantly since initial recognition, the loss allowance for the financial instrument is measured at an amount equal to 12-month expected credit losses. The loss allowance for trade receivables is measured, in all circumstances, at an amount equal to lifetime expected credit losses

An impairment gain or loss representing the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date is recognised in the income statement.

Financial Liabilities

Classification

The company classifies its financial liabilities in the following categories: at fair value through surplus or deficit, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

(a) Financial liabilities at fair value

Financial liabilities at fair value comprise derivatives. Liabilities in this category are classified as current liabilities. The company does not trade in derivatives and does not apply hedge accounting.

(b) Other financial liabilities

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. The company's other financial liabilities comprise trade and other payables in the balance sheet.

Recognition and measurement

Financial liabilities are recognised when the company becomes party to the contractual provisions of the financial instrument. A financial liability is removed from the balance sheet when it is extinguished, that is when the obligation is discharged, cancelled or expired.

(a) Financial liabilities at fair value

Financial liabilities carried at fair value are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial liabilities carried at fair value are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the income statement.

(b) Other financial liabilities

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Additional information is provided in Note 21.

(f) Trade Receivables

Trade receivables are recognised at cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'administrative expenses'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

(g) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Trade Payables

Trade payables are recognised at cost.

(i) Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in reserves. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

In accordance with IAS 12 Income tax, full provision is made for tax assets and liabilities arising from timing differences between recognition of gains and losses in the financial statements and their recognition in the tax computation.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable surplus or deficit. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable surpluses will be available against which the temporary differences can be utilised.

Value Added Tax

Most of the activities of the company are outside the scope of Value Added Tax (VAT) and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

(j) Employee benefits

(a) Pension Obligations

Employees of the company are members of one of two pension schemes, highlighted below. Both schemes are defined benefit pension schemes providing benefits on a career average revalued earnings basis:

- Strathclyde Pension Fund
- Highland Pension Fund

The Schemes are accounted for on a defined benefit basis under IAS 19 Employee Benefits. Assets and liabilities of the schemes are held separately from those of the company. The schemes' assets are measured using market values and the schemes' liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to these schemes are calculated so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. The actuaries also review the progress of the schemes in each of the intervening years. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes after making allowances for future withdrawals.

The expected cost of providing staff pensions to employees contributing to the schemes is recognised in the income statement on a systematic basis over the expected average remaining lives of members of the funds in accordance with IAS 19 Employee Benefits and recognises retirement benefits as the benefits are earned and not when they are due to be paid. The income statement also includes the net impact of returns on the schemes' assets and interest on the schemes' liabilities, which is disclosed as other finance income. A pension scheme asset is recognised on the balance sheet only to the extent the surplus may be recovered by reduced further contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that the company has a legal or constructive obligation to settle the liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income and expenditure, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after year end are discounted to their present value.

(k) Provisions

The company recognises provisions when: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resource will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using the discount rate prescribed by HM Treasury.

(l) Dilapidations

Provision for the costs of dilapidations on the expiry of premises leases, which are of uncertain timing or amount at the balance sheet date, are provided on the basis of the best estimate using independent professional assessments.

(m) Revenue

(a) Grant-in-aid

Grant-in-aid from the Scottish Government is recognised on the basis of cash received during the year. This treatment is defined by the funding agreement with the Scottish Government, which does not allow unused funding to be carried forward into future financial years.

(b) European income

European income is recognised on the basis of amounts receivable in respect of expenditure incurred in the accounting period on approved activities.

(c) Sales of services

The company sells careers and learning provision services, transactional support, and IT services to other public sector organisations. These services are provided on a time and material basis. Contract terms are generally less than one year.

Revenue from time and material contracts is recognised on a cost recovery basis. Revenue is recognised upon satisfaction of performance obligations. For time contracts, revenue is measured on the basis of labour hours delivered. For material contracts, revenue is measured on the basis of direct expenses incurred.

If circumstances arise that may change the original estimates of revenues, costs or extent of performance obligations satisfied, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Sales of services are recognised as income in the period to which they relate.

Revenue is stated net of VAT where applicable.

(d) Interest income

Interest income is recognised on an accruals basis.

(n) Cost of Sales

Cost of sales represents the expenditure incurred in providing outsourced IT services and in providing specific education and lifelong learning services as defined in the company's objectives as set by the Scottish Ministers. These are the costs of generating invoiced income. Cost of sales are reported in the period to which they relate and are stated net of recoverable VAT.

(o) Operating Expenditure

Operating expenditure represents the costs of national training programmes and the related staff costs of administering these programmes. Operating expenditure is reported in the period to which it relates and is stated net of recoverable VAT.

(p) Administrative Expenses

Administrative expenses are the costs of running the company, rather than the provision of services. These costs include central support functions, governance, administration costs and the related staff costs. Administrative expenses are reported in the period to which they relate and are stated net of recoverable VAT.

(q) Leases

IFRS 16 Leases has been implemented from 1 April 2022; this introduces a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases (apart from the exemptions included below) and replaces IAS 17 Leases.

In respect of lessees, IFRS 16 removes the distinction between operating and finance leases and introduces a single accounting model that requires a lessee to recognise ('right of use') assets and lease liabilities.

The definition of a lease has been updated under IFRS 16, there is more emphasis on being able to control the use of an asset identified in a contract. There are new requirements for variable lease payments such as the Retail Price Index (RPI)/ Consumer Price Index (CPI) uplifts; and there is an accounting policy choice allowable to separate nonlease components.

