

**SKILLS DEVELOPMENT SCOTLAND
FRAMEWORK DOCUMENT**

Framework Document – Skills Development Scotland (SDS)

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1.1 Introduction

1. This framework document is agreed between Skills Development Scotland (SDS) and the Scottish Ministers. It summarises how SDS and Scottish Government (SG) will work together, and the key roles and responsibilities of:

- the Board;
- the Chief Executive and Accountable Officer of SDS;
- the Scottish Ministers; and
- the Portfolio Accountable Officer within the SG whose remit includes SDS.

While this document does not confer any legal powers or responsibilities, it forms a key part of the accountability and governance framework and as a live document it should be reviewed by SG and SDS regularly, and at least every 2-3 years. Any significant changes will be agreed between the Board and the Scottish Ministers.

2. Any question regarding the interpretation of the document will be determined by the SG after consultation with SDS. Legislative provisions take precedence over any part of the document including any terms and conditions of grant set out in the Budget Allocation and Monitoring (BAM) letter.

3. SDS is not permitted to establish any subsidiaries or enter into joint ventures without express approval from Scottish Ministers.

4. Copies of the document will be published on the SDS website.

1.2 Purpose

5. SDS is a company limited by guarantee with company number SC202659 and having its registered office at Monteith House, 11 George Square, Glasgow, G2 1DY. The Scottish Ministers are the sole member. SDS is an Executive NDPB of the SG. The Statutory authority for Scottish Ministers to pay grant in aid to SDS is given in Sections 2, 8 and 10 of the Employment and Training Act 1973.

6. As Scotland's skills agency SDS, as agreed by the Scottish Ministers and outlined in the Ministerial Letter of Guidance, will focus on contributing to Scotland's sustainable economic growth, with opportunities for all to flourish through the delivery of the SG's Economic Strategy. The objective for government, with its NDPBs (including SDS) and agencies, is to provide the overarching economic framework – such as a competitive

business environment, an integrated and resource-efficient economy, and a skilled and adaptable workforce – which supports sustainable economic growth.

7. SDS and SG will work together to agree SDS's strategic objectives. SDS's strategic aims and objectives, as agreed by the Scottish Ministers, will be set out in its strategic plan and published on its website.

8. Scottish Ministers set out their priorities on the reform of the Post-school education, skills and research system in the Purpose and Principles. SDS are well placed to positively influence Post-school reform and will continue to champion and support this ministerial priority through collaborative engagement and open exchange of information with SG. As work on reform progresses, SDS will provide any relevant information requested by SG.

9. To support implementation of the Tertiary Education and Training (Funding and Governance) (Scotland) Act 2026, SDS will work closely with the Scottish Funding Council to support the planned transfer of national training programmes, ensuring coordinated planning, risk management and continuity of service.

1.3 Governance and Accountability

10. This section summarises the specific responsibilities and accountabilities of the key people involved in governance of SDS.

1.3.1 The Board

11. Members of the Board of SDS, including the Chair, are non-executives appointed by the Scottish Ministers in line with the [Code of Practice for Ministerial Appointments to Public Bodies in Scotland](#). The Chair and Board Members are accountable to the Scottish Ministers and also to the Scottish Parliament and may be required to give evidence to Parliamentary Committees.

12. The Board has overall responsibility for the delivery of the functions of SDS, as set out at paragraphs 5 to 6 above, in accordance with the aims, policies and priorities of the Scottish Ministers. The Board has corporate responsibility, under the leadership of the Chair, and will:

- a. set strategic and operational plans to deliver the functions of SDS, within the context of policy priorities such as the Purpose and Principles for Post-School education, research and skills. Plans should focus on how SDS can most

- effectively contribute to achievement of the outcomes in the [National Performance Framework](#) (NPF) the [Programme for Government](#), the [Public Service Reform Strategy](#) and [Scotland's Economic Strategy](#) (NSET) in close collaboration with the SG and other public bodies;
- b. regularly scrutinise current and projected performance, including financial information, against the aims, objectives, targets and outcomes set out in plans and take decisions on remedial action where these are not being delivered;
 - c. ensure that effective governance is established and maintained, including ensuring that decision-taking is open and transparent and, with support from the Accountable Officer and the Audit and Risk Committee, ensure that key risks are identified and managed;
 - d. approve the annual report and accounts and ensure these are provided to the Scottish Ministers to be laid before the Scottish Parliament;
 - e. promote the efficient, economic and effective use of resources consistent with the principles of [Best Value](#), and regularly scrutinise financial performance and compliance with financial guidance issued by the SG;
 - f. promote the wellbeing, learning and development of staff, provide support and challenge to the Chief Executive on staffing matters and ensure that SDS meets the [NDPB staff management responsibilities](#) described in the section below;
 - g. support and challenge SDS to collaborate with partners including other NDPBs and Executive Agencies with responsibilities in the education and skills landscape, in particular the Scottish Funding Council, to achieve outcomes. In addition, together with Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise, cooperate with and contribute to effective delivery of the key aims of the NSET;
 - h. ensure systems are in place to enable early notification to be provided to the SG about emerging issues, including budgetary and/or operational policy and delivery which will impact on the operation or reputation of SDS and/or the SG;
 - i. appoint (with the approval of the Scottish Ministers) SDS' Chief Executive and, in consultation with the SG, set appropriate performance objectives and remuneration terms in line with SG Pay Policy linked to these objectives which give due weight to the proper management and use of resources within the stewardship of and the delivery of outcomes;

- j. demonstrate high standards of corporate governance at all times, including openness and transparency in its decision making; and
- k. champion and engage meaningfully on the reform of Post-School education, skills and research within SDS and across the wider landscape, supported by clear leadership, policy direction and engagement from Scottish Government.

