Skills Development Scotland



The Skills Development Scotland Co. Limited

Annual Report and Financial Statements for the year ended 31 March 2026

Company Registration Number: SC202659

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Chair & Chief Executive Foreword

Welcome to our Annual Report and Financial Statements for the financial year 2025-26.

Skills Development Scotland (SDS) has a vision of an agile, dynamic and employer-led skills and careers ecosystem in which all people can develop the skills, resilience and personal agency needed to thrive in the modern labour market.

We provide career services in schools and communities across Scotland, with careers advisers in every publicly-funded secondary school and in a network of more than 240 community venues, alongside digital career services accessed by millions of users.

We deliver around 25,000 Modern Apprenticeships and 2,500 Foundation Apprenticeships each year, leading the process of developing apprenticeship standards and frameworks whilst also providing other national training programmes aligned to industry demand.

We also work intensively with industry to understand current and future demand for skills, providing more than 50 externally-published products each year.

These draw on a wide range of quality data sources, and informing bespoke employer support offered to businesses from inward investors to SMEs.

Over the past year, these products and services have been delivered against a backdrop of significant challenges which has affected the world around us, and SDS as an organisation.

In economic terms, employer confidence has been significantly affected by rising costs driven by business rates, national insurance contributions, increased personal taxation and rises to the living wage.

Furthermore, global disruption has led to rising energy prices and threatens to impact inflation.

The impact of these rising business costs is felt particularly acutely by small to medium sized businesses, which make up the vast majority of business in Scotland.

There is further evidence that artificial intelligence and automation have started to have a significant impact on recruitment patterns, particularly at entry level jobs.

All of these factors have led to a weakened labour market compared with a year ago.

In this context the support we provide to individuals, in schools and communities has never been more important.

Recognising the significant pressures on public finances, our innovative Transform 27 programme has enabled SDS to protect and enhance front line services whilst managing successive cuts to our Grant-in-Aid.

Our core Grant-in-Aid (GIA) allocation for 2025-26 was £199.2million, a reduction of £1.5million on the previous year and a fall of around 14% on our GIA in 2021-22.

In the context of this reduction in budget we also faced rising costs, including funding the second year of a two-year pay settlement aligned to Scottish Government pay strategy and reflecting our commitment to being a Fair Work employer.

Transform 27 has enabled us to manage these significant financial pressures whilst continuing to fulfil the aims of our 2022-27 Strategic Plan, and helping us transition towards a sustainable future operating model.

To date, Transform 27 has delivered significant cost savings and efficiencies, through a range of actions including a targeted programme of voluntary redundancy and voluntary early retirement, and an estates rationalisation programme which has brought us closer to customers through a community delivery model.

Transform 27 has also delivered a range of innovative projects which are shaping the way we deliver services and how we work with partners.

An example of this is our work in experiential career learning. Delivered in collaboration with schools, partners and employers, experiential career learning is helping young people in S1 to S3 discover their strengths, broaden their horizons, and connect learning to real-world opportunities.

Workforce North is another example of innovation, as SDS works with a wide range of public and private sector partners in a shared mission to grow, attract and upskill the regional workforce in response to a once-in-a-generation investment opportunity in the Highlands and Islands.

It is important to recognise that this work has been delivered in the context of considerable uncertainty for SDS colleagues as a result of the ongoing reforms to the post-16 education and skills landscape.

The passing of the Tertiary Education and Training Act in March of this year confirmed that responsibility for the delivery of National Training Programmes including Modern Apprenticeships will shift to the Scottish Funding Council from 1 April 2027.

Over the past year we have worked with the Scottish Government and the Scottish Funding Council (SFC) on the development of a transition plan which protects Scotland's highly valued apprenticeship programmes, and the livelihoods of the SDS colleagues who deliver them.

In the context of the considerable achievements that are captured within this report; our sincere thanks go to all colleagues, Board members, partners and stakeholders for remaining focused on providing the best possible services for people and businesses across 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, that people are inspired and enabled to develop the right skills for a changing world, and that businesses have access to the workforce they need to drive economic growth. We achieve this through multi-faceted service delivery and while our services are universally available to any individual or business requiring support, they are also targeted to help those most in need.

Partnership is core to everything we do. 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 workforce 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.

In 2021, Skills Development Scotland was the first public sector organisation in Scotland to be awarded an EFQM 7-star rating, recognising our focus on continuous improvement of the services we provide. This past year, SDS was awarded a Platinum IIP reaccreditation which reflects our investment in our people and their commitment to our customers.

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

Performance Overview

In 2025-26, continuing change and uncertainty in the operating context, and increasing financial pressures across the public sector, required all public bodies, including SDS, to prioritise delivery of core services and drive innovative and more sustainable ways of offering best value. In line with earlier announcements, Scottish Ministers restated through our 2025/26 Letter of Guidance, issued on 20 December 2024, their intent to progress reform priorities in the post school education and skills landscape, requesting that SDS play 'a positive and active role' in shaping that future.

During 2025-26, our performance reflects our continued efforts and resource deployment across three core priorities – Delivery, Transformation and Reform – guided by Ministerial direction and enabled by the resilience and performance of staff. In doing so, we continued to deliver on the ambition of our Strategic Plan 2022-27, Skills for a Changing World, whilst also allowing us to meet our efficiency expectations by transitioning to a more sustainable operating model.

Over the course of 2025-26, thanks to the huge efforts of SDS staff (in close collaboration with partners), and despite continued financial pressures and significant budget reductions, SDS has delivered another year of strong financial performance. Through the strategic reinvestment of Transform 27 savings, SDS maintained a sound financial position, returned £0.2m of grant-in-aid to the Scottish Government, and contributed £2.0m to the Workforce North Co Investment Fund, which was not included within our original operating plan.

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.



Note: Most figures in this report relate to the 2025-26 financial year. However, as the careers information, advice and guidance (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 (2024/25)

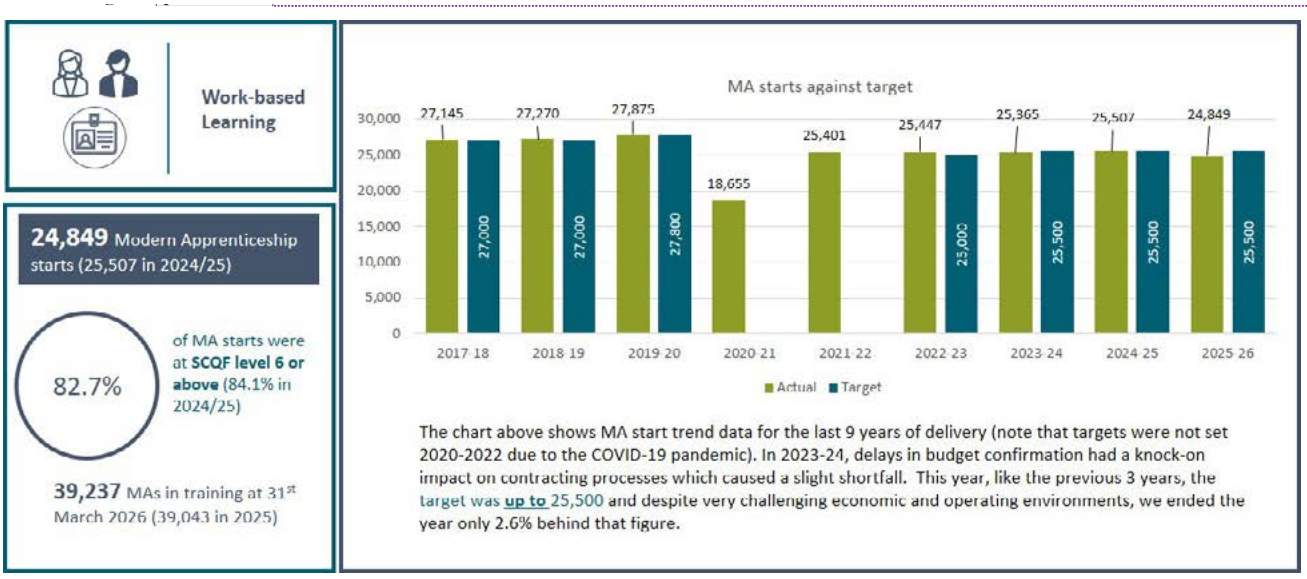
Goal 1: Industry-focused Skills

Lifelong learning in and for the workplace is integral to delivering the skilled workforce 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 grow and expand Scotland's workforce ensuring that people in Scotland have, and continue to develop, skills that 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.
Since 2022 the tangible impacts of Transform 27 (T27) have enabled SDS to manage budget pressures of more than £95.0 million thereby protecting and sustaining our investment in apprenticeship provision. During 2025-26 SDS invested £91.0 million supporting some 39,000 apprentices in training alongside new provision with a target of up to 25,500 new Modern Apprenticeship (MA) starts.

Falling levels of business confidence with increases in national minimum wage and employer national insurance contributions all provide challenges for Scotland's economy. That, combined with continued conflict and unrest across the world have slowed growth and increased uncertainty in the global economy. Despite these challenges, 24,849 individuals started a Modern Apprenticeship during 2025-26, which is just 2.6% behind last year. This year, like 2024-25, the occupations with the greatest proportion of MA starts were health and social care and construction.

We have seen an increase in Modern Apprenticeship achievement rates which are at an all-time high of 80.3%, demonstrating the perceived value of apprenticeships, SDS's focus on continuous improvement, and the commitment of learning providers, employers and those undertaking the qualification.



Like last year, we saw a continuation of the positive levels of participation amongst disabled (17%), minority ethnic (7%) and care experienced (2.9%) individuals as a proportion of all MA starts – with improvements across all groups. We continue to work hard to ensure that any barriers to entry they may face are dealt with proactively. Our **2025 Equality Mainstreaming Report** describes our progress against the ambitious equality outcomes we set in 2021.

With the Tertiary Education and Training Act now having Royal Assent, SDS is engaged in intensive work to support the transfer of national training programmes to the Scottish Funding Council.

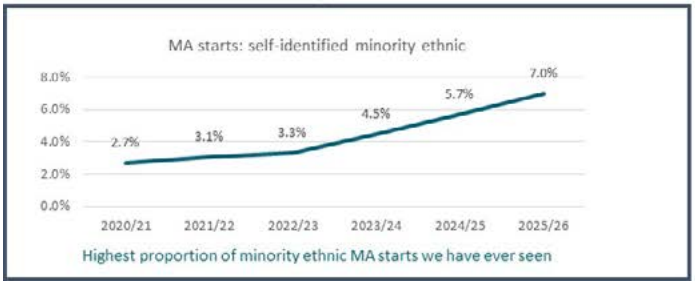
Budget restrictions continued to limit volumes of activity, with no Individual Training Accounts available during 2025-26. Our Teaching Bursary (previously STEM Bursary) was extended to a wider group and offered up to 112 places. All bursaries were awarded at the start of 2025-26, providing each recipient with £15,000 towards their teaching qualification.



MA starts by gender (excluding Construction frameworks): Female 55.5% : Male 44.5%









Our universal CIAG service has evolved to serve all adults aged 20+. Previously, it was available to all adults (regardless of age) who were not eligible for support under our more intensive Next Steps offer. As the scope of Next Steps has broadened to include all post school adults up to the age of 20, the pool of universal customers has consequently narrowed. The smaller number of individuals reached via our universal offer is offset by the larger numbers now reached via Next Steps.

During 2025-26, we supported more than 13,500 people, 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 over the age of 20 regardless of circumstance. This is a demand-led service, and engagements are delivered by SDS Advisers in line with individual customer need.

13,502* people accessed our universal careers service, supported by **26,052** individual or group sessions in 2025/26 (15,182/ 29,913 in 2024/25)

*2024/25 figures have been recalculated based on the smaller pool of customers that are now entitled to the universal service offer.

KPI 2: On completion of work-based learning, individuals sustain in employment or other positive outcomes.
Achievement rates across Modern Apprenticeships reached an all-time high in 2025-26, up 0.5 percentage points (pp) on 2024-25.

Modern Apprenticeship achievements

80.3% Modern Apprenticeship achievement rate (79.8% in 2024/25)

MA Equalities	Achievement rate 2025/26	2024/25
Disability	74.1%	76.6%
Minority Ethnic	82.7%	80.7%
Care Experienced	71.3%	69.8%
SIMD 1 & 2	77.9%	77.7%

Achievement rates across all equality groups remain positive, with only a slight dip in achievement for MAs with a disability.

We continuously work to improve outcomes for those with protected characteristics and those facing barriers to achievement.



Highest recorded achievement rate

This year, achievement rates across all MAs are higher than they have ever previously been, highlighting the hard work of apprentices and improvement in quality across learning providers.

Achievement rates dropped in the years leading up to the outbreak of the pandemic, in line with trends reported for Further Education.

During 2025/26, we provided targeted support to 21 learning providers to improve their performance and quality of delivery. We also continued to strengthen our joint working with HMIE to manage risk and inspection follow-up.

Building on the extensive feedback we already gather, enhancements to our FIPS (ERP) 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 enables us to respond to feedback more quickly than we have been able to, previously. Key results from surveys issued during 2025 are shown below.

Apprentice Voice 2025

Survey results

11,028 Modern Apprentices provided feedback between 1st January and 31st December 2025

	In training (survey issued 6 months after starting MA)		Leavers (survey issued 3 months after leaving MA)		Short-term outcomes (survey issued 15 months after leaving MA)	
Satisfaction & likelihood to recommend	**94%** Satisfied or very satisfied	**94%** Likely or very likely to recommend	**92%** Satisfied or very satisfied	**92%** Likely or very likely to recommend	**90%** Satisfied or very satisfied	**90%** Likely or very likely to recommend
Training experience & quality	**94%** Highly rate overall quality of training	**92%** Highly rate usefulness of employer training	**93%** Highly rate quality of training from learning provider	**90%** Highly rate quality of training from employer		
Economic status			**86%** Employed full time	**90%** On permanent contract	**86%** Employed full time	**93%** On permanent contract

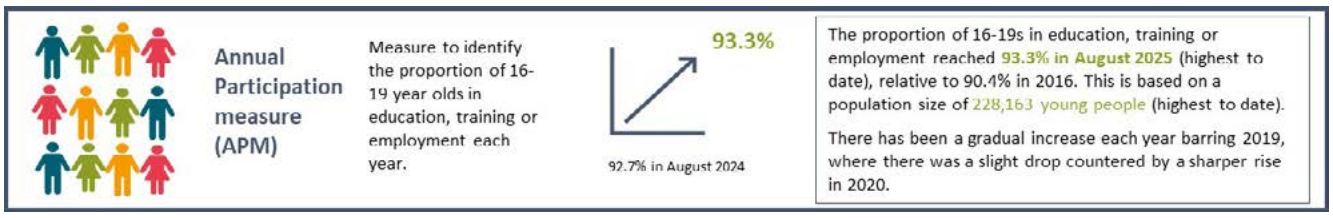
Goal 2: Inclusive Talent Pool

As a strong advocate for Fair Work, SDS is committed to helping people to navigate the changing world of work throughout their lives so they can access and experience fulfilling careers. Fundamental to achieving this goal is the delivery of all-age, person-centred, and experiential CIAG services. We also continue to identify and address known barriers to participation so that individuals can access the learning and work they choose. Most of our CIAG resource (around 75%) is invested in state funded schools to support career learning and positive post-school destinations while a smaller, but still important, contribution is made to supporting young people (up to their 20th birthday) post-school (our 'Next Steps' offer).