Implementation and Assumptions

The company has applied IFRS 16 using the modified retrospective approach. The cumulative effect of adopting IFRS 16 is included as an adjustment to equity at the beginning of the comparative period at implementation (1 April 2022) .

The option to reassess whether a contract is, or contains, a lease at the date of initial application has not been used, the company has used the practical expedient detailed in IFRS 16(C3).1.

The company has elected not to recognise right of use assets and lease liabilities for the following leases:

- low value assets (these are determined to be in line with capitalisation thresholds on Property, Plant and Equipment); and
- leases with a lease term of 12 months or less.

Policy applicable from 1 April 2022

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time. This includes assets for which there is no consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company assesses whether:

- The contract involves the use of an identified asset;
- The company has the right to obtain substantially all of the economic benefit from the use of the asset throughout the period of use; and
- The company has the right to direct the use of the asset.

The policy is applied to contracts entered into, or changed, on or after 1 April 2022.

At inception or on reassessment of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of the relative standalone prices.

The company assesses whether it is reasonably certain to exercise break options or extension options at the lease commencement date. The company reassesses this if there are significant events or changes in circumstances that were not anticipated.

As a lessee

Right of use assets

The company recognises a right of use asset and lease liability at the commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for initial direct costs, prepayments or incentives, and costs related to restoration at the end of a lease.

The right of use assets are subsequently measured at either fair value or current value in existing use in line with property, plant and equipment assets. The cost measurement model in IFRS 16 is used as an appropriate proxy for current value in existing use or fair value for all of the leases (consistent with the principles for subsequent measurement of property, plant and equipment) except for those which meet the following:

- A longer-term lease that has no provisions to update lease payments for market conditions or if there is a significant period of time between those updates; and;
- The fair value or current value in existing use of the underlying asset is likely to fluctuate significantly due to changes in market prices.

The right of use asset is depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of the right of use assets are determined on the same basis of those of property plant and equipment assets.

The company applies IAS 36 Impairment of Assets to determine whether the right of use asset is impaired and to account for any impairment loss identified.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that cannot be readily determined, the rate provided by HM Treasury (HMT). The HMT discount rates were 0.95% for leases entered into prior to 31 December 2022, 3.51% in calendar year 2023 and 4.72% for calendar year 2024.

The lease payment is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in the index or rate, if there is a change in the company's estimates of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise a purchase, extension or termination option.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the company is reasonably certain to exercise, lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the company is reasonably certain not to terminate early.

When the lease liability is re-measured a corresponding adjustment is made to the right of use asset or recorded in the income statement if the carrying amount of the right of use asset is zero.

The company presents right of use assets that do not meet the definition of investment properties per IAS 40 as right of use assets on the statement of financial position. The lease liabilities are included within Lease liabilities within current and non-current liabilities on the statement of financial position.

As a lessor

When the company acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease.

To classify each lease, the company makes an overall assessment on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not then it is an operating lease.

When the company is the intermediate lessor, it accounts for its interest in the head lease and the sublease separately. If a head lease is a short-term lease to which the company applies the exemption above, then the sublease classifies as an operating lease.

The company recognises lease payments under operating leases as income on a straight-line basis over the length of the lease terms.

(r) Newly Adopted IFRS

In these financial statements, there are no adopted IFRSs which are effective for the first time which have had a material effect on the financial statements therefore there has been no restatement of comparatives.

(s) Accounting standards issued not yet adopted

The following Adopted IFRSs have been issued but have not been applied in these financial statements:

- IFRS 17 Insurance contracts
  Adoption is not expected to have a material effect on the company's financial statements.

Note 2 - Critical Accounting Estimates and Judgements

(a) Pensions

Judgements

The company exercises judgement when applying accounting policies and standards relevant to employee benefits. The company has pension obligations to its employees for two schemes and a judgement has been made to account for this on a defined benefit basis under IAS 19 Employee Benefits. This judgement arises from the company's obligation to make pension contributions which are independently determined by an actuary, on the basis of triennial valuations which use the Attained Age Method.

When the company has a surplus in its defined benefit plan it measures the net defined benefit at the lower of the surplus in the defined benefit plan and the asset ceiling. Judgement has been made to determine the asset ceiling, defined as the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The company has made judgement that it does not have an unconditional right to a refund and does not recognise economic benefit in that regard. It has made judgment that the economic benefit through a reduction in future contributions is the present value of employer future service costs less the present value of future employer contributions, over the future working lifetime of the active scheme members, using assumptions consistent with those used to determine the defined benefit obligation at the end of the reporting period in accordance with IAS 19 Employee Benefits.

Estimates

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The financial assumptions used in determining the net cost/(income) for pensions include the discount rate, retail price inflation (RPI) and consumer price inflation (CPI). Any changes in these assumptions, which are assessed at the end of each year, will impact the carrying amount of pension obligations.

The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Appropriate inflation rates should be used to estimate the rate of future salary increases of active members and the rate of pension increases of pensioners and deferred pensioners. The company considers pension increases to be in line with CPI and, in the absence of CPI linked bonds, is derived from an estimate of the long-term wedge between RPI and CPI. RPI is derived from yields on fixed interest and index linked government bonds to be consistent with the derivation of the discount rate. The company considers salary growth to be relative to CPI, using the same methodology as the Fund's most recent funding valuation. Additional information regarding the principal actuarial assumptions is disclosed in Note 9.