13. The Chair is accountable to the Scottish Ministers and, in common with any individual with responsibility for devolved functions, may also be held to account by the Scottish Parliament. Communications between the SDS Board and the Scottish Ministers should normally be through the Chair. They are responsible for ensuring that SDS' policies and actions support the Scottish Ministers' wider strategic policies and that its affairs are conducted in line with the [Model Code of Conduct for Board Members](#) and in ways that demonstrate high standards of corporate governance.

14. The Chair will:

- a. lead the Board, ensuring that all Board members have suitable induction to understand the role and their responsibilities, that the skills and experience of all Board Members are used effectively and that the Board undertakes regular self-assessment of its performance;
- b. ensure that the performance of each Board member is reviewed at least once per year and that the Board and/or individual Board members undertake development activity when required to ensure the effectiveness of the Board;
- c. ensure that the Board reviews its effectiveness annually;
- d. ensure that a [Code of Conduct](#) (aligned to the Model Code of Conduct for Board Members) is in place, that corporate actions are taken to implement it as required and that Members understand their responsibilities, using the guidance provided by the Standards Commission;
- e. work with the Portfolio Accountable Officer or their delegate(s) and the Public Appointments Team in SG on succession planning for the Board, action necessary to fill vacancies as they arise, skills requirements and promoting diversity by encouraging applications from less represented groups, including younger people, people from minority ethnic backgrounds and people with disabilities;

- f. ensure that the priorities of the Scottish Ministers are fully understood and that the aims and objectives set out in the Annual Operating Plan, Strategic Plan and Annual Letter of Guidance are achieved;
- g. champion and engage meaningfully on the reform of Post-School education, skills and research within SDS and across the wider landscape, supported by clear leadership, policy direction and engagement from Scottish Government..

15. The Chair, in consultation with the Board as a whole, is also responsible for undertaking an annual appraisal of the performance of the Chief Executive.

16. Specific guidance on how the Chair and Board Members should discharge their duties will be provided in their appointment letters and in [On Board: A Guide for Members of Statutory Boards](#) Guidance on governance good practice is available in the Scottish Public Finance Manual and from the sponsor team, who may consult the SG Governance and Risk Team.

1.3.2 The Chief Executive

17. The Chief Executive is employed and appointed by the Board [with the approval of the Scottish Ministers] and is the principal adviser to the Board on the discharge of its functions and is accountable to the Board. The Chief Executive role is to provide operational leadership to staff working for SDS and to ensure that its aims and objectives are met, its functions and outcomes are delivered, and its targets are met through effective and properly controlled executive action.

18. The specific duties of the Chief Executive will be set out in a job description, and annual objectives will be agreed with the Chair and used in appraisal of the Chief Executive's performance.

19. In addition to any other specific duties, the Chief Executive will:

- a. advise the Board on the discharge of its responsibilities – as set out in this framework document, in *any relevant legislation*, the terms and conditions attached to any SG grant, and in any other relevant instructions, guidance issued by or on behalf of the Scottish Ministers;
- b. deliver or oversee implementation of the decisions of the Board;
- c. work with the Board on preparation of the Strategic and Operational Plans including liaising with the Senior Sponsor and/or Sponsor Team on key points

- which need to be addressed and the timetable for preparation and review, and work with the Board to ensure that business plans are put in place to meet the Corporate Plan aims, objectives and performance measures;
- d. lead and manage the staff of SDS, ensuring their wellbeing, learning and development are prioritised, and ensuring that the [NDPB staff management responsibilities](#) set out in the section below are addressed;
 - e. champion and ensure meaningful engagement on the reform of Post-School education, skills and research within SDS and across the wider landscape, supported by clear leadership, policy direction and engagement from Scottish Government;
 - f. manage the budget for SDS in line with Scottish Government Finance guidance, policies and procedures, including the Scottish Public Finance Manual. Advise the Board on financial implications of all Board decisions, ensuring that appropriate financial appraisal and evaluation techniques are followed, consistent with the [Appraisal and Evaluation](#) section of the SPFM;
 - g. agree with the Board and the Portfolio AO or Senior *Sponsor* what information is required to enable the Board and SG to scrutinise the performance of SDS and progress against overall strategic and business plan aims and objectives, and ensure that the agreed information is provided and that is both accurate and timely;
 - h. the Chief Executive will ensure their Leadership Team manage the day-to-day relationship with the Sponsor Team, with other SG officials who have an interest in the work of SDS (aligned with information sharing protocols agreed with the Sponsor Team) and other key stakeholders, including staff of other public bodies;
 - i. put in place robust performance and risk management arrangements - consistent with the [Risk Management](#) section of the SPFM - that support the achievement of SDS aims and objectives and that facilitate comprehensive reporting to the Board, the SG and the wider public;
 - j. promote effective, trusting and supportive relationships with Scottish Ministers, officials and other stakeholders;
 - k. ensure that timely forecasts and clear and robust monitoring information on performance and finance are provided to the SG;