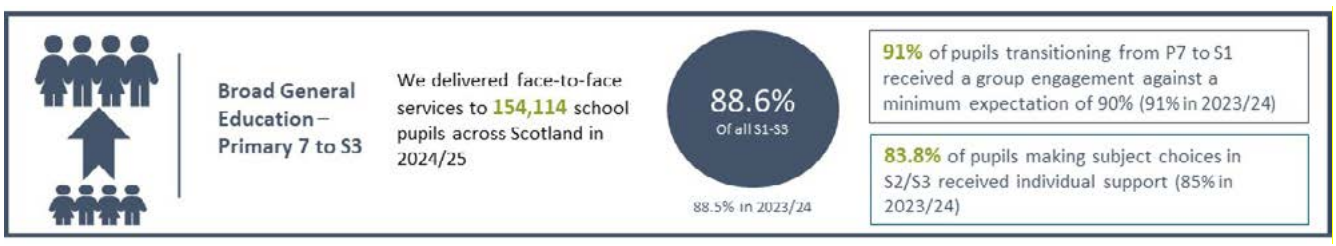
We have three corporate level key performance indicators for this goal. Performance highlights for this year are illustrated against these.

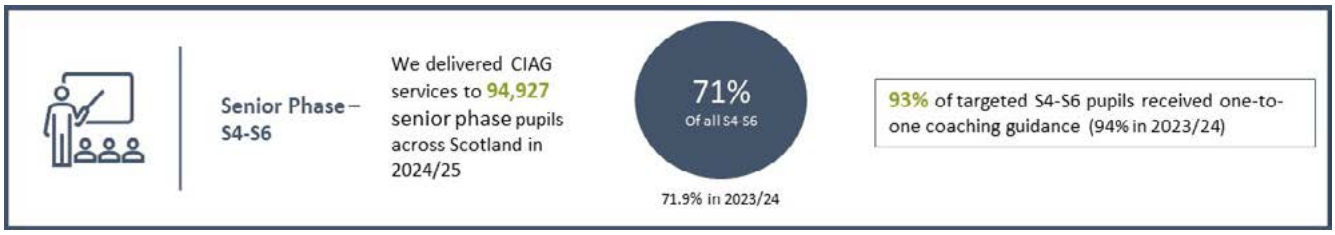
KPI 3: 16–19-year-olds in Scotland are in learning, training, or employment.
SDS is responsible for reporting the Annual Participation Measure (APM), which is classified as a national statistic. The APM is based on the shared dataset managed by SDS, which includes data from Scotland's thirty-two local authorities, Scottish colleges, the Students Award Agency Scotland (SAAS), the Department for Work and Pensions (DWP), and the Scottish Funding Council. This dataset is stored on SDS's Customer Support System (CSS) which is used by SDS advisers to deliver CIAG services and is shared with partners through the 16+participation portal. From January 2025, HM Revenue & Customs (HMRC) has shared data with SDS for statistical purposes, providing employment records for 16–24-year-olds in Scotland. Collectively, this data provides accurate intelligence on where 16-19 year olds are at a point in time, be that in education, training, employment or unemployment.

The APM, reported in August each year, shows the level of participation among 16-19 year olds in Scotland. In August 2025, the level of participation reached 93.3%, up 0.6 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**.



KPI 4: SDS careers services support individuals to sustain in learning, training, or employment
Data on our school careers service is provided for the last complete academic year (in this case 2024/25). This is because the current academic year (at time of writing) has not yet finished. The 2024/25 Academic Year ended with improved performance across all elements of the senior phase offer, when compared to the previous academic year, and exceeded minimum expectations in all P7-S3 activity, assisted by a more stable operating environment. We reached a greater volume of school pupils in 2024/25 and maintained the level of engagement for those pupils entitled to specific interventions, as detailed in the graphics below. Despite the strong performance we continue to look for opportunities to drive improvement, and we have invested in building the cohesion, competence and capability of Scotland's careers ecosystem via the Careers Collaborative.





Additional detail can be found in the **Delivering Scotland's Careers Service Annual Report 2024/25**.

SDS post-school careers services are delivered on a financial year basis.

In 2025-26, the Next Steps offer was expanded to reflect the full scope of CIAG support for all people under the age of 20 who are not in school. Previously, the service focused on delivering coaching support for unemployed 16-18.5 year-olds to progress and sustain a positive outcome and this formed the basis of reporting.

Now the service includes those in education, apprenticeships, training, or employment as well as the unemployed. The coaching offer continues for those not participating post-school and now includes economically inactive young people up to age 20.

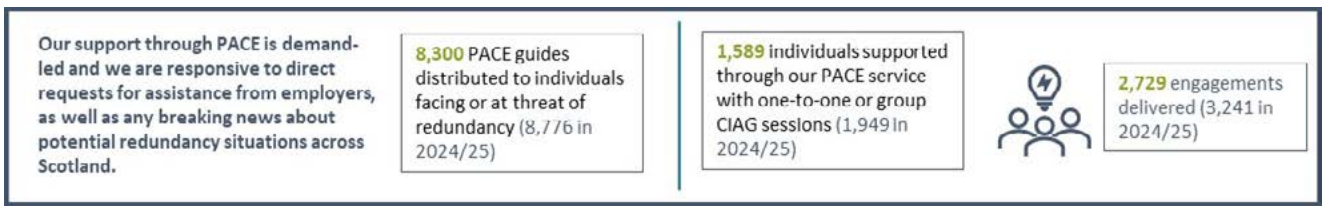
While resources to deliver this expanded service remain unchanged, the focus is on improving outcome visibility and reporting impact for all post school under 20s.

During 2025-26 we delivered support to 20,489 Next Steps customers, either through a group or 1:1 session with Careers Advisers. More intensive support is provided through the 1:1 sessions, which were received by 19,794 customers.

Continued tightening of the labour market meant that the cohort of unemployed Next Steps customers has largely consisted of those furthest from the workforce who have much more complex needs. Next Steps customer outcomes continue to be positive with unemployed customers progressing to a positive destination exceeded minimum expectation by +2.9pp and for those sustaining that for at least 6 months, by +14.8pp.



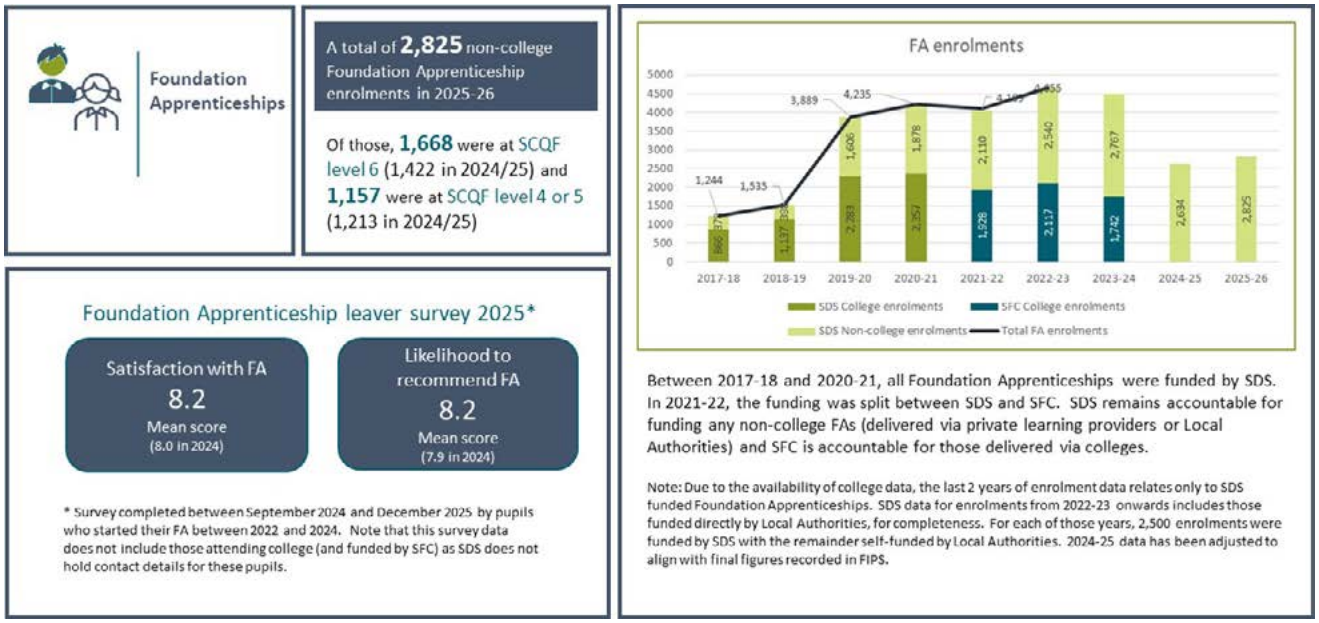
For customers facing redundancy, the Partnership Action for Continuing Employment (PACE) service continued to assist them – through either in-person or structured CIAG session engagements, or through signposting. PACE performance metrics reflect market demand. Redundancy situations are treated as priority adult CIAG services and we supported 241 employers in 2025-26 (+2 on 2024-25).



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 Scottish Government changed the funding mechanism for Foundation Apprenticeships, with college-delivered learning funded through core Scottish Funding Council budgets and learning delivered via private learning providers and Local Authorities funded by SDS. The latest published FA report is based on 2023-24 enrolment data. In the graphic below, data from 2024-25 onwards is based on SDS funded enrolments only, as college enrolment data is released later in the year. Demand for non-college places remains strong, outweighing the 2,500 available funded places. Any additional places (325 in 2025-26, 136 in 2024-25 and 275 in 2023-24) were 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 expansion of Scotland's workforce, 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 pressures continued to impact the financial leverage we had to deliver much of our employer offer in 2025-26. Despite that, SDS Sector Managers continued to engage with Industry Leadership Groups across all key sectors in Scotland to influence partner investment in workforce development and to encourage a greater level of commitment and participation from employers.

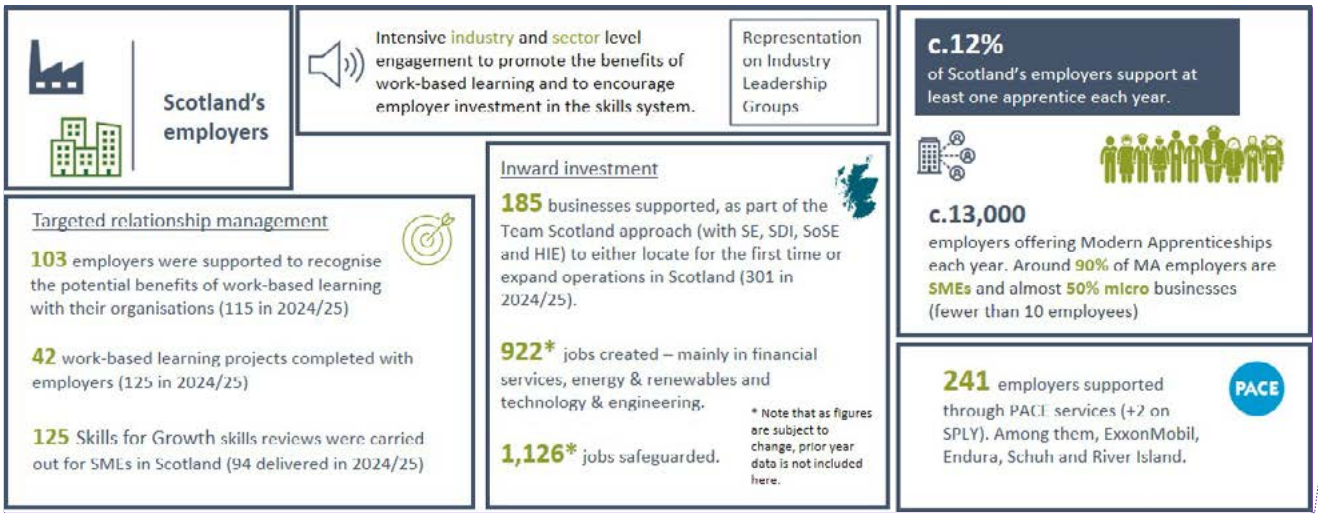
As at March 2022, there were 109,435 businesses in Scotland with at least one employee[1] meaning that c. 12% of employers in Scotland offer apprenticeships. While there are differences in context, employer engagement in apprenticeships in some European countries is in the region of 20-24%. To sustain 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.

A small team delivered a programme of targeted relationship management supporting 103 employers to realise the potential benefits that apprenticeships can bring to their business, with 42 work-based learning projects delivered by our in-house team (with an additional 53 continuing into 2026-27). Employers are now encouraged to self-serve through the Employer Hub, where appropriate, while the small team continue with focused support interventions in response to company enquiries.

The team also continued to support SDS's employer engagement priorities in relation to apprenticeship development, delivery and quality assurance, and supported strategic skills projects including Workforce North, Marine & Shipbuilding, and Energy & Utilities.

Our Skills for Growth service is now fully embedded in-house which enabled us to increase the number of skills reviews carried out this year, helping SMEs to recognise the skills-related actions they should take to grow and remain sustainable in a fast-changing economic environment.

Working as part of Team Scotland with Scottish Enterprise, Highlands & Islands Enterprise and Scotland Development International, we helped to broker arrangements with 185 businesses that are either looking to come to Scotland for the first time or expand their operations here. This led to the creation of more than 900 new jobs and the safeguarding of 1,126 exisiting jobs for Scotland.



1 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, developing and expanding Scotland's workforce to drive economic growth. 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

Evidence and intelligence is at the core of our service design and delivery. 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. The graphic below illustrates some of the highlights from 2025-26.