The company has incorporated actuarial assumptions which are unbiased, mutually compatible and represent the best estimate of the variables which are used to measure the scheme liabilities. At 31 March 2024, after recognising the effect of the asset ceiling, the company's pension schemes had a net liability of £1.0 million (2023: net asset of £nil). In order to quantify the impact of a change in the assumptions, the sensitivities regarding the principal financial assumptions and the key demographic assumption are listed below.

Change in assumptions at year ended 31 March 2024	Approximate % increase to Employer Liability	Approximate monetary amount (£'000)
0.1% decrease in Real Discount Rate	**2%**	**7,909**
0.1% increase in the Salary Increase Rate	**0%**	**1,017**
0.1% increase in the Pension Increase Rate	**2%**	**7,303**
1-year increase in member life expectancy	**4%**	**16,965**

(b) European Social Funding

Judgements

The company exercises judgement when applying accounting policies relevant to the recognition of European income in its financial statements.

The Company participates in a number of operations which attract financial support from the European Union. Funding is claimed in arrears at the intervention rate agreed at the start of each operation and is based upon the costs incurred to deliver the operational outcomes of the Strategic Intervention. Income is recognised to the extent eligible costs have been defrayed during the financial year and for which the company is satisfied appropriate evidence is available to make a claim for European funding in the future.

European income is recognised by the company through the application of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The recognition of European income due but not yet received is based on the 2023-24 Government Financial Reporting Manual (FReM), whereby the amount due to the company is treated as accrued income and is shown in the Statement of Financial Position.

Acknowledging income accrued in the financial statements is subject to verification by the auditing Managing Authority before settlement, a judgement has been made to make a financial provision for an estimated expected credit loss.

Estimates

Included within trade and other receivables is accrued European funding of £21.0 million (2023: £32.6 million) and a loss allowance of £1.5 million (2023: £1.6 million). The recognition of this accrual and associated loss allowance is an accounting estimate for the future based on analysis of eligible underlying spend and past incidence of ineligible spend within previously verified claims and unverified claims.

To reflect a reassessment of previously accrued eligible expenditure relating to the delivery of the ESF Operations, the brought forward accrual was reduced by £0.3 million during the year to 31 March 2024 (2023: £1.6 million). In accordance with IAS 8, the accrual at 31 March 2023 has not been restated.

Until the Managing Authority has completed its verification checks, estimation uncertainty will exist within the income accrued and it is reasonably possible the verification process could affect a material adjustment to the carrying amount of the asset within the next financial year. The uncertainty within the value of income accrued relates to the value of subsequent payment received by the company following the verification process. To help quantify the impact of a change in assumptions on the carrying amount of the asset, the sensitivity regarding the estimates and assumptions used when recognising accrued European income and the expected credit loss is outlined below:

Change in assumptions at year ended 31 March 2024	Approximate % decrease to accrued European funding	Approximate monetary amount (£'000)
1% increase in the correction rate allowed for within the expected credit loss provision	**1%**	**210**

Having considered a range of data, methods and assumptions, the Company is satisfied the income accrued and the provision for a loss allowance has been estimated using the best available information.

Note 3 - Segmental Reporting

Management has considered the operating segment of the company based on the reports reviewed by the Chief Executive and the Board that are used to make strategic decisions. Based on this information used internally, management believe the company has one reportable operating segment.

All income and expenditure is attributable to the principal activity of the company and relates to the provision of National Training Programmes, careers and learning provision services. The Chief Executive and the Board monitor expenditure by strategic theme. Revenue, Cost of Sales and finance income and expenditure are not monitored by strategic theme. An analysis of expenditure by strategic theme is given in Note 16.

Note 4 - Property, Plant and Equipment

	Computer Equipment	Fixtures & Fittings	Total
	£'000	£'000	£'000
Cost:			
At 1 April 2022	429	5,143	5,572
Additions	155	502	657
Disposals	(101)	-	(101)
At 31 March 2023	483	5,645	6,128
At 1 April 2023	483	5,645	6,128
Additions	859	61	920
Disposals	(133)	-	(133)
At 31 March 2024	1,209	5,706	6,915
Depreciation			
At 1 April 2022	309	473	782
Provided during the year	145	1,118	1,263
Eliminated on disposal	(101)	-	(101)
At 31 March 2023	353	1,591	1,944
At 1 April 2023	353	1,591	1,944
Provided during the year	174	1,141	1,315
Eliminated on disposal	(134)	-	(134)
At 31 March 2024	393	2,732	3,125
Net Book Value			
At 31 March 2024	816	2,974	3,790
At 31 March 2023	130	4,054	4,184
At 31 March 2022	120	4,670	4,790

As at 31 March 2024, the company had capital commitments of £nil (2023: £nil) for the acquisition of property, plant and equipment.

Note 5 - Right of Use Assets

	Property Leases	Total
Cost:	**£'000**	**£'000**
At 1 April 2022		
On implementation at 1 April 2022	8,967	8,967
Additions	238	238
Disposals	(230)	(230)
At 31 March 2023	8,975	8,975
At 1 April 2023	8,975	8,975
Additions	128	128
Disposals	(543)	(543)
Revaluations	(782)	(782)
At 31 March 2024	7,778	7,778
Depreciation:		
At 1 April 2022	-	-
Provided during the year	1,670	1,670
Eliminated on disposal	(31)	(31)
At 31 March 2023	1,639	1,639
At 1 April 2023	1,639	1,639
Provided during the year	1,561	1,561
Eliminated on disposal	(355)	(355)
At 31 March 2024	2,845	2,845
Net Book Value		
At 31 March 2024	4,933	4,933
At 31 March 2023	7,336	7,336
At 31 March 2022	-	-

The revaluations in the year ended 31 March 2024 relate to eight leased properties where the scope of the lease was reduced and two leased properties where the lease term was extended. The assets continue to be calculated on a cost basis. Each revaluation was calculated at the date of modification in accordance FReM guidance.