- l. ensure that the SG is notified promptly of any material issues and risks to SDS, and ensure that any corrective action taken is notified to the SG in a timely fashion;
- m. ensure staff pay proposals are in line with SG Pay Policy; submitted in time and that necessary approvals are obtained prior to implementing any annual award; and
- n. act as SDS' principal spokesperson and promote its good reputation.

20. In advising the Board, the Chief Executive will ensure that the key governance issues highlighted in the section on Governance and Accountability are addressed.

1.3.3 The Accountable Officer

21. The Principal Accountable Officer for the Scottish Administration will designate the Chief Executive as the Accountable Officer for SDS, usually this will be the Chief Executive unless there are specific reasons not to, as the Accountable Officer. The Accountable Officer is personally responsible for the propriety and regularity of the public finances of SDS and ensuring that its resources are used economically, efficiently and effectively, as required by section 15 of the Public Finance and Accountability (Scotland) Act 2000 and may be called to give evidence to the Public Audit Committee of the Scottish Parliament. The responsibilities of the Accountable Officer are set out in full in the [Memorandum to Accountable Officers for Other Public Bodies](#) in the Scottish Public Finance Manual.

22. These functions include:

- a. ensuring the propriety and regularity of SDS' finances and that sound, effective arrangements for internal control and risk management are in place;
- b. ensuring that the resources of SDS are used economically, efficiently and effectively and that appropriate arrangements are in place to secure Best Value and deliver Value for Money for the public sector as a whole;
- c. ensuring SDS' compliance with relevant guidance issued by the Scottish Ministers, including the SPFM and SG Pay Policy;
- d. signing SDS' annual accounts and associated governance statements; and;
- e. in line with their statutory duty, obtaining written authority from the Board or Chair before taking any action which they consider to be inconsistent with the

proper performance of the Accountable Officer functions. The Accountable Officer should also notify the relevant Portfolio Accountable Officer.

23. It is incumbent on the Chief Executive to combine their Accountable Officer responsibilities to the Scottish Parliament with their wider responsibilities to the Board. The Board and Chair should be fully aware of, and have regard to, the Accountable Officer responsibilities placed upon the Chief Executive, including the statutory duty described above.

24. It is important for the Chair and Board members to recognise that one aspect of these duties is the requirement under section 15(8) of the Public Finance and Accountability (Scotland) Act 2000, where the Accountable Officer considers that any action they are required to take is not consistent with their Accountable Officer responsibilities, they must obtain written authority from the Board. The Accountable Officer must send a copy of the written authority to the Auditor General for Scotland (AGS) as soon as possible and to the Clerk of the Public Audit Committee. The Accountable Officer should consult the Portfolio Accountable Officer before seeking written authority from the Board in these circumstances and should always notify the Portfolio Accountable Officer when such a written authority has been issued.

1.3.4 The Scottish Ministers

25. The Scottish Ministers appoint the Chair and Board Members and hold the Board to account for the performance of SDS and its use of resources. Ministers are ultimately accountable to the Scottish Parliament for ensuring that the Board is discharging its duties effectively, although the Parliament will scrutinise the performance of SDS directly as it does with all public sector bodies. The Scottish Ministers are not directly responsible for the operation of SDS.

26. The Scottish Ministers will:

- a. agree the strategic aims, objectives, key targets and outcomes of SDS as part of the corporate planning process;
- b. agree the budget for SDS, and secure the necessary Parliamentary approval;
- c. approve the Code of Conduct of the SDS Board;
- d. approve pay remits or proposals and superannuation arrangements for the staff, Chief Executive, Chair and Board members;
- e. lay the accounts of SDS before the Scottish Parliament; and

- f. appoint the Chair and other non-executive members of SDS, including determining the terms and conditions of their appointment, and approving the appointment of the Chief Executive (and their terms and conditions of appointment).

27. The responsible Scottish Minister shall meet the SDS Chair on a bi-annual basis or more frequently as required to discuss the performance of SDS in the Chair's discharge of their duties as outlined in the Governance and Accountability section of this document.

1.3.5 SG Portfolio Accountable Officer

28. The Principal Accountable Officer for the Scottish Administration (the Permanent Secretary of the SG) has designated the Director General for Education & Justice as the Portfolio Accountable Officer (AO) for the SG portfolio budget which will provide funding for SDS.