KPI 8: Scotland's learning and training opportunities are better aligned with current and future economic need.

Following the Scottish Government's intention to take forward responsibility for national skills planning in response to the Independent Review of the Skills Delivery Landscape, SDS has continued to work closely with the Scottish Government and partners to support the development of future arrangements. Activity in this area has been aligned to emerging reforms while maintaining delivery of essential and committed work.

During 2025-26, SDS teams delivered a successful "Moray Skills Summit" and a "Highland Employer Call to Action", which brought employers and partners together in a planning capacity, which has fostered a new collaborative approach to regional workforce development, with an employer-led group established to co-invest in skills to meet future demand. This is part of our work allied to 'Workforce North', helping to ensure that the Highlands and Islands region has access to the workers it needs to benefit from a generational investment of £100bn in the region in the next 10-15 years. Additional highlights from this year are included in the graphic below.



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.

KPI 9: SDS has satisfied customers and employees.

Customer Feedback

Customer feedback remains a vital component of our service evaluation and its design and evolution. Over the past few years we have moved away from large-scale surveys to smaller scale, more regular connection with customers about their experiences of SDS services. We have two key measures that we use at a high level to gauge our performance from a customer perspective: customer satisfaction and customer likelihood to recommend SDS services to others.

Key customer group	Likelihood to recommend SDS services (mean point score)	Satisfaction with SDS services (mean point score)
School pupils (CIAG)	8.5	8.9
Post school pupils (CIAG)	9.0	9.2
Modern Apprentices	8.9	8.8

Sources:
SDS school and post-school customer feedback 2025-26
Apprentice Voice (MA leavers)

Mean point scores based on a scale of 1-10
More detailed MS customer feedback is provided under KPI 2
FA customer feedback is included under KPI 5

We also gather feedback from other customer groups including head teachers, parents and carers, learning providers and employers which all help to inform our service design and delivery.

Employee Engagement

SDS continues to strive to be an employer of choice and an exemplar of fair work. We have prioritised all efforts to find opportunities for employee voice, maintain our commitment to job security and create fulfilling work.

Scottish Government's (SG) Public Sector reform agenda has continued to create a challenging environment for the employee experience. The Tertiary Education and Training (Funding and Governance) (Scotland) Bill was passed into law on 11 March 2026. The passing of the bill confirmed SDS's apprenticeship function and responsibilities will transfer to the Scottish Funding Council in 2027. SDS continues to work closely with the Scottish Government and the Scottish Funding Council to facilitate a smooth transfer of the apprenticeship function.

This transfer of function will trigger a transfer of staff and thereby creates legal obligations as set out by the Transfer of Undertaking Protection of Employment Regulations (TUPE). SDS as the transferor must inform and consult on the implications of the transfer, up to the point of transfer, with the Trade Union partners recognised as formal representatives of the affected employees under the SDS Recognition and Procedures Agreement. To progress these obligations, SDS will require significant input from SFC as the transferee, on how they intend to fulfil the transferee's obligations ahead of the transfer. Both organisations have stated a strong commitment, as Fair Work employers working alongside our trade union partners, to act fully in line with these obligations, including offering reassurance as to the protections afforded in relation to pay and terms and conditions under TUPE. In addition, we have welcomed the intentions of SFC to action in line with the expectations of the Cabinet Office Statement of Practice as it relates to pensions for transfers within the public sector. SDS and SFC are now well underway in planning for this transfer with shared principles agreed between both organisations.

Throughout the year the Executive and the Chair, on behalf of the SDS Board, have continued to impress upon SG the impact this decision has had within the organisation and the potential future impact. SG has indicated they expect to provide clearer direction on the future remit of SDS following the 2026 Scottish Parliament election. In the meantime, SDS Executive continue to focus on ensuring effective customer service delivery and recognising the strong performance that colleagues have continued to deliver throughout the operating year, in a sensitive manner that seeks to mitigate employee uncertainty where we can.

SDS recognises two trade union partners, Unison and PCS. We work closely with both unions across a range of formal and informal engagements to fulfil our employer responsibilities for consultation and negotiation. Recent engagements include extensive national partnership consultation on the next set of initiatives under our Transform 27 programme and on the SG reform programme. We also explore opportunities to develop our pay and wider employer offer in a sustainable manner through collective bargaining.

Fair Work and employee voice sit at the heart of our strategic plan, our people strategy and our organisational culture. Building and sustaining high levels of employee engagement at SDS has long been recognised as a driver of organisational productivity, effectiveness and resilience. Our 2025 employee survey, like previous years, achieved a strong response rate of 84%, with colleagues providing nearly 2,500 open ended comments. We have seen a rebound in workplace satisfaction and engagement scores, following the slight drop in 2024 due to the uncertainty in the operating environment. SDS's overall mean point score in 2025 was 7.7, with 8 out of 9 key themes showing an increase on levels of positivity this year, and the 9th sustaining a highly positive score.

Moving ahead, we want to continue this upward trend, with leadership committed to ensuring that staff remain highly satisfied with life at SDS despite the challenges and continued uncertainty, as we recognise this satisfaction has a direct impact on organisational productivity and effectiveness, fundamental to strong customer delivery.

KPI 10: SDS is a resilient and sustainable organisation

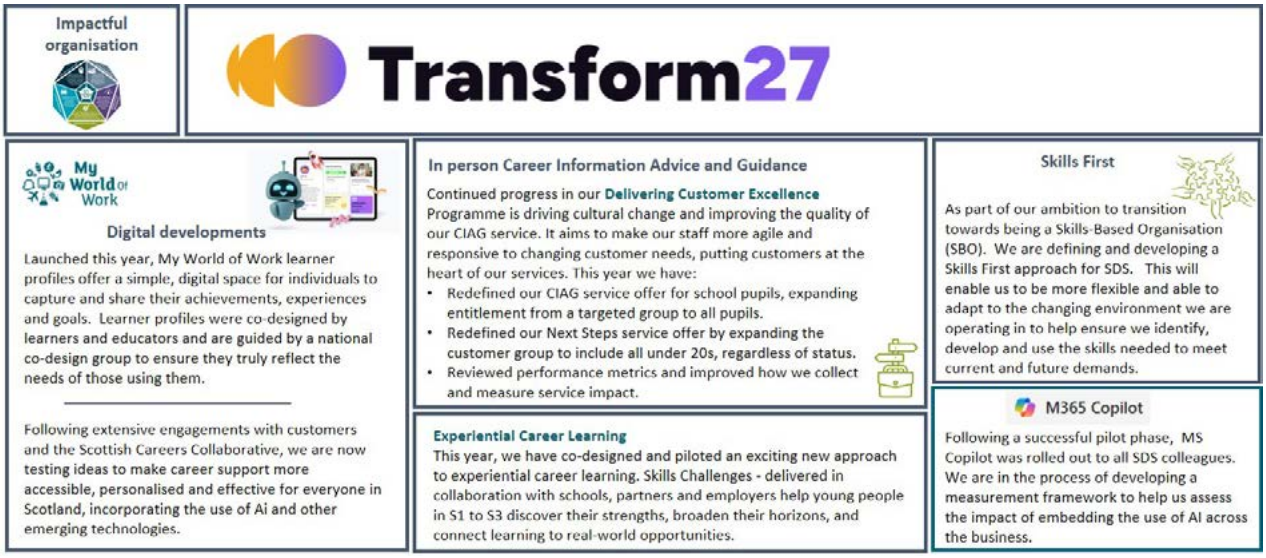
Transform 27

T27 is a relentless and ambitious programme of transformation enabling SDS to achieve the ambitions of our 2022-27 Strategic Plan, Skills for a Changing World, and accelerate our transition to a sustainable operating model by 2027-28. Structured around defined strategic priorities that combine short, medium and long-term activities, all T27 activities are self-funded and delivered through extensive engagement with SDS staff and our Trade Union partners.

Through T27, SDS has delivered major cost savings whilst protecting Ministerial priorities, including critical frontline careers services and apprenticeship start volumes. It is underpinned by a highly targeted programme of voluntary severance and voluntary early retirement which in the past year along with stringent vacancy management has contributed to a further reduction in the average number of full-time equivalent employees. To date, T27 has enabled cost savings of £95.4m, including:

- a headcount reduction of c.290 staff (representing c.18% of our total headcount), generating recurring annual savings of c.£22m;
- estates rationalisation, reducing annual costs from c.£8m to c.£3.1m by 2027 (c.60% cost reduction); and
- cost savings of c.50% across our corporate services.

We have also continued our comprehensive engagement with SDS CIAG colleagues to transform our service delivery to better meet the needs of our diverse customer groups, bringing flexibility into service delivery in schools and broadening the CIAG entitlement to all pupils across Scotland's state maintained secondary schools. To improve accessibility for post school customers, we have continued to increase our presence in community-based locations which are much closer and more responsive to our customers and increasingly co-located with complimentary public and third sector partner services.



Progress made against our Transform 27 ambitions has contributed significantly to our positive year-end position.

Health and Wellbeing

SDS regularly reviews people policies and practice to reflect changes to employment legislation and best practice enabling us to ensure we continue to evolve the ways in which we lead, manage and develop our people and in ways which ensure a much-valued focus on employee health and well-being.

SDS's sickness absence for the financial year 2025-26 was 3.8%. This is 0.3% lower than the previous year. The average number of days lost per FTE is 9.8 which is a reduction of 1 day compared to last year. We continue to benchmark these statistics against ONS data published each year, which provides reassurance to the SDS Board that the approach to managing health and wellbeing is proportionate and appropriate.

SDS continues to offer colleagues the flexibility to balance home and work life with 49% of the organisation now working a non-standard working week (anything other than Monday to Friday, 9am-5pm) to including those working part-time. This trend is driven primarily by a desire to seek opportunities for full-time hours to be worked outside the standard working pattern rather than an increase in part-time employees.

Our approach to health and wellbeing is consistent with, and informed by, the SDS Wellbeing Strategy, which is aligned to our culture of everyday leadership, with a commitment to help our people thrive and achieve their potential at work. Recent initiatives have reflected our continued focus on neurodiversity in the workplace and improved support for new and expectant mothers. We also continue to maintain and develop our core Health & Safety framework ensuring effective management of health & safety risks across our various workplaces and teams. This includes refreshed arrangements to manage personal safety risks and our use of community venues for face-to-face service delivery.

SDS Academy

In March 2026 we were reaccredited as an Investors in People platinum level organisation. This is the highest accolade awarded to organisations, held by only 2% of IIP-accredited companies globally.

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 42 hours CPD per employee. The SDS Academy continues to provide relevant and accessible learning for all employees. SDS also sponsored 64 colleagues to achieve or continue with a qualification beyond the Academy.

SDS has also continued to focus on the provision of high priority learning offers, building capability in areas including cyber security, enhanced people management, equality, change management and IT.

SDS recognises the need to innovate, and we are active in our work to create a sustainable workforce model that fosters an agile and skilled workforce. SDS continues to deliver on the approach to create and test the building blocks needed to move towards our ambition to be a skills-based organisation. 'Skills First' is a transformational approach to unlock workforce agility through skills development and flexible deployment of the workforce. Proactively embracing a 'Skills First' approach will be leading edge for the public sector.

Young Talent

SDS remains committed to supporting young talent and we are pleased to have supported 30 young people during 2025-26:

- 12 young people worked with SDS as part of their Foundation Apprenticeship;
- 4 Graduate Apprentices completed their journey with SDS;
- 5 Graduate Interns joined us in September;
- 7 Modern Apprentices joined us across September/October; and
- 2 Trainee Career Advisers continue to be supported through their training, with the goal to progress into fully qualified Careers Advisers in the coming year.

With positive destinations at 91% we ensured all young people departed with the onward job search skills and networks required to seek future employment.

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 our Mainstreaming Report commitments. Our employee engagement survey scores for equality and diversity have remained high with colleague comments indicating significant awareness and appreciation of SDS work as an employer in this area.

SDS Equality and Diversity Mainstreaming Report 2025 set new outcomes for 2025-29. As an employer, we will seek to foster an inclusive culture where diverse voices shape decision-making and improve organisational effectiveness. This will include embedding inclusion into our approach to transformation, strengthening opportunities for diverse and effective employee voice and taking specific action in line with our strategic commitment to anti-racism.

All staff have mandatory equality and diversity e-learning and CPD, and additional targeted learning is provided for people managers. Since 2023, SDS colleagues have also been able to make use of an additional 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.

SDS is a Disability Confident and Carer Positive employer. We previously introduced an updated approach and process for person-centred workplace adjustments and have continued to review and improve this in 2025-26. We have also worked to improve our understanding of needs related to neurodiversity in the workplace, developing neuro-inclusive meeting guidance and launching Neurodiversity training for People Managers. Both developments have been informed by engagement with our 'Diversability' employee network.

During the year we updated our employee diversity monitoring questions relating to disability in line with revised Scottish Government guidance. This resulted in an increase in the proportion of our workforce reporting a disability (from 8% to 12%), with 22% of our workforce reporting a long-term health condition.

We have introduced a new forum for colleagues who have caring responsibilities for younger children, complementing an existing forum for those with adult dependants. Both offer opportunity to come together to give moral support and practical advice. We have also improved our paid maternity and paternity leave provisions by 1 week and introduced paid leave for neonatal care.

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. Recognising high demand from colleagues, we have extended delivery of our 'It's About Race' Training sessions by the Diversity Trust as we seek to positively impact culture and improve the race competence of

colleagues. We have also worked with our recognised trade unions to support a union-led Self Organised Group for Black and People of Colour. This is one of the early benefits of increasingly close working with our trade union partners on equality matters.

Following the UK Supreme Court decision on the meaning of 'sex' under the Equality Act 2010 we have worked with our Pride Unified employee network group, trade union partners and other internal equality leads to update our 'Transitioning at Work' guidance. This now meets updated statutory requirements, while aiming to maintain an inclusive environment for trans and non-binary colleagues and the wider LGBT+ community.

As at 31 March 2026, the gender balance[2] within SDS was:

	Male	Female
Non-executive directors and co-opted board members	**8**	**8**
Executive directors and senior executive managers	**5**	**1**
Employees	**370**	**983**

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. We have also drafted the fourth edition of our Gaelic Language Plan which is currently with Bòrd na Gàidhlig awaiting their approval.