Note 6 - Trade and Other Receivables

	2024	2023
	£'000	£'000
Amounts falling due within one year		
Trade receivables	**1,657**	1,929
Provision for doubtful debts	**(9)**	(8)
	1,648	1,921
Other receivables	**18**	3
Prepayments	**2,202**	4,519
Accrued Income	**21,274**	33,080
Provision for expected credit losses	**(1,486)**	(1,596)
	23,656	37,927

Included within Trade and Other Receivables are balances due from other public sector organisations as follows:

	2024	2023
	£'000	£'000
Amounts falling due within one year		
Central government bodies	**21,297**	33,095
Local authorities	**35**	33
NHS	**5**	19
Bodies external to government	**2,319**	4,780
	23,656	37,927

As at 31 March 2024 the company had trade receivables with a carrying value of £32,213 (2023: £75,640) that were past their due date but not impaired. The ageing of trade receivables which are past their due date but not impaired is as follows:

	2024	2023
	£'000	£'000
Up to 3 months past due	**18**	62
3 to 6 months past due	**14**	1
Over six months past due	**-**	13
	32	76

The trade receivables which are past due and not impaired primarily relate to balances due from public sector organisations and there is no history of default from these customers recently.

Included within accrued income is European funding of £21.0 million (2023: £32.6 million). Acknowledging claims for European funding are subject to verification by the auditing Managing Authority prior to settlement, a loss allowance of £1,460,000 (2023: £1,571,000) is recognised within the provision for expected credit losses for potential ineligible expenditure based on corrections to previously verified claims and unverified claims.

All receivables are denominated in GB pounds. The carrying amount of short-term receivables approximates their fair value, and the effective interest rate on non-current receivables is nil.

Note 7 - Retained Losses

	2024	2023
	£'000	£'000
At 1 April 2023	**23,753**	(33,515)
Total comprehensive (expense) income for the year	**(1,387)**	57,268
At 31 March 2024	**22,366**	23,753

Note 8 - Lease Liabilities

Total future lease payments under leases are given in the table below:

	2024	2023
	£'000	£'000
Property Leases		
Not later than one year	**1,235**	1,536
Later than one year and not later than five years	**2,905**	4,304
Later than five years	**701**	1,361
	4,841	7,201

Leases are discounted using the rate implicit in the lease. Where that rate cannot be readily determined, leases are discounted at the entity's incremental borrowing rate.

Where an entity has no borrowings (which is the case for SDS), HM Treasury issues discount rates to be used. These cover calendar years and were 0.95% for 2022, 3.51% for 2023 and 4.72% for 2024.

Note 9 - Retirement Benefits Assets and Obligations

The company participated in the following Local Government Pension Schemes (LGPS) in the year to 31 March 2024:

- Strathclyde Pension Fund
- Highland Pension Fund

The Strathclyde Pension Fund is administered by Glasgow City Council and is managed by Strathclyde Pension Fund Office. The Highland Pension Fund is administered by The Highland Council and is managed by the Highland Council Pension Committee. Both funds are administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014.

Both schemes are defined benefit schemes and provide benefits on a career average revalued earnings basis. Contributions during the year totalled £15.4 million (2023: £15.1 million), consisting of £14.9 million (2023: £14.6 million) to the Strathclyde Pension Fund and £0.5 million (2023: £0.5 million), inclusive of deficit repayments totalling £0.2 million (2023: £0.2 million) to the Highland Pension Fund. Included within trade and other payables (Note 10) are outstanding contributions of £nil (2023: £nil) due to the Strathclyde Pension Fund and £nil (2023: £nil) due to the Highland Pension Fund at 31 March 2024.

In 2024-25, total contributions to LGPS are expected to be £8.2 million.

Actuarial valuations for both schemes are prepared, with the last LGPS triennial valuation of both schemes being to 31 March 2023. Details of these valuations can be obtained from published reports.

The disclosures below have been prepared on a consolidated basis for the schemes in which the company participate. Comparatives have been provided where these are available.

	2024	2023
	£'000	£'000
Present value of funded defined benefit obligations	**(423,135)**	(414,997)
Fair value of plan assets	**582,538**	520,904
	159,403	105,907
Present value of unfunded obligations	**(989)**	(1,028)
Net asset	**158,414**	104,879

Effect of asset ceiling limitation on net asset	2024	2023
	£'000	£'000
Net asset	**158,414**	104,879
Effect of asset ceiling limitation on net defined benefit asset	**(159,403)**	(104,879)
At 31 March	**(989)**	-

The net assets of the defined benefit plan at 31 March 2024 has been measured to the aggregate of the unfunded liabilities and the lower of the surplus in the funded plan and the asset ceiling. This is a change from the measurement at 31 March 2023 which applied the asset ceiling to the combined funded and unfunded plan. The prior year figures have not been restated as the unfunded liability is not material.

In deriving the asset ceiling, assumptions have been made on the present value of the economic benefits available in the form of refunds from the plan and reductions in future contributions to the plan. No economic benefit has been recognised with regards to a refund as it is an entitlement which is not wholly within the company's control. The economic benefit associated with a reduction in future contributions, recognising a minimum funding requirement for future service, has been estimated as the present value of employer future service costs less the present value of future employer contributions. This economic benefit, however, cannot be reduced below zero where the present value of future employer contributions exceed the present value of future service costs.