29. The Portfolio AO's duties are to establish a framework for the relationship between SG and a public body, oversee the operation of that framework, ensure the public appointments to the body are made appropriately and ensure that appropriate assurance is provided on the performance and governance of the body. These activities are known collectively as 'sponsorship'. In practice, the Portfolio AO is likely to delegate some or all sponsorship duties to a Director or Deputy Director as Senior Sponsor and/or to other SG officials in a 'Sponsor Team'. The responsibilities of a Portfolio Accountable Officer are set out in detail in the [Memorandum to Accountable Officers for Parts of the Scottish Administration](#).

30. The Portfolio AO will:

- a. make sure the framework document is agreed between the Scottish Ministers and the Board of SDS, reviewed regularly and oversee the operation of the roles and responsibilities set out;
- b. ensure that financial and other management controls being applied by SDS are appropriate and sufficient to safeguard public funds and conform to the requirements both of propriety and of good financial management;
- c. in line with [Code of Practice for Ministerial Appointments](#), ensure that public appointments are made in good time and secure appropriate skills, experience and diversity amongst Board members, working with the Chair on succession

planning; that there is effective induction for new appointees; and ensure that there is regular review and a formal annual appraisal of the performance of the Chair;

- d. support regular and effective engagement between SDS and the relevant Scottish Minister(s);
- e. make sure there is clear, documented delegation of responsibilities to a Senior Sponsor and/or Sponsor Team and that the Board and senior officials of SDS are aware of these delegated responsibilities.

31. The Portfolio AO remains personally answerable to the Scottish Parliament for the effectiveness of sponsorship activity.

1.4 Relationship between Scottish Government and SDS

32. Strategic engagement between the SG and SDS is essential in order that they work together as effectively as possible to maintain and improve public services and deliver improved outcomes. Specific governance and accountability roles are described in the section above, but more generally, both the SG and SDS will take all necessary steps to ensure that their relationship is developed and supported in line with the jointly agreed principles set out in the statement on '[Strategic Engagement between the Scottish Government and Scotland's NDPBs](#)'. This emphasises the need for cooperation and good communication, and particularly early warning from either side about any emerging risk or issue with significant implications for the operation or governance of SDS.

33. The Sponsor Team's primary function is to carry out the responsibilities delegated to it by the Portfolio AO, directly or via the Senior Sponsor, as described above. In addition to ensuring that the arrangements in this framework document operate effectively, managing public appointments and providing assurance to the Portfolio AO, the Sponsor Team will usually be the first point of contact for the body on any issue with SG. As part of the assurance they provide to the Portfolio AO, they must ensure that key actions and decisions agreed are documented and implemented. This includes ensuring that SG teams implement any agreed actions.

Scottish Government Director and Deputy Director

34. The designated Director and Deputy Director have responsibility for overseeing and ensuring effective relationships between the SG and SDS which support alignment of SDS' business with Ministerial priorities, the SG's Purpose and National Outcomes and high performance by SDS. They will work closely with SDS' Chief Executive and are answerable to the Portfolio Accountable Officer for maintaining and developing positive relationships with SDS which are characterised by openness, trust, respect and mutual support. They will be supported by a sponsor team in discharging these functions, who shall be the key point of contact for day to day activity.

35. The designated Director shall be responsible for assessing the performance of the SDS Chair, at least annually.

Scottish Government Sponsor Team

36. The SG Sponsor team for SDS is the first point of contact for SDS in dealing with the SG on SDS corporate matters, or when establishing new contacts within the SG. The Sponsor team, under the direction of the designated Director/Deputy Director, is the primary source of advice to the Scottish Ministers on the discharge of their responsibilities in respect of SDS and undertakes the responsibilities of the Portfolio Accountable Officer on their behalf. Specific responsibilities include:

- discharging sponsorship responsibilities in line with the principles and framework set out in the document '[Strategic Engagement between the Scottish Government and Scotland's NDPBs](#)' and ensuring that sponsorship is suitably flexible, proportionate and responsive to the needs of the Scottish Ministers and SDS;
- ensuring that Ministerial appointments to SDS' Board are made timeously, have due regard for protected characteristics under the Equality Act and comply with the Gender Representation on Public Boards; Act and Guidance and, where appropriate, in accordance with the Code of Practice for Ministerial Appointments to Public Bodies in Scotland;
- proportionate monitoring of SDS through quarterly liaison meetings with the Sponsor Team. Ensuring the adequate and timely flow of appropriate information, agreed with SDS, on performance, budgeting, control and risk management including ensuring compliance with this framework document;

- addressing in a timely manner any significant problems and escalating risk arising in SDS, alerting the Portfolio Accountable Officer and the responsible Minister(s) where considered appropriate;
- ensuring that the objectives of SDS and the risks to them are properly and appropriately taken into account in the SG's risk assessment and management systems;
- informing SDS of relevant SG policy and delivery issues in a timely manner;
- engaging wider SG portfolios in relevant discussions on Post-School education, skills and research to SDS' strategic direction and delivery; and
- communicating appropriately and timeously with employers, training providers and sectors.