Key activities in 2025-26 included:

- worked in partnership with Highlands and Islands Enterprise to deliver the Economy and Skills workstream of the Scottish Government's Tog 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;
- organised Gaelic Careers events throughout the country to promote Gaelic Career pathways and further and higher education opportunities;
- SDS Gaelic speakers delivered sessions at the Royal National Mod held in Fort William during October 2025; and
- successfully recruited a Gaelic essential post for our Stornoway centre.

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

- Gaelic Career profile videos for the My World of Work website and further resources added to the Gaelic Meta skills toolkit;
- Promotion of World Gaelic week, Scottish Apprenticeship week 2026 and the Results helpline; and
- Issue of Gaelic Media Releases and Gaelic social media posts using platforms such as X, TikTok and Instagram.

2 Figures exclude 'Prefer Not to Say' responses

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

During 2025-26, the SDS Procurement team continued to monitor, update, implement and provide support and guidance to SDS colleagues on all areas of public procurement. Key SDS Procurement activities conducted during the year were as follows:

- Procurement, Contract Management and Modern Slavery policies updated.
- Corporate Procurement Strategy refreshed to ensure:
  - Inclusion for artificial intelligence and focus on embedding AI into the procurement process.
  - Alignment with Scottish Government guidance contained within the procurement journey.
  - Alignment with SDS's Corporate and Digital Strategies.
  - Transparency and management of ethical considerations and risks associated with AI deployment.
- Incorporated supplier assurance wording into SDS terms and conditions of contract.

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.

Information Services and Information Management

Over the past year, Enterprise Information Services (EIS) strengthened how shared digital services are delivered across SDS and its partners: Scottish Enterprise, Highlands and Islands Enterprise, and South of Scotland Enterprise. A single, standard approach to planning and governing change was introduced, giving all shared service partners clearer oversight and reducing delivery risk. EIS also aligned digital delivery with Scottish Government standards, providing stronger assurance to partners and auditors. Significant investment was made in renewing core IT infrastructure, such as networks, devices, servers and telecoms, to improve security, resilience and service reliability. A new cross-partner Shared Service Risk Forum was established involving all partners, focusing on strategic risks such as cyber security, business continuity, dependency management and strategic alignment.

Additionally, the EIS shared services strategy was refreshed to set a clear direction for future services, including cyber security, cloud, data and responsible use of emerging technologies, directly supporting the Public Sector Reform Strategy by improving consistency, value for money and assurance. Together, this work laid firm foundations for modern, cloud-based services that are more resilient, scalable and cost effective, and that enable partners to deliver better public services in line with national reform objectives.

At the same time, SDS's Information Management Strategy (IMS) fostered strong progress in improving our data governance, quality, and capability. Key achievements included updating enterprise architecture, establishing an enterprise data retention policy, agreeing standardised sensitivity labelling, and piloting Microsoft Purview. The programme of work has advanced master data and enterprise data modelling, published a business data glossary, reviewed data quality standards across core systems, and developed organisation-wide data awareness learning. We also launched a new data area on our intranet to support access to data guidance and standards.

Colleagues across SDS also continued to play a vital role in strengthening organisational resilience and reducing cyber threat levels, with this activity now firmly embedded as part of day-to-day business. SDS routinely led and coordinated responses to external cyber incidents, with lessons learned consistently informing and improving our incident management approach. Regular business continuity exercises and scenario planning, delivered both internally and with partners, remained an established part of how we maintained readiness. Mandatory quarterly cyber learning and phishing simulations are now embedded as a core organisational requirement, reinforcing a sustained culture of awareness and accountability, with targeted follow up support in place where additional training was required.

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 does not consider climate to be a material risk for the organisation, however it has complied with the TCFD recommendations and recommended disclosures around:

- Governance – recommended disclosures (a) and (b)
- Strategy – recommended disclosures (a), (b) and (c), where material
- Risk Management – recommended disclosures (a), (b) and (c)
- Metrics and Targets – recommended disclosures (a), (b) and (c), where data is available.

This is in line with the UK public sector TCFD-aligned disclosure implementation timetable for Phase 3.

Governance

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.

Strategy

Given SDS's flexible service delivery model and limited physical assets, climate change is currently not considered a material risk for SDS. Climate-related risks have not required changes to the organisation's strategic priorities or resource allocation during the reporting period and, on that basis, detailed climate scenario testing was not undertaken during the year.

Notwithstanding this, SDS has a Climate Change Strategy 2020-2030 which sets out how the organisation will support Scotland's statutory commitment to achieve net zero emissions by 2045. The strategy recognises the role of SDS as a public sector organisation which is required to adhere to the Public Bodies Climate Change Duties and, as the national skills body which supports the skills and jobs system, is required to address the risks and opportunities for a green economy. The ambitions in the strategy also align with national and international strategic direction through Scotland's National Performance Framework and the UN Sustainable Development Goals.

The strategy is delivered via rolling two-year internal action plans. Actions in the current plan, covering financial years 2025-26 and 2026-27, include: embedding green ICT into our EIS Strategy 2025-2028; reviewing the Labour Market Information (LMI) Green Hub to reach more practitioners; investigate expansion of the carbon footprint scope to include further sources e.g. digital emissions; and working with sectoral and regional partners to better understand current and future green skills demand. Delivery of the strategy is underpinned by colleague engagement and organisational culture change, embedding climate considerations into day-to-day decision-making across all directorates.

Risk Management

Our processes for identifying, assessing, and managing climate related risks are seamlessly integrated into our overall risk management framework. This integration ensures an holistic approach to risk management, where climate risks are considered alongside other business risks. Key aspects of this integration include:

- Unified risk assessment: Incorporating climate-related risks into the broader risk assessment matrix used by SDS.
- Cross-functional collaboration: Engaging various portfolios and functions within SDS to address climate risks collectively.

SDS employs a multi-faceted approach to identifying climate related risks. This approach begins with a thorough analysis of environmental, social, and economic factors that could potentially impact on SDS.

Once identified, climate-related risks are assessed on their likelihood and impact, as outlined in our risk management framework. Key components of the assessment process include calculation of potential financial losses resulting from climate-related disruptions and examination of how climate risks could affect day-to-day operations and long-term business continuity.

Ensuring SDS remains resilient in the face of climate challenges, strategies to mitigate climate-related risks have been embedded in recent estates and transformation programmes. These strategies include emission reduction plans, securing insurance policies to cover potential financial losses from climate-related events, and ensuring a diverse and flexible supply chain to minimise disruptions caused by climate impacts.

Metrics and Targets

SDS measures the following emissions sources as per the Green House Gas Protocol methodology:

- Scope 1: gas heating and f-gas (fugitive emissions from heating, ventilation and cooling systems) for sites operated by SDS;
- Scope 2: electricity generation for sites operated by SDS; and
- Scope 3: electricity transmission and distribution for sites operated by SDS, business travel, commute travel, waste, water, hotel stays and energy from home working.

The table below shows SDS's annual emissions by scope in tonnes of carbon dioxide equivalent (tCO2e) since the baseline year of 2019-2020.

	2025-26	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20
Scope 1	**85**	**105**	**104**	**159**	**152**	**149**	**144**
Scope 2	**77**	**149**	**160**	**211**	**219**	**200**	**299**
Scope 3	**1,072**	**1,271**	**1,340**	**1,681**	**1,126**	**506**	**2,781**

These figures are reported annually in the mandatory Public Bodies Climate Change Duties Reporting. SDS has a target to reduce emissions from the above sources by 67% by 2030 on a 2019-20 baseline with a long-term target of net zero by 2045, aligning with the Scottish Government.

In 2025-26, SDS's carbon footprint decreased by 63% relative to the 2019-20 baseline. This is ahead of the 40% reduction required by 2025-26 to be on track for our target of a 67% reduction by 2030. Emissions from commute travel have seen the biggest reduction (-69%) against our 2019-20 baseline, showing that colleagues are continuing to make best use of our digital capability which allows for hybrid working where appropriate.

A progress report detailing the actions achieved and the progress towards our 2030 emissions reduction target is available on our **website**.

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 continued to be particularly relevant during 2025-26 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 briefing updates regarding key activities within SDS, details are also provided regarding future opportunities for Board members to engage with stakeholders.

Customer engagement	
Examples of engagement	**Outcomes**
■ Our Evaluation & Research team evaluates all SDS products and services to support continuous improvement, leading on SDS colleague, customer and stakeholder research, as well as managing our sponsored PhD programme, in collaboration with the Scottish Graduate School of Social Science;	**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.**
■ Extensive engagement with all 32 Local Employability Partnerships (LEPs) involving local authorities, third sector and 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;	
■ Partnership agreements with 360 maintained secondary schools and 83 non-maintained secondary schools to support school pupils access Career Information, Advice and Guidance;	
■ Extensive engagement support with Developing the Young Workforce;	
■ Community of Practice events bringing together delivery partners, stakeholders and providers regularly throughout the year to share successful practice and identify enhancements to delivery that improve the experience of our customers;	
■ Work with industry and employers to understand current and future demand for skills in the Scottish economy. The Regional and Sectoral Skills Assessments that we develop with these partners – including the **Forth Valley Regional Skills Action Plan 2025-28** in 2025/26 - provide the basis for informing skills elements of the City and Regional Growth Deals developed between the UK Government, Scottish Government and groups of Scottish Local Authorities;	
■ A **Workforce North Action plan** in place with Highland Council, bringing together local and national partners with industry to drive co-investment opportunities across key growth sectors. We are working with other council areas in the Convention of the Highlands and Islands area to develop bespoke plans; and	
■ Work with the Scottish Apprenticeships Advisory Board (SAAB) to help us shape products and services inclusive of employer voice and ensure we deliver services in line with employer need.	

Case Study

Workforce North
Luchd-obrach Tuath

Workforce North: a mission to align investment, skills and opportunity

Workforce North is a shared mission to align the public and private sectors behind one clear goal: ensuring the Highlands and Islands has the skilled workforce needed to realise the full value of major economic investment, delivering lasting benefits for communities.

The mission brings together national and local partners with employers and industry to maximise the impact of billions of pounds of renewables, construction and infrastructure investment expected over the next 15 years. Its primary focus is to better align investment decisions, workforce demand and skills provision, so growth translates into fair work, sustainable careers and long term prosperity.

Central to Workforce North is closer collaboration between public agencies and industry, including increased employer co-investment in upskilling and reskilling, and the creation of clear, supported pathways into employment. The mission connects people, employers and partners to opportunity by aligning training, apprenticeships and learning more closely with real jobs and future workforce needs.

For people, Workforce North supports the development of careers close to home, encourages those who have moved away to return, and helps attract new talent to the region. For employers, it provides insight into workforce requirements, access to stronger talent pipelines and a more coordinated skills system. For partners and policy makers, it offers a shared framework for turning investment into inclusive economic growth.

An action plan is already in place for the Highland local authority area and plans for other areas are in development.

Workforce North is delivered through partnership between Skills Development Scotland, The Highland Council, Highlands and Islands Enterprise, the University of the Highlands and Islands, the Scottish Funding Council and the Inverness and Cromarty Firth Green Freeport, working alongside employers, industry bodies and other local authorities in the region.



Colleague engagement	
Examples of engagement	**Outcomes**
■ All colleague "Your Views" survey in November, with team engagement and implementation of the results ongoing. 84% of colleagues participated; ■ Transform 27 - regular colleague engagement on the development and implementation of our transformation to a more sustainable and effective delivery model, "Question of the Fortnight", senior leadership communications, a dedicated intranet area and Teams calls; ■ Colleague Roadshows - engagement with senior leaders, insight into SDS's strategic direction and team CPD; ■ Scottish Government reform – continued engagement with colleagues on the latest developments; ■ Focus on health/wellbeing engagement through a Wellbeing at Work Strategy 2024-27, complemented by a dedicated Wellbeing Hub as part of a wider, ongoing "Life at SDS" campaign on environmental issues (including Scotland's Climate Week), company benefits and social/volunteering activities; ■ An in-person Annual Everyday Leadership Awards to recognise exceptional colleagues/ teams; ■ Senior leadership engagement including a Board Bulletin to keep colleagues up to date on strategic developments; and ■ Regular engagement via all colleague communications channels such as the "Weekly Update", intranet and Viva Engage, as well as a six-weekly Leadership Update with senior colleagues.	**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.**

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 which meets monthly to share best practice on actions to address the climate emergency with other public sector organisations;	**Supports Board commitment for SDS to fully contribute to Scottish Government's commitment to a just transition, working to local, national and international best practice. Stakeholder concerns discussed and taken forward as appropriate.**
■ Support for Scotland's Climate Week, highlighting work internally and externally to promote collaborative green skills initiatives with partners and stakeholders, including a series of climate-related public sector agency webinars and social media activity;	
■ Volunteering is encouraged under our special leave policy, with links to environmental community-focused opportunities available on our intranet;	
■ Creation of an easy-to-use **Offshore Wind brochure** in partnership with SOWEC to raise awareness/understanding of career opportunities in the sector, particularly for young people;	
■ Panel member and presenter at the Scotsman Green Skills Conference in November 2025 on the next generation of green skills, improving engagement between schools and industry;	
■ Publication of our **Climate Change Progress Report 2022-24** to engage stakeholders in how we're working to reduce our own climate impact; and	
■ A **partnership with Bertha Park High School and The James Hutton Institute** to help teachers educate young people about skills and careers to support the climate transition.	

Case Study

Innovative partnership inspiring future green skills

In November 2025, a partnership between Skills Development Scotland, Bertha Park High School and **The James Hutton Institute** helped teachers educate young people about skills and careers to support the climate transition.

Hutton researchers collaborated closely with SDS Careers Advisers and high school teachers to run an innovative event that brought together young people, teachers, academics and business professionals.

The Hutton is renowned for its pioneering science that finds solutions for the challenges posed by the climate and nature crises and is committed to the training and development of the next generation of researchers.

Having a workforce equipped with green skills expertise will be critical to reaching Scottish Government's ambition for a just transition. All participants were challenged to think differently about making education fit for the future.

Dr Alison Karley, Head of Ecological Sciences at the Hutton and one of the event organisers, said, "Young people feel anxious and powerless in influencing the direction of travel on the climate transition."

Skills Development Scotland Careers Adviser, Maxine Scott said: "The workshop was designed to help young people explore and develop their meta skills, which are increasingly valued by employers. By encouraging research and linking learning directly to industry, we're supporting young people to build confidence, understand real-world applications, and prepare for success in how to adapt their skills into their rapidly evolving careers."

Katrina Cuthbertson, Principal Teacher of Guidance at Bertha Park High School said, "The workshop exemplified the transformative potential of cross-sector collaboration in advancing sustainability, fostering innovation and equipping learners with future ready skills."