Using assumptions consistent with those used to determine the defined benefit obligation at 31 March 2024 and the latest formal funding valuation at 31 March 2023, the asset ceiling has been valued at £nil, recognising the following:

- Net present value of employer future service costs: £937.1 million
- Net present value of employer future contributions: £992.2 million

Movement in present value of defined benefit and unfunded	2024	2023
	£'000	£'000
Opening defined benefit obligation	**416,025**	575,246
Current service cost	**14,446**	32,098
Past service cost, including loss on curtailment	**1,038**	-
Interest cost on defined benefit obligation	**19,986**	15,898
Actuarial gain arising from remeasurements	**(19,668)**	(202,361)
Contributions by plan participants	**4,365**	4,482
Benefits paid	**(12,068)**	(9,338)
At 31 March	**424,124**	416,025

Movement in fair value of plan assets	2024	2023
	£'000	£'000
Opening fair value of plan assets	**520,904**	517,886
Interest income on plan assets	**24,978**	14,120
Return on assets excluding amounts included in net interest	**28,879**	(21,380)
Contributions by employer	**15,408**	15,067
Contributions by plan participants	**4,365**	4,482
Contributions in respect of unfunded benefits	**72**	67
Benefits paid	**(12,068)**	(9,338)
At 31 March	**582,538**	520,904

Expense recognised in the statement of income	2024	2023
	£'000	£'000
Current service cost	**14,446**	32,098
Past service cost, including loss on curtailment	**1,038**	-
Interest cost on defined benefit obligation	**19,986**	15,898
Interest income on plan assets	**(24,978)**	(14,120)
Interest on the effect of the asset ceiling	**4,982**	-
Total	**15,474**	33,876

The net expense is recognised in the following line items in the statement of comprehensive income:

	2024	2023
	£'000	£'000
Operating expenditure	**12,588**	26,224
Administrative expenses	**2,896**	5,874
Finance cost	**-**	1,778
Finance income	**(10)**	-
	15,474	33,876

Amount recognised in the statement of comprehensive income:	2024	2023
	£'000	£'000
Return on assets excluding amounts included in net interest	**28,879**	(21,380)
Actuarial gain arising from changes in demographic assumptions	**2,215**	3,878
Actuarial gain arising from changes in financial assumptions	**24,991**	216,426
Actuarial loss arising from other experience adjustments	**(7,538)**	(17,943)
Effect of asset ceiling limitation on net defined benefit asset	**(49,542)**	(104,879)
Total remeasurement recognised in the statement of comprehensive income	**(995)**	76,102

The fair value of the plan assets was as follows:

	31 March 2024			31 March 2023		
	Quoted in active market £'000	Not quoted in active market £'000	Total value £'000	Quoted in active market £'000	Not quoted in active market £'000	Total value £'000
Equity securities	121,961	117	**122,078**	105,293	858	**106,151**
Debt securities	3,870	2,853	**6,723**	3,623	2,231	**5,854**
Private equity	-	130,877	**130,877**	-	120,975	**120,975**
Real estate	4,252	42,011	**46,263**	4,199	39,480	**43,679**
Investment funds and unit trusts	13,509	250,300	**263,809**	14,101	218,780	**232,881**
Cash and cash equivalents	3,716	9,072	**12,788**	8,916	2,448	**11,364**
	147,308	435,230	**582,538**	136,132	384,772	**520,904**

Principal actuarial assumptions (expressed as weighted averages) were applied on a consistent basis across the schemes and at the year-end were as follows:

	2024	2023
	%	%
Discount rate	**4.85**	4.75
Future salary increases	**3.45**	3.65
Price inflation (RPI)	**3.10**	3.20
Future pension increases	**2.75**	2.95

The discount rate is based on a corporate bond yield curve and reflects the maturity profile of the plan liabilities. These liabilities are assessed as having a weighted average duration of between 17 years and 23 years at 31 March 2024.

The inflation rate assumption is derived from yields available on fixed interest and index linked government bonds using a market implied inflation curve over a range of maturities to be consistent with the derivation of the discount rate. It includes an Inflation Risk Premium of 25bps at 31 March 2024 (2023: 20bps).

In valuing the liabilities arising from retirement benefit obligations at 31 March 2024, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all the members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2024 would have increased by £17.0 million.

The assumptions relating to longevity underlying the retirement benefit obligations at the balance sheet date are based on the latest Continuous Mortality Investigation (CMI) actuarial tables and include an allowance for future improvements in longevity. The longevity assumption as at 31 March 2024 is based on CMI 2022 future improvements, with a 25% weighting of 2022 data and 0% weighting of 2021 and 2020 date. This represents a change from the prior year assumption, which was based on CMI 2021 future improvements, though is consistent with the assumption used in the latest formal funding valuations as at 31 March 2023. Both CMI 2022 and CMI 2021 models assume current rates of improvements will converge to a long term rate of 1.5% p.a. for males and females, and is equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 20.8 years (male), 23.9 years (female)
- Future retiree upon reaching 65: 21.7 years (male), 24.9 years (female)

All other demographic assumptions are consistent with those used for the latest formal funding valuation as at 31 March 2023.