1.5 NDPB staff management responsibilities

1.5.1 Broad responsibilities for NDPB staff

37. The Chief Executive, challenged and supported by the Board, has responsibility for the recruitment, retention and motivation of its staff. The broad responsibilities toward staff are to ensure that:

- HR policies, practices and systems comply with employment and equalities legislation, and standards expected of public sector employers;
- the level and structure of staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness (subject to the SG [Pay Policy for Staff Pay Remits](#));
- the performance of staff at all levels is regularly appraised and performance management systems are reviewed from time to time;
- staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the body's objectives;
- proper consultation with staff takes place on key issues affecting them, as appropriate, including working in partnership with trade unions;
- effective grievance and disciplinary procedures are in place and ensures that staff know where to access and how to use;

- effective whistle-blowing policy and procedures consistent with the Public Interest Disclosure Act 1998 are in place and ensures that staff know where to access and how to use; and
- a code of conduct for staff is in place.

1.5.2 Pay and conditions of service

38. SDS will comply with SG Pay Policy in relation to staff and the Chief Executive. The Chief Executive will ensure that a pay remit, in line with the SG [Pay Policy for Staff Pay Remits](#), is submitted to the SG for approval in line with the timetable notified and negotiate a pay settlement within the terms of the approved remit. This should normally be done annually, unless a multi-year deal has been agreed. Payment of salaries should also comply with the [Tax Planning and Tax Avoidance](#) section of the SPFM. Proposals on non-salary rewards will comply with the guidance in the [Non-Salary Rewards](#) section of the SPFM.

39. SDS will also seek appropriate approval under the SG [Pay Policy for Senior Appointments](#) for the chief executive's remuneration package prior to appointment, annually or when a new appointment or change to the remuneration package is being proposed.

1.5.3 Pensions, redundancy and compensation

40. Superannuation arrangements for staff are subject to the approval of the Scottish Ministers. SDS staff will normally be eligible for a pension provided by the Local Government Pension Scheme (LGPS). Staff may opt out of the occupational pension scheme provided, but the employers' contribution to any personal pension arrangement, including stakeholder pension, will normally be limited to the national insurance rebate level.

41. Any proposal by SDS to move from existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the prior approval of the Scottish Ministers. Proposals on compensation payments will comply with the [Settlement Agreements, Severance, Early Retirement and Redundancy Terms](#) section of the SPFM. This includes referral to the Scottish Ministers of any proposed severance scheme (for example, a scheme for voluntary exit), business case for a settlement agreement being considered for an individual, or proposal to make any other compensation payment. In all

instances, SDS should engage with the Sponsor Team prior to proceeding with proposed severance options, and prior to making any offer either orally or in writing.

1.6 Strategic and Operational Plans

42. SDS shall ensure that a strategic plan, agreed with the Scottish Ministers, is in place and published on SDS' website. SDS shall work closely with SG to agree the issues to be addressed in the plan ahead of drafting on the timetable for its preparation and review. The final plan shall reflect SDS' strategic aims and objectives as agreed by the Scottish Ministers, and any priorities set by the Scottish Ministers. It shall demonstrate how SDS contributes to the achievement of the Scottish Governments' priorities including increasing sustainable inclusive economic growth and alignment with the NPF and NSET.

43. The strategic plan for SDS shall normally include:

- the purpose and principal aims of SDS;
- an analysis of the environment in which SDS operates;
- key objectives and associated key performance targets for the period of the plan, the strategy for achieving those objectives and how these will contribute towards the achievement of the SG's priorities and alignment with the NPF;
- indicators against which performance can be measured;
- details of planned efficiencies, describing how SDS proposes to achieve better value for money, including through collaboration and shared services; and
- other matters as agreed between the SG and SDS.

44. The strategic plan should inform the development of a separate operational plan for each financial year. The operational plan should include key targets, performance measures and milestones for the year immediately ahead, aligned to the NPF, and be linked to budgeting information so that, where possible, resources allocated to achieve specific objectives can be identified. A copy of SDS' operational plan should be provided to the Sponsor Team prior to the start of the relevant financial year.

1.7 Annual report and accounts

45. SDS will publish an annual report of its activities together with its audited accounts after the end of each financial year. The annual report and accounts will cover the activities of any corporate, subsidiary or joint ventures (if applicable) under the control of

SDS. It will comply with the Government [Financial Reporting Manual](#) (FReM) and outline SDS main activities and performance against agreed objectives and targets for the previous financial year. It is the responsibility of the Chief Executive, as Accountable Officer, to sign the accounts

46. The accounts will be prepared in accordance with relevant statutes and the specific accounts direction and other relevant guidance issued by the Scottish Ministers. Any financial objectives or targets set by the Scottish Ministers should be reported on in the accounts and will therefore be within the scope of the audit.