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

Enterprise and skills agencies, parliament, government and local authorities	
Examples of engagement	**Outcomes**
■ 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	**Board intelligence for decision-making by seeking support for, and endorsement of, SDS key aims. Supports Scottish Government ambitions for Scotland. Parliamentary and Government issues or concerns brought to Board attention and addressed directly with political representatives.**
■ 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.	

Financial Overview

The results for the year to 31 March 2026 are contained in the attached financial statements, prepared in accordance with the 2025-26 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 2025-26 comprised a revised grant-in-aid provision of £203.7 million (2025: £199.5 million). Revenue for the year was supplemented with other income generating activities of £10.9 million (2025: £10.7 million) on a cost recovery basis.

Removing the effects of actuarial adjustments, the financial statements for the year to 31 March 2026 report an operating deficit of £1.5 million (2025: £0.5 million).

Financial Management

In a highly constrained public sector funding environment, SDS delivered a strong financial outturn in the year to 31 March 2026, demonstrating strong financial stewardship and a continued focus on prioritising frontline delivery.

The company commenced the year with a core Grant-in-Aid allocation of £199.2 million and a modest resource budget deficit of £0.1 million, reflecting well-understood and tightly managed cost pressures. Through active budget management and sustained financial discipline, and welcoming in-year budget transfers of £4.6 million to support the delivery of additional targeted training initiatives and an increase in the rate of employer national insurance contributions, the budget deficit was more than offset as we exceeded our operational delivery without the need to draw on £0.2 million of the ultimately available £203.8 million Grant-in-Aid.

Investment in national training programmes remained robust and closely aligned with strategic priorities, totalling £105.9 million; an increase of £1.0 million on the previous year. Funding of Modern Apprenticeships increased to £92.2 million (2025: £91.0 million), supporting a deliberate shift towards longer duration and higher cost frameworks that are most vital to Scotland's economy and society, and which better meet employer demand and deliver improved learner outcomes. Investment in Foundation and Graduate Apprenticeships was £8.6 million (2025: £10.9 million), reflecting Graduate Apprenticeship investment is now limited to residual commitments while the Scottish Funding Council is responsible for delivery of new Graduate Apprenticeships. Targeted investment also continued across priority programmes, including the Oil and Gas Transition Training Fund (£1.2 million), Teaching Bursaries (£1.6 million), and the development of apprenticeship frameworks and national occupation standards (£1.9 million). In addition, prudent budget management during the year enabled SDS to provide £2.0 million of co-investment to the Workforce North initiative at the end of the year with the aim of creating the workforce needed for the Highlands and Islands to deliver major investment and long-term economic growth across its local communities.

Excluding adjustments for the actuarial revaluation of our pension funds, our staffing costs were £0.3 million higher than the previous year. The increase takes account of an unfunded 4.5% Scottish Government pay award which was effectively absorbed through proactive workforce planning and efficiency measures, including a £0.5 million investment in a cost-neutral voluntary severance programme, allowing SDS to maintain its commitment to no compulsory redundancies while protecting service delivery.

Our Transform 27 programme has remained central to strengthening SDS's financial sustainability and organisational resilience this year. Since 2022-23, cumulative cost pressures in excess of £71.5 million have been successfully managed against a 2021-22 baseline. This includes cumulative income reduction of £33.1 million, unfunded pay policy pressures of £21.0 million, and a £17.3 million increase in Modern Apprenticeship costs. These pressures have been mitigated through sustained efficiency measures, including reductions in headcount, estate and corporate overheads. Since 2022-23, headcount has reduced by 17.1%, delivering staff cost savings of £16.5 million, and administrative and infrastructure overheads have fallen by 11.3%, generating £7.1 million of corporate savings while maintaining service quality.

Delivering our 2025–26 Operating Plan within the resource and capital budgets ultimately allocated by Scottish Ministers was challenging and reinforced the critical importance of the Transform 27 programme in sustaining high quality and impactful public services through to 2027, as set out in our Strategic Plan. Guided by Transform 27, the final outturn against each element of the Scottish Government budget allocation for the year ended 31 March 2026 was as follows:

	Expenditure	Income	Outturn	Allocation	Overspend/ (underspend)
	£'000	£'000	£'000	£'000	£'000
Resource budget (see below)	213,688	(11,514)	202,174	203,675	(1,501)
Capital budget	373	-	373	175	198
Non-cash costs including depreciation	2,805	-	2,805	2,887	(82)
Total budget	216,866	(11,514)	205,352	206,737	(1,385)
Annually managed expenditure	2,286	-	2,286	2,037	249

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

	£'000
Total expenditure on ordinary activities, including tax[3]	218,714
Depreciation charge allocated to non-cash costs	(2,805)
Net pension costs attributed to annually managed expenditure	(2,077)
Corporation tax charged to annually managed expenditure	(144)
Interest income on cash balances	(577)
Attributable to other sources, including IT services	(10,937)
	202,174

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

Risk and Uncertainty

Clear and consistent guidance supported staff at all levels as we managed the challenges presented both internally and externally during 2025-26. The year was characterised by ongoing challenges and uncertainties surrounding the Scottish Government reform agenda, the pace of reforms to the skills delivery landscape, threats to our digital offerings, and macro budgetary pressures across the entire Scottish public sector.

Our risk management framework was strengthened through a review of our Risk Management Policy, which enhanced our approach towards risk to underscore the importance of risk management and internal controls in achieving key business goals and objectives.

Upon identification, key risks were included in our Corporate Risk Register and mitigated as the business addressed uncertainties throughout the financial year. The Risk Register assessed strategic and operational risks, including those arising from current challenges in delivering the goals set out in the Strategic Plan. The Corporate Risk Register was regularly reviewed, and amendments made by the SDS directors as we navigated the evolving environment during the year. It was considered by the Executive Governance Board members at each meeting and was formally reported to the Audit and Risk Committee on a quarterly basis. A snapshot of the risks at 31 March 2026 is provided below:

- Execution of Scottish Government reforms;
- Financial sustainability post-reform;
- Workforce and organisational capacity;
- Cyber threat; and
- AI transformation.

The impacts of the budget challenges which SDS and the public sector in Scotland are encountering are significant and, combined with the reform of the post-school education and skills system, creates a heightened level of uncertainty for SDS. However, SDS has adopted dynamic and robust actions and approaches to escalation outside the normal risk management process and these risks are being managed through our Transform 27 programme and through close working relationship with the Scottish Government sponsor team.

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 2026, the company's Statement of Financial Position had net assets of £20.5 million (2025: £22.0 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 2026-27.

The directors have considered the Scottish Ministers' priorities for the reform of the skills delivery landscape, including the enactment of the Tertiary Education and Training (Funding and Governance) (Scotland) Act, which provides for the future transfer of the company's apprenticeship function to the Scottish Funding Council from April 2027, 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.

Future Developments

The strategic context in which we operate remains challenging, with increasing global instability impacting economies and job markets, while factors such as the climate emergency and rapid technological advancements continue to transform industries and subsequently the demand for skills. Additionally, economic strains, such as slow growth and high inflation, alongside continuing pressures on public sector finances, are driving an urgent requirement to identify and adopt innovative, efficient, and impactful approaches to public service delivery.

SDS's Letter of Guidance 2026/27 was issued on 25 March 2026 by the Minister for Higher and Further Education. It includes a clear ask of SDS to remain focused on delivering our core products, services, and functions during this time of change, and our number one priority remains providing the high-quality support our customers need. As such, our primary concern for the year ahead remains to maximise high quality apprenticeship opportunities, address critical skills needs in the economy and deliver a high quality, impartial, all-age Careers Information, Advice and Guidance service. Further details on our delivery priorities will be contained within our Annual Operating Plan 2026/27.

Following the passing of the Tertiary Education and Training Act, and in partnership with the Scottish Funding Council and Scottish Government, there is significant work to do in the year ahead to ensure a legally compliant transition of apprenticeship provision and staff. Throughout this, we are committed to upholding our responsibilities as a fair work employer, and to protecting and maintaining the future of apprenticeships for the individuals, employers and learning providers involved.

2026/27 marks the final year of our current five-year Strategic Plan period. Thinking to the future beyond the apprenticeship transition, throughout the year we will be developing a new Strategic Plan, and working with Government, stakeholders, and our colleagues to establish the future purpose and priorities for the organisation. Building on our Transform 27 programme to date, we will seek to optimise the deployment of our organisational capabilities, partnerships, data, and technology, to maximise impact and move toward a more sustainable target operating model for the future.

By order of the Board

Damien Yeates

Damien Yeates
Director and Accountable Officer
30 September 2026

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 ^	
Dr L Cameron CBE^	(appointed 1 September 2026)
E Corcoran *	(term ended 14 January 2026)
S Cowan *	(reappointed 19 March 2026)
Dr M Dames *	(reappointed 8 January 2026)
S Davis *	(appointed 8 January 2026)
V Erasmus ^	(reappointed 1 June 2025, resigned 22 May 2026)
Dr C Evans *	(term ended 21 January 2026)
D Gallacher *	(appointed 8 January 2026)
N Hamid *	(term ended 14 January 2026)
Z Hedges *	(appointed 8 January 2026)
Prof D Hillier *	(reappointed 8 January 2026)
G Hutcheon ^	(reappointed 1 June 2025)
L Macdonell *	(appointed 8 January 2026)
J Mackay ^	(appointed 1 April 2026)
Dr P Malik *	(reappointed 8 January 2026)
M McCaig *	(reappointed 24 March 2026)
F Mitchell *	(Chair)
C Pollock *	(term ended 14 January 2026)
D Rankin ^	
P Taylor *	(reappointed 8 January 2026)
L Thomson *	(appointed 8 January 2026)
D Yeates +	(Chief Executive)

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

S Davis, D Gallacher, Z Hedges, L Macdonell and L Thomson were appointed as non-executive directors on 8 January 2026.

Dr M Dames, Prof D Hillier, Dr P Malik and P Taylor were reappointed as non-executive directors on 8 January 2026. S Cowan was reappointed as a non-executive director on 19 March 2026, and M McCaig was reappointed as a non-executive director on 24 March 2026.

The terms of E Corcoran, N Hamid and C Pollock as non-executive directors ended on 14 January 2026. Dr C Evans's term as a non-executive director ended on 21 January 2026.

V Erasmus was reappointed as co-opted board members on 1 June 2025 and resigned on 22 May 2026.

G Hutcheon was reappointed as co-opted board members on 1 June 2025.

J Mackay was appointed as a co-opted board member on 1 April 2026, and Dr L Cameron was appointed as a co-opted board member on 1 September 2026.

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 five times during the year (2025: four 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 oversee 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 2026 the Committee met six times (2025: five times).

The Finance and Operational Performance Committee oversee 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 2026 the Committee met six times (2025: five 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 2026 the Committee met four times (2025: three times).

The Service Development Committee oversee 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 2026 the Committee met five times (2025: 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 2026 the Committee did not meet (2025: no meetings).

Results
The financial statements report a total comprehensive expense for the year of £1.4 million (2025: £0.4 million) which is influenced by IAS 19 pension adjustments. Removing the effects of actuarial activities, the operating deficit is £1.5 million (2025: £0.5 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 £0.9 million for the pension schemes at 31 March 2026 (2025: £0.9 million).

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 working days of receipt. While trade creditor days as at 31 March 2026 were 10 days (2025: nine days), invoices for commercial goods and services were paid on average for the year within four days of receipt (2025: 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 2026 were £nil (2025: £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 2026, we received and responded to 56 Freedom of Information requests (2025: 40). There were one request (2025: no requests) 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 2026.

The directors present their report and the audited financial statements for the year ended 31 March 2026. 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

Damien Yeates
Director and Accountable Officer
30 September 2026

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 business travel and/or 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 c10.0%. This would exclude performance pay, bonus or ex-gratia payments if these had occurred. Employer contributions are 12.0%. 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 2026 was as follows:

	2025-26				2024-25			
	Salaries/ fees (banded)	Taxable benefits	Pension benefits (banded)	Total (banded)	Salaries/ fees (banded)	Taxable	Pension benefits (banded)	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
F Mitchell (Chair)	40 - 45	0.2	-	40 - 45	40 - 45	-	-	40 - 45
T Black^	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
E Corcoran* (term ended 14/01/26)	5 - 10	0.4	-	5 - 10	5 - 10	-	-	5 - 10
S Cowan*	10 - 15	0.2	-	10 - 15	10 - 15	-	-	10 - 15
M Dames*	5 - 10	0.2	-	5 - 10	5 - 10	-	-	5 - 10
S Davis* (appointed 08/01/26)	-	-	-	-				
V Erasmus^ (resigned 22/05/26)	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
C Evans* (term ended 21/01/26)	5 - 10	0.3	-	5 - 10	5 - 10	-	-	5 - 10
D Gallacher* (appointed 08/01/26)	0 - 5	-	-	0 - 5				
N Hamid* (term ended 14/01/26)	10 - 15	-	-	10 - 15	5 - 10	-	-	5 - 10
Z Hedges* (appointed 08/01/26)	0 - 5	-	-	0 - 5				
D Hillier*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
G Hutcheon^	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
L Macdonell* (appointed 08/01/26)	0 - 5	-	-	0 - 5				
P Malik*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
M McCaig*	-	-	-	-	-	-	-	-
C Pollock* (term ended 14/01/26)	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
D Rankin^	5 - 10	0.1	-	5 - 10	5 - 10	-	-	5 - 10
P Taylor*	5 - 10	-	-	5 - 10	5 - 10	-	-	5 - 10
L Thomson* (appointed 08/01/26)	0 - 5	-	-	0 - 5				

* non-executive ^ co-opted board member

In the year to 31 March 2026, M McCaig opted to waive their full year equivalent banded remuneration of £5,000 to £10,000 (2025: £5,000 to £10,000). S Davis opted to waive their full year equivalent banded remuneration of £5,000 to £10,000 following their appointment on 8 January 2026. The full year equivalent banded remuneration for D Gallacher, Z Hedges, L Macdonell and L Thomson, who were also each appointed on 8 January, was £5,000 to £10,000 for the year to 31 March 2026.

The total emoluments of the Chair, non-executive directors and co-opted board members for the year to 31 March 2026 were £162,815 (2025: £154,448) and include £nil (2025: £nil) in respect of compensation payments for loss office.

Executive remuneration for the year to 31 March 2026 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.