History of plans

The history of the plans for the current and prior periods is as follows:

	2024	2023	2022	2021	2020
Statement of Financial Position	£'000	£'000	£'000	£'000	£'000
Present value of scheme liabilities	(423,135)	(414,997)	(574,013)	(580,282)	(426,722)
Fair value of scheme assets	582,538	520,904	517,886	471,724	367,961
Unfunded liabilities	(989)	(1,028)	(1,233)	(1,338)	(1,265)
	158,414	104,879	(57,360)	(109,896)	(60,026)
Effect of asset ceiling limitation on net asset	(159,403)	(104,879)	-	-	-
Deficit	(989)	-	(57,360)	(109,896)	(60,026)

	2024	2023	2022	2021	2020
Experience adjustments	£'000 %	£'000 %	£'000 %	£'000 %	£'000 %
Experience adjustments on scheme liabilities and as a percentage of scheme liabilities	7,538	17,943	881	8,168	405
	2%	4%	0%	1%	0%
Experience adjustment on scheme assets and as a percentage of scheme assets	28,879	(21,380)	26,529	83,398	(24,852)
	5%	(4%)	5%	18%	(7%)
	36,417	(3,437)	27,410	91,566	(24,447)

Note 10 - Trade and Other Payables

	2024	2023
Amounts falling due within one year	**£'000**	**£'000**
Trade payables	**604**	917
Social security and other taxes	**424**	397
Accruals and deferred income	**9,849**	10,964
Advance from Scottish Government	**14,400**	27,600
	25,277	39,878

Included within trade and other payables are balances due to other public sector organisations as follows:

	2024	2023
Amounts falling due within one year	**£'000**	**£'000**
Central government bodies	**16,872**	29,651
Local authorities	**753**	758
NHS bodies	**21**	15
Public corporations	**1**	-
Bodies external to government	**7,630**	9,454
	25,277	39,878

During the year to 31 March 2024 the company repaid £13.2 million (2023: £19.4 million) of funding which was advanced by Scottish Government to support the continued delivery of national training programmes while the suspension of European Social Funding, imposed by the European Commission, impacted the company's ability to claim payment from the managing authority. The funding is provided on a short-term basis and repayable upon receipt of the European funding. Included within accrued income is European funding of £21.0 million (2023: £32.6 million).

Note 11 - Tax Expense

	2024 £'000	2023 £'000
Analysis of tax charge in the period:		
UK Corporation Tax:		
Current tax on income for the period	**159**	19
Adjustment in respect of prior periods	**(-)**	(-)
Total Current Tax	**159**	19
Deferred Tax:	**-**	-
Tax on Surplus on Ordinary Activities	**159**	19

The tax assessed for the period is the standard rate applying in the UK of 25% (2023: 19%).

	2024 £'000	2023 £'000
Factors affecting tax charge for the period:		
Current Tax Reconciliation		
Deficit on ordinary activities before tax	**(233)**	(18,815)
Current tax @ 25% (2023: 19%)	**(58)**	(3,575)
Effects of:		
Non-taxable income and disallowable expenditure	**217**	3,594
Tax deducted at source	**(-)**	(-)
Current tax charge	**159**	19
Balance Sheet Note		
Corporation tax payable	**159**	19

Note 12 - Provisions for Liabilities and Charges

	At 1 Apr 2022	Increase in year	Released to Income & Expenditure	Utilised	At 31 Mar 2023
	£'000	£'000	£'000	£'000	£'000
Dilapidations	1,321	275	(108)	(52)	1,436
Training	397	324	(98)	(300)	323
	1,718	599	(206)	(352)	1,759

	At 1 Apr 2023	Increase in year	Released to Income & Expenditure	Utilised	At 31 Mar 2024
	£'000	£'000	£'000	£'000	£'000
Dilapidations	1,436	584	(156)	(238)	1,626
Training	323	142	(33)	(290)	142
	1,759	726	(189)	(528)	1,768

The dilapidation provision relates to the costs, over the period of the lease, to return leased premises to their original condition, per the lease agreement.

The Training provision relates to the cost of approved training which is expected to have taken place but not claimed at 31 March in targeted training programmes, such as Individual Training Accounts, which provides training opportunities in curriculum areas aligned to the Scottish Government's Labour Market Strategy to individuals actively seeking employment or in low paid work and looking to progress.

Note 13 - Contingent Liabilities

a) Skills Development Scotland is defending a claim in respect of an employee relations matter through statutory process.

b) The valuation of defined benefit and unfunded liabilities at 31 March 2024, as disclosed in Note 9, does not include an allowance for a potential change to the LGPS benefit structure as an outcome of the following current legal cases:

- Further Lloyd's ruling (Lloyds banking group pension trustees vs Lloyds Bank plc)
- Goodwin vs Department of Education
- Walker vs Innospec
- O'Brien vs Ministry of Justice
- Virgin Media vs NTL Pension Trustees II Ltd

In each case the ruling is unlikely to have a significant impact on the company's pension obligations, however, in the absence of individual member data being readily available to make a full assessment, the directors are unable to reliably quantify an associated contingent liability at 31 March 2024.

Note 14 - Lease Obligations

	Within one year	Between second and fifth year	After five years
	£'000	£'000	£'000
Leasehold Property			
31 March 2024	107	22	-
31 March 2023	196	65	-

The above relates to obligations in respect of leasehold property not recognised as Right of Use assets on the grounds that they have a low value or are for a duration of twelve months or less.