47. The SG Sponsor Team should receive a copy of the annual report for comment, and a copy of the draft accounts for information, by the end of the second quarter of the following financial year at the latest. SDS is responsible for the publication of the annual report and accounts after they have been laid by the Scottish Ministers. Whilst the statutory deadline for laying and publishing accounts audited by the AGS is 31 December after the end of the relevant financial year, the Scottish Ministers expect that accounts will be laid before the Scottish Parliament and published as early as possible.

1.8 External audit

48. The Auditor General for Scotland (AGS) audits, or appoints auditors to audit, SDS's annual accounts and passes them to the Scottish Ministers who then lay them before the Scottish Parliament, together with the auditor's report and any report prepared by the AGS. The AGS, or examiners appointed by the AGS, may also carry out examinations into the economy, efficiency and effectiveness with which the body has used its resources in discharging its functions and/or carry out examinations into the arrangements made by SDS to secure Best Value.

49. The AGS, or the AGS's appointed auditors or examiners, have a statutory right of access to documents and information held by relevant persons, including any contractors to or recipients of grants from SDS. SDS will ensure that this right of access to documents and information is made clear in the terms of any contracts issued or conditions of any grants awarded and will also use its best endeavours to secure access to any other information or documents required which are held by other bodies.

1.9 Internal audit

50. SDS will:

- establish and maintain arrangements for internal audit in accordance with the [Global Internal Audit Standards in the UK public sector](#) and the [Internal Audit](#) section of the SPFM;
- set up an Audit Committee of its Board, in accordance with the [Audit Committees](#) section of the SPFM, to advise both the board and the Accountable Officer;
- ensure that the Sponsor Team and the Portfolio AO/Senior Sponsor receive promptly after they are produced or updated: the audit charter, strategy, periodic audit plans and annual audit assurance report, including the Head of Internal Audit opinion on risk management, control and governance – and provide any other relevant audit reports as requested by sponsors;
- keep records of, and prepare and forward promptly to the SG an annual report on fraud and theft suffered by SDS and notify the Portfolio AO or Senior Sponsor immediately of any unusual or major incidents.

51. The SG's Internal Audit and Assurance Directorate has an expectation of cooperation and access to relevant material when required, the parameters for which would be set out in an engagement document before information was shared. SDS should make it clear on their own Privacy Notice that material may be shared with SG's Internal Audit and Assurance Directorate in certain circumstances

1.10 Budget management and delegated authority

52. Each year, in light of decisions by the Scottish Ministers on the allocations of budgets for the forthcoming year, SG will send SDS a Budget Allocation and Monitoring letter, notifying SDS of the budget provision, any related matters and details of the budget monitoring information required. SDS will comply with the format and timing of the monitoring information requested and with any requests for further information.

53. The statement of budgetary provision will set out the budget within the classifications of resource Departmental Expenditure Limits (RDEL), capital DEL (CDEL) and Ring-fenced (non-cash) (RfDEL) – and, where applicable, Annually Managed Expenditure (AME). These categories are explained in [Annual Budget Processing](#) in the

SPFM, and SDS will not transfer budgetary provision between the categories without the prior approval of the SG Finance Directorate, which should be sought via the Sponsor Team. Transfers within the categories are at the discretion of the Board or, subject to delegated authority, the Chief Executive or relevant senior manager, if these do not breach any other constraints, for instance the approved pay remit.

54. Where budgetary provision includes projected income, including any income from disposal of non-current assets, the Chief Executive will ensure that the SG Finance Directorate and Sponsor Team are made aware promptly of any forecast changes in income – usually via the monthly budget monitoring statement. The Scottish Ministers expectation is that any shortfall in income will be offset by a matching reduction in gross expenditure, and prior approval from the SG Finance Directorate and the Sponsor Team must be sought for any alternative arrangement. Similarly, if income is higher than originally projected, this may only be used for additional spending or to meet pressures with the prior approval of the SG Finance Directorate and Sponsor Team. Failure to obtain prior approval for the use of excess income to fund additional expenditure may result in corresponding reductions in budgets for the following financial year. The only exception is where the income is from gifts, bequests and donations but this must be spent within the same financial year as the receipt.

55. SDS' specific delegated financial authorities - as agreed in consultation between the Board and the Scottish Ministers - are set out in Annex A. The Board will obtain the prior written approval from sponsors and SG Finance before entering into any undertaking to incur any expenditure that falls outside these delegations, and before incurring expenditure for any purpose that is or might be considered novel, contentious or repercussive or which has or could have significant future cost implications.

56. Prior SG approval must always be obtained before incurring expenditure for any purpose that is or might be considered novel, contentious or repercussive or which has or could have significant future cost implications.

Governance and Risk

57. Guidance on governance requirements is available in several documents referred to earlier in this framework document:

- [the Scottish Public Finance Manual](#) (SPFM)
- [the Audit and Assurance Committee Handbook](#)

- [On Board: A Guide for Members of Statutory Boards](#)

58. If in any doubt about a governance issue, the Chair or Chief Executive should consult the Senior Sponsor or Sponsor Team in the first instance, and sponsors may in turn consult the SG Public Bodies Unit, the SG Governance and Risk Branch and/or other teams with relevant expertise.