	2025-26				2024-25			
	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
D Yeates **Chief Executive**	155 - 160	6.2	60 - 65	225 - 230	150 - 155	6.2	65 - 70	220 - 225
C Anderson **Director of Human Resources**	110 - 115	5.0	40 - 45	160 - 165	110 - 115	5.0	35 - 40	155 - 160
A Livingstone **Director of Finance, Information Governance, Resilience and Risk**	120 - 125	5.0	55 - 60	180 - 185	115 - 120	5.0	50 - 55	170 - 175
J Prentice **Director of Corporate Affairs**	105 - 110	5.0	45 - 50	160 - 165	100 - 105	5.0	50 - 55	155 - 160
N Prentice **Senior Director of Delivery**	150 - 155	5.0	25 - 30	185 - 190	145 - 150	5.0	25 - 30	180 - 185
J Russell **Senior Director of Transformation (Interim)**	125 - 130	5.0	40 - 45	170 - 175	120 - 125	5.0	35 - 40	160 - 165

* This is a notional figure, the calculation of which is stipulated in the Government Financial Reporting Manual 2025-26 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.

Pension Entitlements

Executive pension benefits for the year to 31 March 2026 were as follows:

	Accrued pension at age 65 and related lump sum as at 31 March 2026	Real increase in accrued pension and related lump sum at age 65	Cash Equivalent Transfer Value		
			At 31 March 2026	At 31 March 2025	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
D Yeates	55 - 60	2.5 - 5.0	1,021	921	61
C Anderson	30 - 35	2.5 - 5.0	503	448	36
A Livingstone	50 - 55	2.5 - 5.0	973	888	58
J Prentice	30 - 35	2.5 - 5.0	426	381	28
N Prentice	-	-	-	-	-
J Russell	20 - 25	2.5 - 5.0	302	261	25

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.

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 2026 was £165,000 to £170,000 (2025: £155,000 to £160,000).

	2025-26			2024-25		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Pay ratio	3.6 : 1	3.4 : 1	2.9 : 1	3.5 : 1	3.3 : 1	2.9 : 1
Remuneration (Salary)	£46,398 (£46,398)	£49,242 (£49,025)	£56,951 (£56,356)	£44,812 (£44,613)	£47,139 (£47,139)	£55,216 (£55,216)

For the year to 31 March 2026, the remuneration of the highest paid director increased by 3.8% (2025: 4.8%) while the average remuneration for the organisation as a whole increased by 3.6% (2025: 4.7%). 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 4.5% (2025: 3.8%) 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 2026.

The minimum full-time equivalent salary on the organisation's Pay and Grading Framework for the year to 31 March 2026 was £25,341 (2025: £24,366), ensuring all employees were paid above the Real Living Wage and reinforcing the organisation's commitment to fair work principles.

Damien Yeates

Damien Yeates
Director and Accountable Officer
30 September 2026

Statement of Directors' and Accountable Officer's Responsibilities



Statement of Directors' and Accountable Officer's Responsibilities

The Board 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;
- 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;
- assess the Company's ability to continue as a going concern; 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

Damien Yeates
Director and Accountable Officer
30 September 2026

Governance Statement by the Accountable Officer



Governance Statement

Scope of Responsibility

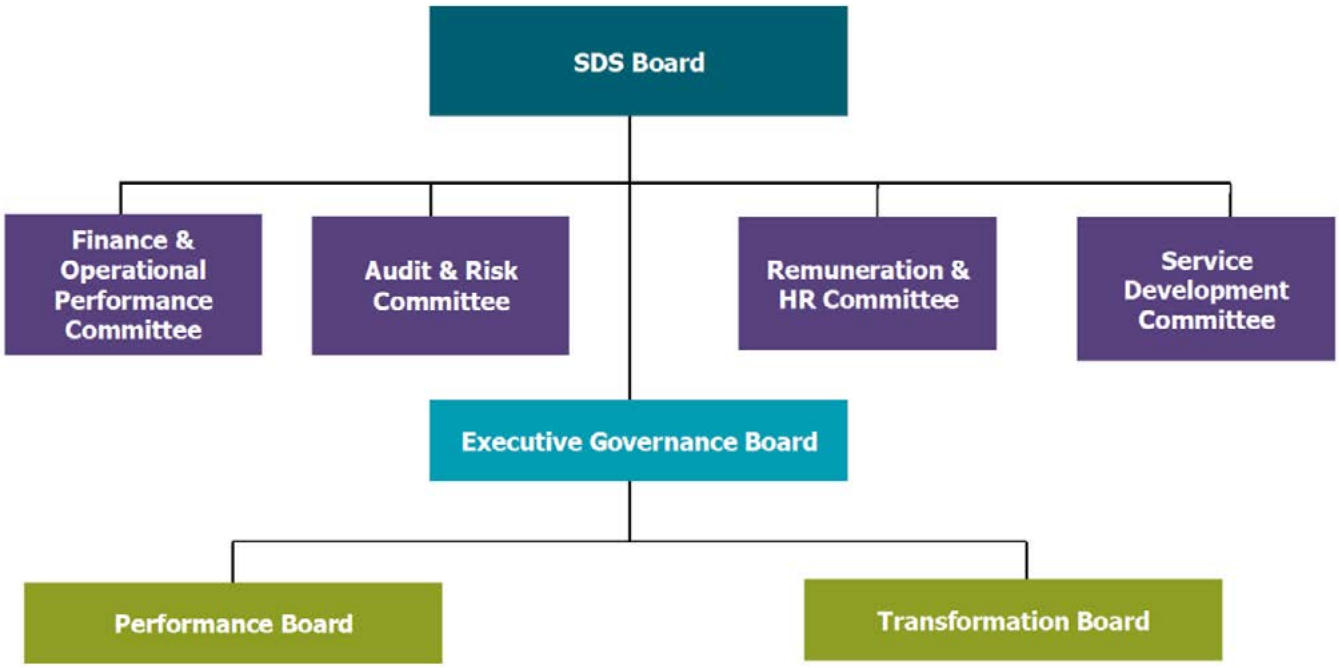
As the Accountable Officer, I am responsible for maintaining a robust system of governance that supports the achievement of Skills Development Scotland's policies, aims, and objectives as set by the Scottish Ministers. This includes safeguarding the public funds and assets for which I am personally responsible, in line with the responsibilities assigned to me.

As the Accountable Officer, 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 through an Annual Internal Control Checklist and a six-monthly Risk Assurance Statement. This encompasses risk management, operational effectiveness, 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 ensuring the integrity and reliability of information and data as set by Scottish Government in the Scottish Public Finance Manual (SPFM).

The SPFM is issued by the Scottish Ministers, provides 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



SDS has a Board in place to drive the implementation of government policy. The Board is responsible for setting the overall strategic direction of SDS within the framework determined by Scottish Ministers and ensuring the highest standards of governance are upheld. SDS has maintained and developed a prudent and effective framework of controls to enable risks to be assessed and managed.

The Board met five 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 six 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 met five times during the year.

Skills Development Scotland is committed to excellence and effective governance. The SDS Board regularly undertakes a self-assessment of its effectiveness, using questions based on externally benchmarked good governance guidance. This exercise also evaluates the effectiveness of Board Committees, and the findings inform the development of a Board Continuous Improvement Action Plan and a Board Continuing Professional Development (CPD) Plan. Additionally, the Board and Committees review their Terms of Reference annually to ensure they remain fit for purpose.

The Executive Governance Board is the top executive-level decision-making body, reporting to the SDS Board. The Executive Governance Board oversees SDS's overall performance, delivery, and future transformation. It also manages a streamlined approach to governance and decision-making, supported by a Performance Board and a Transformation Board. This structure aims to foster greater collaboration and cohesion across three interdependent portfolios: Delivery, Transformation, and Governance.

Skills Development Scotland's System of Internal Control

SDS's system of internal controls aligns with guidance from Scottish Ministers provided in the Scottish Public Finance Manual. This system has been in place for the year ended 31 March 2026 and up to the date of approval of the annual report and financial statements. It is designed to identify the principal risks to achieving and delivering SDS's performance targets, policies, aims, and objectives. The system evaluates the nature and extent of those risks and manages them efficiently, effectively, and economically. It is designed to manage rather than eliminate the risk of failure to achieve our policies, aims, and objectives, and provides reasonable/moderate, rather than absolute, assurance of effectiveness.

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

Internal Audit

During 2025-26 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 covering the Enterprise IS shared service. All internal audit services are delivered in accordance with the Global Internal Audit Standards.

The 2025-26 Internal Audit Plan, approved by the SDS Audit and Risk Committee, was informed by an analysis of the risks to which SDS is exposed. It included one advisory and four assurance reviews by Internal Audit, targeted at key risk areas including key financial controls and SDS's counter-fraud arrangements. This was supplemented by five EIS Partnership IT assurance reviews. The advisory review considered the internal Transform 27 programme, following on from a similar review in 2024-25.

The Internal Audit Annual Report and opinion was presented to the SDS Audit and Risk Committee on 18 June 2026. The Internal Audit opinion concluded that the programme of internal audit work carried out in 2025-26 identified an overall moderate level of assurance on SDS's framework of governance, risk management and control.

SDS has made improvements in several areas during the year in response to the Internal Audit findings identified, most notably in controls and governance relating to the EIS Partnership.

At each quarterly Audit and Risk Committee meeting Internal Audit provided a report on their internal audit activity. Management updated the Committee on progress with the implementation of Internal Audit recommendations following discussion and an independent evidential review by the Internal Audit team. The Internal Audit Annual Report concluded there was effective progress in implementing internal audit recommendations, with appropriate arrangements in place to monitor and assess the implementation of agreed management actions in response to Internal Audit recommendations.

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 the Executive Governance Board, 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 & Response Plan 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. It 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 align with the guidance issued by the Scottish Ministers and conforms to the Scottish Public Finance Manual. Building on several years of audited good practice, our framework includes the following key components:

- Risk Management Strategy: The strategy outlines how we will enhance current processes to manage risks affecting SDS's performance and the delivery of our strategic and operational objectives.
- Risk Management Policy: The policy defines SDS's Risk Appetite and the procedures for identifying and controlling risks. It is accessible to all staff on the Skills Development Scotland intranet.
- Risk Information Management System: The system is used to consistently record, monitor, and report on risks across SDS.
- Corporate Risk Register: The register documents risks that impact SDS's performance and our ability to achieve strategic goals and objectives, including those arising from Scottish Government reforms and challenges. These risks are reviewed monthly by the Executive Governance Board and quarterly by the Audit and Risk Committee, which also considers progress on agreed actions to manage the risks.
- Portfolio, Directorate, Business Area, and Project Risk Registers: The risk registers identify and document significant risks, outlining the key reasons for current risk exposure and plans to achieve optimal risk exposure.
- Senior Management Assurance: Senior management complete detailed six-monthly Risk Assurance Statements and Annual Internal Control Statements to assure the Accountable Officer those internal controls, including risk management arrangements, are effective and continuously monitored.

- Individual Risk Owners: Each identified risk has a designated risk owner responsible for monitoring the risk and ensuring the implementation of mitigating actions.
- Audit and Risk Committee Oversight: The committee reviews the effectiveness of SDS's risk management approach and receives quarterly Risk Management Reports. The Board also receives regular updates on internal control from the Chair of the Audit and Risk Committee.
- Directorate Responsibility: Directorates are responsible for early and comprehensive reporting of critical business risks. Specialist functions such as business continuity, health and safety, and cyber and information security manage specific types of risk, providing assurance to the Board and management.
- Awareness and Training: Regular awareness and training sessions are held, and a risk management element is included in our induction of new staff. There is also a dedicated section on Risk Management Guidance on the SDS intranet.

Key achievements in risk management during the year

Our Risk Management Strategy continues to evolve, strengthening our processes and supporting alignment with our strategic and operational objectives. Our Risk Management Policy clearly defines our risk appetite and control measures and makes them easily accessible to all staff. The policy provides a clear framework for risk management across the organisation. We have embedded a Risk Information Management System, which supports consistent risk recording, monitoring, and reporting across SDS, helping to ensure that all risk-related information is readily available to inform decision making.

Regular review of the Corporate Risk Register by the Executive Governance Board and the Audit and Risk Committee has supported oversight of risks that may impact performance and delivery of strategic goals, allowing timely consideration of appropriate mitigating actions. Completion of the Risk Assurance Statements and Internal Control Statements has provided robust assurance of the effectiveness of our internal controls, reinforcing our commitment to effective risk management and good practice.

Proactive risk ownership continues to be a key component of our risk management strategy. Designated risk owners have consistently monitored risks and implemented mitigating actions, ensuring effective risk management at all levels. Quarterly reviews of the Risk Management Reports by the Audit and Risk Committee has provided critical oversight in maintaining the effectiveness of our risk management approach. The reports provided a comprehensive overview of our risk landscape and the actions taken to address identified risks. Our Risk Management function has provided targeted assurance in critical areas such as business continuity, health and safety, and cyber security, demonstrating the expertise needed to manage specific risk areas effectively.

Awareness and training sessions were delivered on an ongoing basis to support staff understanding of risk management practices. The sessions continue to help promote awareness of risk across the organisation, empowering staff to identify and manage risks effectively in their day-to-day activities.

The management of risk is a collective responsibility at SDS, with all managers and staff expected to be risk aware. Employees have a personal responsibility to:

- be aware of and comply with policies and procedures;
- identify, eliminate where possible, or control risks;
- notify line managers of risks that cannot be adequately managed; and
- participate in risk management education and training.

These arrangements support SDS in maintaining a structured and proactive approach to risk management, ensuring we continue to deliver on our goals effectively and efficiently.

Details of significant risk-related matters during the year

The 2025-26 financial year presented significant challenges for SDS due to budget pressures and changes to the operating environment. Throughout the year, SDS focused on achieving the best use of resources in support of Scottish Government priorities while avoiding any detriment to service delivery.

The reform of the post-school education system posed an ongoing risk to the future function and remit of SDS. There is a level of uncertainty regarding the transfer of undertakings, including employment obligations, to the Scottish Funding Council, and this has been identified as a corporate risk.

In response to these risks, SDS adopted dynamic and robust actions early in the budget cycle, including escalations outside the normal risk management process. Risks deriving from the reform of the post-school education system are being managed through our Transform 27 programme and our Transformation portfolio. SDS believes that the potential performance risk to SDS and the sustainability of Transform 27 in the future are being effectively managed and mitigated.