Note 15 - Revenue

	2024	2023
	£'000	£'000
Grant-in-aid	**206,099**	210,516
European income	**1,629**	4,638
Customer contracts	**9,448**	11,170
Other income	**910**	1,353
	218,086	227,677

Included within revenue from customer contracts is revenue from public sector organisations as follows:

		2024	2023
		£'000	£'000
IT services	Central government bodies	**8,880**	10,473
Other contracts	Central government bodies	**286**	257
	Local authorities	**37**	143
	NHS bodies	**70**	76
	Bodies external to government	**175**	221
		9,448	11,170

Customer contracts are for less than one year. Other contracts include revenue from staff secondments and recharge of software licences.

Note 16 - Expenditure

	2024	2023
(a) Operating Expenditure	**£'000**	**£'000**
National training programmes	**101,792**	106,155
Industry and Employer Engagement	**1,371**	3,192
Staff costs supporting operations	**74,975**	88,416
	178,138	197,763
(b) Administrative Expenses		
Infrastructure, management & administration	**9,949**	10,592
Information, communication & technology/information systems	**6,852**	8,093
Staff costs supporting administration	**14,264**	17,065
	31,065	35,750
(c) Included in the above are:		
Auditors' remuneration:		
• Audit of these financial statements	**123**	**111**
• Audit of financial statements of subsidiaries pursuant to legislation	**-**	**-**
COVID-19 response initiatives	**170**	**876**
Depreciation (Note 4)	**1,182**	**1,161**
Depreciation on right of use assets (Note 5)	**1,206**	**1,639**
Leasehold property rentals	**496**	**677**
Directors' remuneration (Note 17)	**710**	**854**

Note 17 - Employee Benefit Expense and Numbers

	2024	2023
	£'000	£'000
Salaries	**66,412**	67,901
Severance	**2,568**	15
Social security costs	**7,414**	7,672
Apprenticeship levy	**322**	326
Other pension costs (Note 9)	**14,446**	32,098
Past service cost, including curtailments (Note 9)	**1,038**	-
Increase/(decrease) in accrued employee benefits	**(136)**	19
Car allowances	**92,064**	108,031
	156	190
	92,220	108,221

Average number of full-time equivalent employees:

	2024	2023
Non-executive directors and advisers	**15**	14
Executive Board (Chief Executive and senior executive managers)	**3**	4
Operational	**1,117**	1,236
Administrative	**255**	275
	1,390	1,529

The average number of full-time equivalent employees includes an average of 41 employees (2023: 95 employees) on fixed term contracts. In the year to 31 March 2024, staff turnover consisted of 22 new starts (2023: 78 new starts) and 185 leavers (2023: 114 leavers).

In addition to its employee resource, in the year to 31 March 2024, SDS was supported by the following off-payroll engagements where the worker earned £245 per day or more.

2024		2024	
Number of existing engagements at 31 March	**9**	**Number of temporary off-payroll workers engaged during the year**	**9**
Of which, number that existed:		Of which:	
less than 1 year	2	Not subject to off-payroll legislation	-
for between 1and 2 years	2	Subject to off-payroll legislation and determined as in-scope of IR35	2
for between 2 and 3 years	3	Subject to off-payroll legislation and determined as out-of-scope of IR35	7
for between 3 and 4 years	1	Number of engagements reassessed for compliance or assurance purposes during the year	-
for 4 or more years	**1**	Of which: number of engagements that saw a change to IR35 status following review	-

There were no off-payroll engagements of board members and/or senior staff with significant financial responsibility during the year to 31 March 2024 (2023: nil). The total number of board members and/or senior officials with significant financial responsibility during the year to 31 March 2024 was 22 (2023: 22).

Directors' Remuneration

Skills Development Scotland has one registered executive director in satisfaction of the requirements of The Companies Act 2006. The emoluments of this director amounted to £151,661 (2023: £150,490). Additionally, the employer's pension contributions in respect of this director amounted to £31,123 (2023: £30,829). Actual pension accrued up to 31 March 2024 for the director is £48,402 per annum (2023: £43,020). This differs from the notional figure calculated in accordance with Section 6.5.8 (d) of HM Government's Financial Reporting Manual and shown on page 36. There is no fixed cash benefit in this scheme.

The emoluments of the registered non-executive directors amounted to £126,686 (2023: £151,509).

The emoluments of all registered directors amounted to £278,346 (2023: £301,998).

Emoluments, including employer's pension contributions, of all directors, including senior executive managers, co-opted board members and the aforementioned registered directors were as follows:

	2024	2023
	£'000	£'000
Salary	**645**	773
Pension	**65**	82
	710	855

Compensation Schemes – Exit Packages

In the year to 31 March 2024, 97 employees, equating to 79.2 full time equivalent employees, left Skills Development Scotland under voluntary severance (2023: no employees).

Due to the nature of their fixed-term work ending, two employees, equating to 2.0 full time equivalent employees, left under compulsory redundancy (2023: two employees, equating to 1.9 full time equivalent employees). Both exit payments were in accordance with the redundancy rights of fixed-term employees.

	2023-24			2022-23		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	1	2	3	2	-	2
£10,000 - £25,000	-	23	23	-	-	-
£25,000 - £50,000	1	63	64	-	-	-
£50,000 - £100,000	-	9	9	-	-	-
Total number of exit packages by type	2	97	99	2	-	2
Total resource cost	£34,047	£3,108,863	£3,142,910	£15,130	-	£15,130

Exit costs, including employer on-costs, have been accounted in full in the year the decision of departure was agreed.

Five employees retired early on health grounds during the year.