59. The Board and Chief Executive are advised to pay particular attention to guidance on the following issues.

1.10.1 Risk management

60. SDS must develop an approach to risk management consistent with the Risk Management section of the Scottish Public Finance Manual and establish reporting and escalation arrangements with the Portfolio AO or Senior Sponsor.

61. The Board should have a clear understanding of the key risks, threats and hazards it may face in the personnel, accommodation and cyber domains, and take action to ensure appropriate organisational resilience, in line with the guidance in: [Having and promoting Business Resilience](#) (part of the Preparing Scotland suite of guidance) and the [Public Sector Cyber Resilience Framework](#).

1.10.2 Internal control

62. The Board should establish clear internal [delegated authorities](#) with the Chief Executive, who may in turn delegate responsibilities to other members of staff and establish an assurance framework consistent with the [internal control framework](#) in the SPFM.

63. Counter-fraud policies and practices should be adopted to safeguard against fraud, theft, bribery and corruption - see the [Fraud](#) section of the SPFM.

64. Any major investment programmes or projects undertaken should be subject to the guidance in the [Major Investment Projects](#) section of the SPFM and in line with delegated authorities. The Sponsor Team must be kept informed of progress on such programmes and projects and Ministers must be alerted to any developments that could undermine their viability. ICT investment plans must be reported to the SG's Office of the Chief Information Officer.

65. SDS should take risk-based and proportionate steps to appraise the financial standing of any supplier or other body with which it intends to enter into a contract or to provide funding.

66. SDS must comply with the requirements of the Freedom of Information (Scotland) Act 2002 and ensure that information is provided to members of the public in a spirit of openness and transparency. SDS must also register with [Information Commissioners Office](#) and ensure that it complies with the Data Protection Act 2018 and the General Data Protection Regulations, commonly known as GDPR.

1.10.3 Budget and finance

67. Unless covered by a specific delegated authority, financial investments are not permitted without the prior approval of sponsors and SG Finance. This includes equity shares in ventures which further a body's objectives. Public bodies should not invest in any venture of a speculative nature.

68. Non-standard tax management arrangements should always be regarded as novel and/or contentious and must therefore be approved in advance by the Portfolio AO and SG Finance. Relevant guidance is provided in the [Tax Planning and Tax Avoidance](#) section of the SPFM. SDS must comply with all relevant rules on taxation, including VAT, recover input tax where it is entitled to do so.

69. Optimising income (not including grant-in-aid) from all sources should be a priority, and sponsors should be kept informed about any significant projected changes in income. Novel or contentious proposals for new sources of income or methods of fundraising must be approved by sponsors and SG Finance. Fees or charges for any services supplied must be determined in accordance with the [Fees & Charges](#) section of the SPFM.

70. Gifts, bequests or donations received score as income and should be provided for in the agreed resource DEL and capital DEL budgets, but should not fund activities or assets normally covered by SG grant-in-aid, trading or fee income, and conflicts of interest must be considered – see the principles in the [Gifts](#) section of the SPFM. Note that this relates to gifts to the body - gifts to individuals are covered in the Model Code of Conduct.

71. Borrowing cannot be used to increase SDS' spending power. All borrowing - excluding agreed overdrafts - must be from the Scottish Ministers in accordance with guidance in the [Borrowing, Lending & Investment](#) section of the SPFM.

72. Any lending must be in line with the guidance in the [Borrowing, Lending & Investment](#) section of the SPFM on undertaking due diligence and seeking to establish a security. Unless covered by a specific delegated limit SDS must not lend money, charge any asset, give any guarantee or indemnity or letter of comfort, or incur any other contingent liability (as defined in the [Contingent Liabilities](#) section of the SPFM), whether or not in a legally binding form, without the prior approval of sponsors, SG Finance and where necessary the relevant committee of the Scottish Parliament. Guarantees, indemnities and letters of comfort of a standard type given in the normal course of business are excluded from this requirement.

73. An accurate and up-to-date record of current and non-current assets should be maintained, consistent with the [Property: Acquisition, Disposal & Management](#) section of the SPFM. SDS is also subject to the [SG Asset Management Policy](#) including the requirement for acquisition of a new lease, continuation of an existing lease, decision not to exercise a break option in a lease or purchase of property for accommodation / operational purposes, to be approved in advance by Scottish Ministers. The Property Controls Team should be consulted as early as possible in this process.

74. Assets should be recorded on the balance sheet at the appropriate valuation basis in accordance with the FReM. When an asset (including any investment) suffers impairment, when there is significant movement in existing provisions and/or where a new provision needs to be created, this should be communicated to sponsors and SG Finance as soon as possible to determine the implications for SDS' budget.

75. Any funding for expenditure on assets by a third party should be subject to appropriate arrangements to ensure that they are not disposed of without prior consent and that a due share of the proceeds can be secured on disposal or when they cease to be used by the third party for the intended purpose, in line with the [Clawback](#) guidance in the SPFM.