SDS, like most public sector agencies, is aware of the ever-increasing threats to cyber security in the face of regular and sophisticated cyber-attacks. Many public sector organisations have been victims of cyber-attacks. SDS continues to mitigate the likelihood of a successful major cyber-attack and has developed and tested plans to recover from such an event should it occur. As a result, SDS has developed and deployed key controls and mitigations. This includes regular and robust risk identification, cyber communication, cyber training, cyber reporting, and cyber assurance.

Artificial Intelligence (AI) presents significant risks to SDS and the broader public sector, primarily due to its rapid evolution and the potential for misuse. AI's capabilities can be exploited to conduct sophisticated cyber-attacks, create deepfake-driven misinformation campaigns, and automate large-scale fraud, posing substantial threats to data security and public trust. The integration of AI into public sector operations requires robust governance frameworks to manage these risks effectively. Without proper oversight, AI could undermine democratic processes, disrupt public services, and compromise sensitive information. SDS has recognised these risks and is actively working to mitigate them through comprehensive risk management strategies, including the implementation of a Digital Strategy and regular risk assessments.

Significant lapses of data security

In the year to 31 March 2026 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 2026.

This conclusion is 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 their reports.

Damien Yeates

Damien Yeates
Director and Accountable Officer
30 September 2026

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 2026 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 2025/26 Government Financial Reporting Manual (the 2025/26 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 2026 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 2025/26 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 27 May 2025. My period of appointment is three years, covering 2024/25 to 2026/27. 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, the Directors' Report, and the 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, the Directors' Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on 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.



Lisa Duthie
Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

30 September 2026

Statement of Financial Position



Statement of Financial Position

	Notes	2026 £'000	2025 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	1,672	3,146
Right of use assets	5	2,997	4,033
		4,669	7,179
CURRENT ASSETS			
Trade and other receivables	6	3,035	3,843
Cash and cash equivalents		28,811	29,228
		31,846	33,071
TOTAL ASSETS		36,515	40,250
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Retained earnings	7	20,528	21,975
TOTAL EQUITY		20,528	21,975
LIABILITIES			
NON-CURRENT LIABILITIES			
Lease liabilities	8	1,894	2,737
Retirement benefit obligations	9	862	877
		2,756	3,614
CURRENT LIABILITIES			
Trade and other payables	10	11,071	11,185
Current income tax liabilities	11	144	171
Provisions for other liabilities and charges	12	1,046	2,139
Lease liabilities	8	970	1,166
		13,231	14,661
TOTAL LIABILITIES		15,987	18,275
TOTAL EQUITY AND LIABILITIES		36,515	40,250

The notes on pages 67 to 101 are an integral part of these financial statements.

The financial statements on pages 60 to 101 were approved by the board of directors and authorised for issue on 30 September 2026 and were signed on its behalf by:

Damien Yeates

Damien Yeates
Director and Accountable Officer

Statement of Comprehensive Income



Statement of Comprehensive Income

	Notes	2026 £'000	2025 £'000
Revenue	15	**214,598**	210,224
Cost of sales		**(10,178)**	(10,017)
Gross surplus		**204,420**	200,207
Operating expenditure	16	**(179,854)**	(178,389)
Administrative expenses	16	**(28,268)**	(27,837)
Operating deficit		**(3,702)**	(6,019)
Finance cost	18	**(270)**	(263)
Finance income	18	**577**	685
Deficit on ordinary activities before tax		**(3,395)**	(5,597)
Tax expense	11	**(144)**	(171)
Deficit on ordinary activities after tax		**(3,539)**	(5,768)
Other comprehensive income items that will not be reclassified to profit or loss:			
Actuarial gains recognised in retirement benefit scheme	9	**2,092**	5,377
Other comprehensive income for the year		**2,092**	5,377
Total comprehensive expense for the year		**(1,447)**	(391)

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

The notes on pages 67 to 101 are an integral part of these financial statements.

The total comprehensive expense for the year is £1.4 million (2025: £0.4 million) and is influenced by IAS 19 pension adjustments. Removing the effects of those actuarial pension adjustments, the operating expense is £1.5 million (2025: £0.5 million).

Statement of Changes in Taxpayers' Equity



Statement of Changes in Taxpayers' Equity

	£'000
Balance at 1 April 2024	**22,366**
Total Comprehensive expense for the year	**(391)**
Balance at 31 March 2025	**21,975**
Total Comprehensive expense for the year	**(1,447)**
Balance at 31 March 2026	**20,528**

Statement of Cash Flows



Statement of Cash Flows

	Notes	2026	2025
		£'000	£'000
Cash flows from operating activities			
Cash receipts: Grant-in-aid		**203,661**	199,547
Cash receipts: Customers		**11,290**	30,073
Total cash received		**214,951**	229,620
Cash paid to suppliers and employees		**(214,368)**	(221,636)
Cash generated from operations		**583**	7,984
Interest received	18	**577**	685
Income tax paid		**(171)**	(159)
Net cash generated from operating activities		**989**	8,510
Cash flows from investing activities			
Purchase of property, plant and equipment		**(100)**	(851)
Proceeds on disposal of property, plant and equipment		**10**	7
Net cash generated from investing activities		**(90)**	(844)
Cash flows from financing activities			
Payment of lease liabilities		**(1,316)**	(1,459)
		(1,316)	(1,459)
Net (decrease)/increase in cash and cash equivalents		**(417)**	6,207
Cash and cash equivalents at beginning of year		**29,228**	23,021
Cash and cash equivalents at end of year		**28,811**	29,228

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 2025-26 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 2026-27 is £198.0 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, listed 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) Contingent Liabilities

IAS 37 Provisions, Contingent Liabilities and Contingent Assets defines a Contingent Liability as a possible liability, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the company's control. Contingent liabilities often cannot be reliably quantified; where values can be determined these have been provided.

Contingent liabilities are not recognised within the Statement of Comprehensive Income or Statement of Financial Position but are disclosed within the notes to the accounts.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Leases

Assumptions

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

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.

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 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 4.72% for calendar year 2024, 4.81% for calendar year 2025 and 5.32% for calendar year 2026.

The lease payment is measured at amortised cost using the effective interest method. It is remeasured 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; and
- Variable lease payments that depend on an index or a rate, initially measured using the index rate as at the commencement date.

When the lease liability is remeasured 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.

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.

(s) 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.

(t) Accounting standards issued not yet adopted

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

- IFRS 18 Presentation and disclosure in financial statements

  IFRS 18 will replace IAS 1 Presentation of Financial Statements and is effective for annual reporting periods beginning on or after 1 January 2027 in the private sector. The impact of IFRS 18 on the Public Sector is still being assessed, and a decision has not yet been taken on an implementation date.

Note 2 - Critical Accounting Estimates and Judgements

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 either 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 therefore does not recognise an economic benefit in that regard. It has also made judgment that the economic benefit arising from a reduction in future contributions is equal to the present value of future employer 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 applied in determining 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 are 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 2026, after recognising the effect of the asset ceiling, the company's pension schemes had a net liability of £0.9 million (2025: £0.9 million). 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 2026	Approximate % increase to Employer Liability	Approximate monetary amount (£'000)
0.1% decrease in Real Discount Rate	2%	6,592
0.1% increase in the Salary Increase Rate	0%	399
0.1% increase in the Pension Increase Rate	2%	6,190
1-year increase in member life expectancy	4%	15,719

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 2024	1,209	5,706	6,915
Additions	851	-	851
Disposals	(79)	(599)	(678)
At 31 March 2025	1,981	5,107	7,088
At 1 April 2025	1,981	5,107	7,088
Additions	100	-	100
Disposals	(180)	(46)	(226)
At 31 March 2026	1,901	5,061	6,962
Depreciation			
At 1 April 2024	393	2,732	3,125
Provided during the year	391	1,034	1,425
Eliminated on disposal	(48)	(560)	(608)
At 31 March 2025	736	3,206	3,942
At 1 April 2025	736	3,206	3,942
Provided during the year	588	983	1,571
Eliminated on disposal	(177)	(46)	(223)
At 31 March 2026	1,147	4,143	5,290
Net Book Value			
At 31 March 2026	754	918	1,672
At 31 March 2025	1,245	1,901	3,146
At 31 March 2024	816	2,974	3,790

As at 31 March 2026, the company had capital commitments of £nil (2025: £nil) for the acquisition of property, plant and equipment.

Note 5 - Right of Use Assets

	Property Leases	Total
Cost:	£'000	£'000
At 1 April 2024	7,778	7,778
Additions	739	739
Disposals	(1,023)	(1,023)
Revaluations	(153)	(153)
At 31 March 2025	7,341	7,341
At 1 April 2025	7,341	7,341
Additions	148	148
Disposals	(1,034)	(1,034)
Revaluations	190	190
At 31 March 2026	6,645	6,645
Depreciation:		
At 1 April 2024	2,845	2,845
Provided during the year	1,400	1,400
Eliminated on disposal	(937)	(937)
At 31 March 2025	3,308	3,308
At 1 April 2025	3,308	3,308
Provided during the year	1,234	1,234
Eliminated on disposal	(894)	(894)
At 31 March 2026	3,648	3,648
Net Book Value		
At 31 March 2026	2,997	2,997
At 31 March 2025	4,033	4,033
At 31 March 2024	4,933	4,933

The revaluations in the year ended 31 March 2026 relate to two leased properties (2025: two leased properties) where the scope of the lease was reduced and five leased properties (2025: two leased properties) where the scope of the lease 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

	2026	2025
	£'000	£'000
Amounts falling due within one year		
Trade receivables	**1,418**	1,788
Provision for doubtful debts	**(1)**	(33)
	1,417	1,755
Other receivables	**8**	6
Prepayments	**1,332**	1,786
Accrued Income	**297**	321
Provision for expected credit losses	**(19)**	(25)
	3,035	3,843

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

	2026	2025
	£'000	£'000
Amounts falling due within one year		
Central government bodies	**1,595**	1,960
Local authorities	**60**	327
PLC	**30**	-
Bodies external to government	**1,350**	1,556
	3,035	3,843

As at 31 March 2026 the company had trade receivables with a carrying value of £59,283 (2025: £24,084) 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:

	2026	2025
	£'000	£'000
Up to 3 months past due	**50**	14
3 to 6 months past due	**9**	6
Over six months past due	**-**	4
	59	24

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 Earnings

	2026	2025
	£'000	£'000
At 1 April 2025	**21,975**	22,366
Total comprehensive expense for the year	**(1,447)**	(391)
At 31 March 2026	**20,528**	21,975

Note 8 - Lease Liabilities

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

	2026	2025
	£'000	£'000
Property Leases		
Not later than one year	**970**	1,166
Later than one year and not later than five years	**1,861**	2,560
Later than five years	**33**	177
	2,864	3,903

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, as is the case for SDS, HM Treasury discount rates are applied. These cover calendar years and were 4.72% for 2024, 4.81% for 2025 and 5.32% for 2026.

Note 9 - Retirement Benefits Assets and Obligations

The company participated in the following Local Government Pension Schemes (LGPS) in the year to 31 March 2026:

- 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 £8.2 million (2025: £8.2 million), consisting of £8.0 million (2025: £8.0 million) to the Strathclyde Pension Fund and £0.2 million (2025: £0.2 million) to the Highland Pension Fund. Included within trade and other payables (Note 10) are outstanding contributions of £nil (2025: £nil) due to the Strathclyde Pension Fund and £nil (2025: £nil) due to the Highland Pension Fund at 31 March 2026.

In 2026-27, total contributions to LGPS are expected to be £4.6 million reflecting contribution rates set following the most recent triennial valuation.

Actuarial valuations are prepared on a regular basis, 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.

	2026	2025
	£'000	£'000
Present value of funded defined benefit obligations	**(392,117)**	(377,568)
Fair value of plan assets	**660,268**	604,390
	268,151	226,822
Present value of unfunded obligations	**(862)**	(877)
Net asset	**267,289**	225,945

Effect of asset ceiling limitation on net asset	2026	2025
	£'000	£'000
Net asset	**267,289**	225,945
Effect of asset ceiling limitation on net defined benefit asset	**(268,151)**	(226,822)
At 31 March	**(862)**	(877)

The net assets of the defined benefit plan at 31 March 2026 has been measured to the aggregate of the unfunded liabilities and the lower of the surplus in the funded plan and the asset ceiling.

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 2026 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: £385.2 million
- Net present value of employer future contributions: £581.5 million

Movement in present value of defined benefit and unfunded obligations	2026	2025
	£'000	£'000
Opening defined benefit obligation	**378,445**	424,124
Current service cost	**9,907**	12,841
Past service cost, including loss on curtailment	**351**	526
Interest cost on defined benefit obligation	**22,028**	20,697
Actuarial gain arising from remeasurements	**(10,239)**	(72,612)
Contributions by plan participants	**4,446**	4,411
Benefits paid	**(11,959)**	(11,542)
At 31 March	**392,979**	378,445

Movement in fair value of plan assets	2026	2025
	£'000	£'000
Opening fair value of plan assets	**604,390**	582,538
Interest income on plan assets	**35,077**	28,250
Return on assets excluding amounts included in net interest	**20,026**	(7,547)
Contributions by employer	**8,212**	8,204
Contributions by plan participants	**4,446**	4,411
Contributions in respect of unfunded benefits	**76**	76
Benefits paid	**(11,959)**	(11,542)
At 31 March	**660,268**	604,390

Expense recognised in the statement of income	2026	2025
	£'000	£'000
Current service cost	**9,907**	12,841
Past service cost, including loss on curtailment	**351**	526
Interest cost on defined benefit obligation	**22,028**	20,697
Interest income on plan assets	**(35,077)**	(28,250)
Interest on the effect of the asset ceiling	**13,156**	7,731
Total	**10,365**	13,545

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

	2026	2025
	£'000	£'000
Operating expenditure	**8,412**	10,907
Administrative expenses	**1,846**	2,460
Finance cost	**107**	178
	10,365	13,545

Amount recognised in the statement of comprehensive income:	2026	2025
	£'000	£'000
Return on assets excluding amounts included in net interest	**20,026**	(7,547)
Actuarial (loss)/gain arising from changes in demographic assumptions	**(2,292)**	733
Actuarial gain arising from changes in financial assumptions	**15,631**	68,412
Actuarial (loss)/gain arising from other experience adjustments	**(3,100)**	3,467
Effect of asset ceiling limitation on net defined benefit asset	**(28,173)**	(59,688)
Total remeasurement recognised in the statement of comprehensive income	**2,092**	5,377

The fair value of the plan assets was as follows:

	31 March 2026			31 March 2025		
	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	130,963	390	**131,353**	124,982	360	**125,342**
Debt securities	14,474	2,875	**17,349**	12,744	2,652	**15,396**
Private equity	-	142,909	**142,909**	-	131,682	**131,682**
Real estate	4,131	45,570	**49,701**	4,214	41,959	**46,173**
Investment funds and unit trusts	20,062	282,175	**302,237**	9,824	259,335	**269,159**
Cash and cash equivalents	2,023	14,696	**16,719**	3,107	13,531	**16,638**
	171,653	488,615	**660,268**	154,871	449,519	**604,390**

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

	2026	2025
	%	%
Discount rate	**6.30**	5.80
Future salary increases	**3.70**	3.45
Price inflation (RPI)	**3.25**	3.05
Future pension increases	**3.00**	2.75

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 18 years at 31 March 2026.