Note 18 - Finance Income and Costs

	Notes	2024 £'000	2023 £'000
Finance income:			
Interest income on bank deposits		**637**	101
Expected return on pension scheme assets	**9**	**24,978**	-
Interest on pension scheme liabilities	**9**	**(19,986)**	-
Interest on the effect of the asset ceiling		**(4,982)**	-
		647	101
Finance costs:			
Expected return on pension scheme assets		**-**	14,120
Interest on pension scheme liabilities		**-**	(15,898)
IFRS 16 finance cost		**(68)**	(84)
		(68)	(1,862)

Note 19 - Ultimate Controlling Party

The ultimate controlling party in The Skills Development Scotland Co. Limited is the Scottish Ministers.

Note 20 - Related Parties

Skills Development Scotland is an executive non-departmental public body, sponsored by the Scottish Government – Lifelong Learning and Skills Directorate which is regarded as a related party. During the period, Skills Development Scotland has had various material transactions with the Scottish Government.

In addition, Skills Development Scotland has had a number of material transactions with other Government departments, central and local government bodies and other non-departmental bodies. During the year, material transactions have taken place with:

- Scottish Enterprise
- Highlands and Islands Enterprise
- South of Scotland Enterprise
- Scottish Funding Council
- Department for Work & Pensions

Skills Development Scotland made payments of £nil (2023: £6,000) to CBI, of which T Black was a Regional Director. Total outstanding at 31 March 2024 is £nil (2023: £nil). Sales receipts from CBI amounted to £nil (2023: £nil) and the balance outstanding at 31 March 2024 is £nil (2023: £nil). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £405,568 (2023: £558,948) to Scottish Enterprise, of which P Malik is a Board Member. The balance due at 31 March 2024 is £nil (2023: £nil). Sales receipts from Scottish Enterprise amounted to £7,179,458 (2023: £9,574,651) and the balance outstanding at 31 March 2024 is £937,279 (2023: £993,194). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £79,345 (2023: £58,139) to NHS Ayrshire and Arran, of which S Cowan is a Non-Executive Director. Total outstanding at 31 March 2024 is £nil (2023: £nil). Sales receipts from NHS Ayrshire and Arran amounted to £907 (2023: £864) and the balance outstanding at 31 March 2024 is £nil (2023: £nil). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £2,685,189 (2023: £2,846,464) to the University of the Highlands and Islands, of which P Malik is Governor and Court Member. The balance due at 31 March 2024 is £584 (2023: £nil). Sales receipts from the University of the Highlands and Islands amounted to £7,044 (2023: £23,116) and the balance outstanding at 31 March 2024 is £nil (2023: £216). All transactions are conducted at arm's length.

Note 21 - Financial Instruments

Skills Development Scotland has exposure to the following risks from the use of financial instruments:

- Liquidity risk
- Credit risk
- Market risk

Liquidity risk

Liquidity risk is the risk that Skills Development Scotland will not be able to meet its financial obligations as they fall due. The organisation's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due. Skills Development Scotland's primary source of funds is the grant-in-aid provision from the Scottish Government. Skills Development Scotland has no debt or borrowing facility with any external party.

Liquidity is managed by the use of the annual operating plan process and the monitoring of actual performance against budgets and forecasts.

The table below details the contractual maturities of financial liabilities.

	Carrying Amount	Contractual Cash flows	Within one year	After more than one year
	£'000	£'000	£'000	£'000
Financial liabilities				
Trade and other payables	21,773	21,773	16,541	5,232
	21,773	21,773	16,541	5,232

Credit risk

Credit risk is the risk of financial loss to Skills Development Scotland if a customer or counter party fails to meet its contractual obligations and arises from the trade receivables.

Skills Development Scotland carries out appropriate credit checks on potential customers before significant sales transactions are entered into in order to mitigate the credit risk Skills Development Scotland will have from any single counterparty. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Skills Development Scotland operates a debt management process including monitoring, escalation procedures and recourse to court action to recover monies outstanding. Provision is made for doubtful receivables upon the age of the debt and experience of collecting overdue debts. Cash and cash equivalents are held with banks which are not expected to fail.

The maximum exposure to credit risk at the reporting date was:-

	2024	2023
	Carrying Amount	Carrying Amount
	£'000	£'000
Financial assets		
Trade and other receivables	**21,453**	33,408
Cash and cash equivalents	**23,021**	23,163
	44,474	56,571

At 31 March 2024, there was an impairment provision of £1,495,219 (2023: £1,604,090) in respect of financial assets.

Market risk

Market risk is the risk that market prices such as interest rates, foreign exchange rates and equity prices will affect income or the value of holdings in financial instruments.

Currency risk

Skills Development Scotland operates predominately in Scotland and the UK and is therefore considered not to be exposed to currency risks.

Fair values

The fair values, together with the carrying amounts of financial assets and liabilities in the balance sheet are as follows:-

	2024 Carrying Amount	2024 Fair Value	2023 Carrying Amount	2023 Fair Value
	£'000	£'000	£'000	£'000
Trade and other receivables	**21,453**	**21,453**	33,408	33,408
Cash and cash equivalents	**23,021**	**23,021**	23,163	23,163
Trade and other payables	**(21,773)**	**(21,773)**	(37,497)	(37,497)
	(22,701)	**(22,701)**	19,074	19,074

Accounts Direction - Appendix 1

The Scottish Government

SKILLS DEVELOPMENT SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of the Management Statement between Skills Development Scotland and the Scottish Ministers, hereby give the following direction.

2. The statement of accounts for the financial year ended 31 March 2009, and subsequent years, shall comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared. The accounts shall also comply with the accounting and disclosure requirements of the Companies Act.

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.

Signed by the authority of the Scottish Ministers

C Winter Scott

Dated 24/4/08