76. Unless covered by a specific delegated authority, prior approval from sponsors and SG Finance is required before making gifts or special payments or writing off losses. Special payments and losses are subject to the guidance in the [Losses and Special Payments](#) section of the SPFM. Gifts by management to staff are subject to the guidance in the [Non-Salary Rewards](#) section of the SPFM.

77. Unless covered by a specific delegated authority SDS must not enter into any finance, property or accommodation related lease arrangement – including the extension of an existing lease or the non-exercise of a tenant’s lease break - without prior approval from sponsors. Before entering/ continuing such arrangements SDS must be able to demonstrate that the lease offers better value for money than purchase and that all options of sharing existing public sector space have been explored.

78. Non-property / accommodation related operating leases are subject to a specific delegated authority. There must be capital DEL provision in the budget allocation for finance leases and other transactions which are in substance borrowing.

79. Procurement policies should reflect relevant guidance in the [Procurement](#) section of the SPFM and any other relevant guidance issued by the SG’s Procurement and Property Directorate. The SG’s directory of [SG Framework Agreements](#), is available to support organisations but they should check the Framework Agreement’s ‘buyer’s guide’ before proceeding to ensure they are eligible to use the Framework

80. All matured and properly authorised invoices relating to transactions with suppliers should be paid in accordance with the [Expenditure and Payments](#) section of the SPFM wherever possible and appropriate within Scottish Ministers’ target of payment within 10 working days of their receipt.

81. SDS is subject to the SG policy of self-insurance. Commercial insurance must however be taken out where there is a legal requirement to do so and may also be taken out in the circumstances described in the [Insurance](#) section of the SPFM - where required with the prior approval of sponsors and their finance business partner subject to the level of inherent financial risk. In the event of uninsured losses being incurred the SG shall consider, on a case by case basis, whether or not it should make any additional resources available to SDS. The relevant sponsor team will provide a Certificate of Exemption for Employer's Liability Insurance.

82. Unless covered by a specific delegated authority SDS must not provide grant funding to a third party without prior agreement from sponsors and SG Finance. Guidance on a framework for the control of third party grants is provided as an annex to the [Grant & Grant in Aid](#) section of the SPFM. Subsidy control requirements for any such funding are discussed below.

83. The EU State aid regime was effectively revoked from UK law from 1 January 2021 and subsidy control provisions are now covered by the UK-EU Trade and Cooperation Agreement (TCA). They are also covered by the UK's international obligations, including various Free Trade Agreements and those arising as a consequence of World Trade Organisation membership. Currently, any activity that SDS undertakes itself, or funds other bodies to undertake, that can be offered on a commercial market for goods and services, is subject to the TCA subsidy rules. A full assessment is required prior to disbursing any funding, subject to the guidance in the subsidy regime section of the SPFM. The UK Subsidy Control Act received Royal Assent in April 2022 and the current position will be subject to change when the new regime comes into force.

1.10.4 Remuneration

84. Remuneration, allowances and any expenses paid to the Chair and Board Members must comply with the latest SG Pay Policy for Senior Appointments and any specific guidance on such matters issued by the Scottish Ministers.

85. Staff pay, pensions and any severance payments must be in line with the requirements of Public Sector Pay Policy and the responsibilities described in the section on NDPB Staff Management Responsibilities.

86. All individuals who would qualify as employees for tax purposes should be paid through the payroll system with tax deducted at source.

1.10.5 Banking and cash management

87. Banking arrangements must comply with the [Banking](#) section of the SPFM.

88. Cash management arrangements need to be addressed as well as overall budget management. Any [grant in aid](#) (i.e. the cash provided to SDS by the SG to support the allocated budget) for the year in question will be authorised by the Scottish Parliament in the annual Budget Act. SDS will normally receive monthly instalments based on updated profiles and information on unrestricted cash reserves and will not seek any payment in advance of need. SDS will keep its unrestricted cash reserves held during the year to the minimum level needed for efficient operation and any relevant liabilities which have to be met at the year-end. Grant in aid not drawn down by the end of the financial year will lapse. SDS will not pay Grant-in-Aid into any restricted reserve it holds.

Helpful Information

89. The Public Bodies Support Unit has produced a register of reporting requirements for devolved public bodies which will help in regard to compliance with certain legislative asks. Copies of the register can be obtained from the Public Bodies Unit publicbodiesunitmailbox@gov.scot

1.11 Annex A: Specific Delegated Financial Authorities

	Delegated Limit*
Operating leases – other than property/ accommodation related leases	£100,000
Gifts	£1,000
Special payments	£5,000
Claims waived or abandoned	£5,000
Write-off of bad debt and/or losses	£10,000
Others as appropriate e.g. Guarantees etc. out with normal course of business Charges on assets Loans Grants Financial investments and equity shares Major investment programmes/ projects	No level – Sponsor team to be notified of any spend over £250,000 and any spend that is new, novel or contentious.

- *Delegated limits are subject to any additional financial controls applied by the Scottish Government