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 2026 (2025: 25bps).

In valuing the liabilities arising from retirement benefit obligations at 31 March 2026, 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 2026 would have increased by £15.7 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 2026 is based on CMI 2025 future improvements, with core parameterisation except an initial adjustment of 0.25%. This represents a change from the prior year assumption, which was based on CMI 2023 future improvements. Both CMI 2025 and CMI 2023 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: 21.1 years (male), 23.8 years (female)
- Future retiree upon reaching 65: 21.9 years (male), 25.0 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:

Statement of Financial Position	2026 £'000	2025 £'000	2024 £'000	2023 £'000	2022 £'000
Present value of scheme liabilities	(392,117)	(377,568)	(423,135)	(414,997)	(574,013)
Fair value of scheme assets	660,268	604,390	582,538	520,904	517,886
Unfunded liabilities	(862)	(877)	(989)	(1,028)	(1,233)
	267,289	225,945	158,414	104,879	(57,360)
Effect of asset ceiling limitation on net asset	(268,151)	(226,822)	(159,403)	(104,879)	-
Deficit	(862)	(877)	(989)	-	(57,360)

Experience adjustments	2026 £'000 %	2025 £'000 %	2024 £'000 %	2023 £'000 %	2022 £'000 %
Experience adjustments on scheme liabilities and as a percentage of scheme liabilities	3,100 1%	(3,467) (1%)	7,538 2%	17,943 4%	881 0%
Experience adjustment on scheme assets and as a percentage of scheme assets	20,026 3%	(7,547) (1%)	28,879 5%	(21,380) (4%)	26,529 5%
	23,126	(11,014)	36,417	(3,437)	27,410

Note 10 - Trade and Other Payables

	2026	2025
Amounts falling due within one year	£'000	£'000
Trade payables	**1,028**	355
Social security and other taxes	**437**	440
Accruals and deferred income	**9,606**	10,390
	11,071	11,185

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

	2026	2025
Amounts falling due within one year	£'000	£'000
Central government bodies	**2,234**	2,541
Local authorities	**307**	494
NHS bodies	**25**	31
Public corporations	**115**	21
Bodies external to government	**8,390**	8,098
	11,071	11,185

Note 11 - Tax Expense

	2026	2025
	£'000	£'000
Analysis of tax charge in the period:		
UK Corporation Tax:		
Current tax on income for the period	**144**	171
Adjustment in respect of prior periods	**(-)**	(-)
Total Current Tax	**144**	171
Deferred Tax:	**-**	-
Tax on Surplus on Ordinary Activities	**144**	171

The tax assessed for the period is the standard rate applying in the UK of 25% (2025: 25%).

	2026	2025
	£'000	£'000
Factors affecting tax charge for the period:		
Current Tax Reconciliation		
Deficit on ordinary activities before tax	**(3,395)**	(5,597)
Current tax @ 25%	**(849)**	(1,399)
Effects of:		
Non-taxable income and disallowable expenditure	**993**	1,570
Tax deducted at source	**(-)**	(-)
Current tax charge	**144**	171
Balance Sheet Note		
Corporation tax payable	**144**	171

Note 12 - Provisions for Liabilities and Charges

	At 1 Apr 2024	Increase in year	Released to Income & Expenditure	Utilised	At 31 Mar 2025
	£'000	£'000	£'000	£'000	£'000
Dilapidations	1,626	499	(158)	(414)	1,553
European Social Fund	-	48	-	-	48
Expenses	-	538	-	-	538
Training	142	-	(137)	(5)	-
	1,768	1,085	(295)	(419)	2,139

	At 1 Apr 2025	Increase in year	Released to Income & Expenditure	Utilised	At 31 Mar 2026
	£'000	£'000	£'000	£'000	£'000
Dilapidations	1,553	154	(60)	(601)	1,046
European Social Fund	48	-	-	(48)	-
Expenses	538	-	(188)	(350)	-
	2,139	154	(248)	(999)	1,046

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 European Social Fund provision related to the potential recovery of ineligible grant payments associated with SDS's participation in the 2014-2020 ESF Programme, the value of which could only be confirmed upon completion of the relevant Audit Authority audits in advance of formal closure of the programme by the Managing Authority.

The Expenses provision related to costs which may have arisen from a voluntary notification to HM Revenue & Customs of the company's assessment of historic employee expenses which may have incorrectly been treated as qualifying for tax relief.

The Training provision related to the cost of approved training which was 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) The valuation of defined benefit and unfunded liabilities at 31 March 2026, 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 legal cases:

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

These cases relate to matters such as benefit equalisation and treatment of certain categories of pension benefit. 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 consider that it is not practicable to estimate the financial effect of an associated contingent liability at 31 March 2026.

Accordingly, no provision has been recognised in respect of these matters. Any impact will be reflected in the pension liability in the period in which it becomes probable that an obligation exists and the amount can be reliably measured.

b) The Tertiary Education and Training (Funding and Governance) (Scotland) Act received Royal Assent on 11 March 2026 and provides for the transfer of SDS's apprenticeship function to the Scottish Funding Council in April 2027. The transfer is expected to involve the transfer of affected employees under the Transfer of Undertakings (Protection of Employment) Regulations, resulting in statutory obligations to inform and consult with employees and their representatives, and SDS will require significant input from the SFC on how transferee obligations will be discharged.

In addition, the transfer may also result in a reduced requirement for certain roles and resource levels within SDS following the transfer date, which could give rise to further employment-related costs. At 31 March 2026, the detailed arrangements for the transfer had not been finalised and the timing, scope and potential financial impact of these matters remained uncertain.

The directors consider that it is not practicable to estimate the financial effect of any associated contingent liability at 31 March 2026. Accordingly, no provision has been recognised in the financial statements. Any costs arising will be recognised in the period in which an obligation arises and can be reliably measured.

Note 14 - Lease Obligations

	Within one year	Between second and fifth year	After five years
	£'000	£'000	£'000
Leasehold Property			
31 March 2026	51	16	-
31 March 2025	46	14	-

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

	2026	2025
	£'000	£'000
Grant-in-aid	**203,661**	199,547
Customer contracts	**9,689**	9,618
Other income	**1,248**	1,059
	214,598	210,224

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

		2026	2025
		£'000	£'000
IT services	Central government bodies	**9,259**	9,105
Other contracts	Central government bodies	**290**	256
	Local authorities	**26**	95
	NHS bodies	**2**	2
	PLC	**1**	-
	Bodies external to government	**111**	160
		9,689	9,618

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

Note 16 - Expenditure

	2026	2025
(a) Operating Expenditure	£'000	£'000
National training programmes	**105,867**	104,931
Industry and Employer Engagement	**3,181**	931
Staff costs supporting operations	**70,806**	72,527
	179,854	178,389
(b) Administrative Expenses		
Infrastructure, management & administration	**9,175**	7,913
Information, communication & technology/information systems	**6,660**	6,436
Staff costs supporting administration	**12,433**	13,488
	28,268	27,837
(c) Included in the above are:		
Auditors' remuneration:		
• Audit of these financial statements	**132**	**126**
• Audit of financial statements of subsidiaries pursuant to legislation	**-**	**-**
Depreciation (Note 4)	**1,571**	**1,425**
Depreciation on right of use assets (Note 5)	**1,234**	**1,400**
Leasehold property rentals	**228**	**375**
Directors' remuneration (Note 17)	**1,083**	**1,038**

Note 17 - Employee Benefit Expense and Numbers

	2026	2025
	£'000	£'000
Salaries	**66,174**	65,302
Severance	**434**	2,696
Social security costs	**8,759**	7,300
Apprenticeship levy	**311**	310
Other pension costs (Note 9)	**9,907**	12,841
Past service cost, including curtailments (Note 9)	**351**	526
Increase/(decrease) in accrued employee benefits	**283**	(230)
	86,219	88,745
Car allowances	**130**	136
	86,349	88,881

Average number of full-time equivalent employees:

	2026	2025
Non-executive directors and advisers	**16**	15
Executive Board (Chief Executive and senior executive managers)	**6**	6
Operational	**1,036**	1,048
Administrative	**224**	233
	1,282	1,302

The average number of full-time equivalent employees includes an average of 21 employees (2025: 23 employees) on fixed term contracts. In the year to 31 March 2026, staff turnover consisted of 87 new starts (2025: 28 new starts) and 74 leavers (2025: 114 leavers).

In addition to its employee resource, in the year to 31 March 2026, SDS was supported by the following off-payroll engagements where the worker earned £245 per day or more.

2026		2026	
Number of existing engagements at 31 March	**14**	**Number of temporary off-payroll workers engaged during the year**	**22**
Of which, number that existed:		Of which:	
less than 1 year	8	Not subject to off-payroll legislation	-
for between 1and 2 years	4	Subject to off-payroll legislation and determined as in-scope of IR35	16
for between 2 and 3 years	1	Subject to off-payroll legislation and determined as out-of-scope of IR35	6
for between 3 and 4 years	-	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 2026 (2025: nil). The total number of board members and/or senior officials with significant financial responsibility during the year to 31 March 2026 was 26 (2025: 21).

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 £165,097 (2025: £158,979). Additionally, the employer's pension contributions in respect of this director amounted to £18,312 (2025: £17,608). Actual pension accrued up to 31 March 2026 for the director is £58,822 per annum (2025: £54,283). 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 44. There is no fixed cash benefit in this scheme.

The emoluments of the registered non-executive directors amounted to £128,791 (2025: £121,879).

The emoluments of all registered directors amounted to £293,888 (2025: £280,858).

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:

	2026	2025
	£'000	£'000
Salary	**1,008**	967
Pension	**75**	71
	1,083	1,038

Compensation Schemes – Exit Packages

In the year to 31 March 2026, 10 employees, equating to 8.3 full time equivalent employees, committed to leave Skills Development Scotland under voluntary severance (2025: 69 employees, equating to 60.5 full time equivalent employees).

In the year to 31 March 2026 no employees (2025: no employees) left under compulsory redundancy.

	2025-26			2024-25		
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	1	-	1	1
£10,000 - £25,000	-	-	-	-	9	9
£25,000 - £50,000	-	4	4	-	32	32
£50,000 - £100,000	-	4	4	-	26	26
£100,000 - £150,000	-	1	1	-	-	-
£150,000 - £200,000	-	-	-	-	1	1
Total number of exit packages by type	-	10	10	-	69	69
Total resource cost	-	£527,523	£527,523	-	£3,241,386	£3,241,386

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

Four employees retired early on health grounds during the year.

Note 18 - Finance Income and Costs

	Notes	2026 £'000	2025 £'000
Finance income:			
Interest income on bank deposits		**577**	685
		577	685
Finance costs:			
Expected return on pension scheme assets	**9**	**35,077**	28,250
Interest on pension scheme liabilities	**9**	**(22,028)**	(20,697)
Interest on the effect of the asset ceiling		**(13,156)**	(7,731)
IFRS 16 finance cost		**(163)**	(85)
		(270)	(263)

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
- Highland Council

Skills Development Scotland made payments of £116,400 (2025: £720) to CBI, of which T Black is a Chief Commercial Officer. Total outstanding at 31 March 2026 is £nil (2025: £nil). Sales receipts from CBI amounted to £nil (2025: £nil) and the balance outstanding at 31 March 2026 is £nil (2025: £nil). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £684,208 (2025: £538,761) to Scottish Enterprise, of which P Malik is a Board Member. The balance due at 31 March 2026 is £17,089 (2025: £nil). Sales receipts from Scottish Enterprise amounted to £7,330,599 (2025: £7,075,322) and the balance outstanding at 31 March 2026 is £915,719 (2025: £862,363). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £55,472 (2025: £95,379) to NHS Ayrshire and Arran, of which S Cowan is a Non-Executive Director. Total outstanding at 31 March 2026 is £nil (2025: £nil). Sales receipts from NHS Ayrshire and Arran amounted to £662 (2025: £634) and the balance outstanding at 31 March 2026 is £nil (2025: £nil). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £3,145,327 (2025: £3,002,965) to the University of the Highlands and Islands, of which V Erasmus is Chair of the University of the Highlands and Islands Inverness. The balance due at 31 March 2026 is £6,470 (2025: £768). Sales receipts from the University of the Highlands and Islands amounted to £6,955 (2025: £6,336) and the balance outstanding at 31 March 2026 is £nil (2025: £nil). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £26,480 (2025: £221,543) to Glasgow Caledonian University, of which D Gallacher is a Lay Governor. Total outstanding at 31 March 2026 is £nil (2025: £nil). Sales receipts from Glasgow Caledonian University amounted to £nil (2025: £nil) and the balance outstanding at 31 March 2026 is £nil (2025: £nil). All transactions are conducted at arm's length.

Skills Development Scotland made payments of £2,362 (2025: £16,110) to Scottish Council for Development & Industry, of which L Thomson is a Non-Executive Director. Total outstanding at 31 March 2026 is £220 (2025: £nil). Sales receipts from Scottish Council for Development & Industry amounted to £nil (2025: £nil) and the balance outstanding at 31 March 2026 is £nil (2025: £nil). 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	5,083	5,083	2,143	2,940
	5,083	5,083	2,143	2,940

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:

	2026 Carrying Amount	2025 Carrying Amount
	£'000	£'000
Financial assets		
Trade and other receivables	**1,704**	2,009
Cash and cash equivalents	**28,811**	29,228
	30,515	31,237

At 31 March 2026, there was an impairment provision of £20,319 (2025: £106,364) 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:

	2026 Carrying Amount	2026 Fair Value	2025 Carrying Amount	2025 Fair Value
	£'000	£'000	£'000	£'000
Trade and other receivables	1,704	1,704	2,009	2,009
Cash and cash equivalents	28,811	28,811	29,228	29,228
Trade and other payables	(5,083)	(5,083)	(6,520)	(6,520)
	25,432	25,432	24,717	24,717

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

Dated 24/4/08