

**SCOTTISH FUTURES TRUST LIMITED**

**ANNUAL REPORT AND  
GROUP FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2016**

**SCOTTISH  
FUTURES  
TRUST**

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

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## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### CHAIRMAN'S STATEMENT

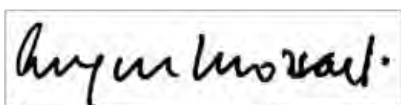
I am glad to present Scottish Futures Trust's annual report and accounts for the year ended 31 March 2016. Our purpose is to achieve more operationally and financially effective public infrastructure, working on the investment planning, design, financing, delivery, efficient use and disposal of assets across Scotland. We are operationally independent, bringing a professional approach and a focus on delivery, working to lead and liberate the talents and aspirations of a host of excellent people in public bodies and industry.

Infrastructure has a significant role in underpinning short term economic growth and jobs as well as enhancing longer term productivity. Effective investment decision making and delivery is ever more important within Scotland's new fiscal framework where our investment choices and performance will be more closely linked to future public sector revenues. SFT's programmes are geared to that objective. Our work on economic investment supports a wide range of projects including the regeneration of the St James Quarter in Edinburgh, through a growth accelerator deal. Our construction programmes across Scottish Schools for the Future, the Non-Profit Distribution programme and the hub programmes have also supported more than £1.8bn of investment and associated jobs in Scotland's public estate.

Other material achievements by SFT during 2015/16 include: completion of the NPD-funded Inverness College and the Riverside Campus in Glasgow, which are benefitting thousands of students and teaching staff; the launch of LAR (Local Affordable Rent) Housing Trust as an independent charity, to deliver an initial 1,000 mid-market rent homes over the next five years; and, further increasing Scotland's Schools for the Future Programme, which is managed by SFT, to 112 schools.

Innovative thinking and using our professional expertise and confidence to challenge the status quo are at the very heart of SFT. Our commercial approach means we are well on our way to achieve our corporate objective of securing £500-£750m of benefits and savings between 2014 and 2019. Quality matters to us, and so does our passion for great design, which I am particularly pleased has led to RIAS awards for both the Lairdsland Primary School and City of Glasgow College Riverside Campus in this, Scotland's year of innovation, architecture and design. That has been very uplifting.

This annual report, in which I take pride, is my last as Chairman of the Scottish Futures Trust. Our journey, from a completely new start has taken a course which has been carefully evolved to enable us to be clearly focussed, liberated from bureaucracy and constantly striving to decide and deliver. During the past eight years it has been a privilege and pleasure to work with many able people towards a shared vision of world class infrastructure for the people of Scotland. The vision remains strong, and I believe that our way of working with independent minds, self-challenging professionalism and an open mind to focussed collaboration, have been shown to deliver and may bear adoption elsewhere in the public sector.



**Sir Angus Grossart**  
Chairman

22 August 2016

## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### STRATEGIC REPORT

The directors present their Annual Report and the Consolidated Financial Statements for the year ended 31 March 2016 of the Scottish Futures Trust Limited Group (incorporating the wholly owned subsidiary Scottish Futures Trust Investments Limited “SFTi” and the Company, Scottish Futures Trust Limited “SFT”).

The directors consider the Annual Report and Financial Statements taken as a whole, to be fair, balanced and understandable and provide the information necessary to assess the Company’s performance, business model and strategy.

#### Principal Activity

The principal activity of the Group is to support the efficiency and effectiveness of public infrastructure investment and procurement across Scotland. Its central aim, as set out in the Management Statement and Financial Memorandum (MSFM) with the sole shareholder remains:

*“To improve the efficiency and effectiveness of infrastructure investment in Scotland by working collaboratively with public bodies and commercial enterprises, leading to better value for money and providing the opportunity to maximise the investment in the fabric of Scotland and hence contribute to the Scottish Government’s single overarching purpose to increase sustainable economic growth.”*

The Group’s total comprehensive income for the year was £473,969 (2014/15: £3,342,421). This surplus arose within the subsidiary, SFTi as explained in the Financial Review below. SFT made a profit before tax of £nil (2014/15: £nil). The Company is not permitted by its Memorandum and Articles of Association to make distributions, other than on winding up. No dividends have been paid or are proposed.

#### Strategy

The Scotland Act 2012 came into force on 1 April 2015 giving Scotland borrowing powers for capital expenditure. With these new powers, SFT is working with its public and private sector colleagues to explore the best funding and financing solutions for projects in pursuit of its overall objective of securing the best possible value for money across infrastructure investment in Scotland.

During the 2015/16 financial year, SFT increased its efforts across various work streams, with some programmes of work being extended, and some new ones being introduced. Many of the current programmes are on-going, and will remain a focus for SFT. These programmes have potential scope for additional investment and further innovative approaches to financing and delivery. In addition, we will also seek to work with the Scottish Government and other public bodies in new areas or sectors where there is an identifiable need for change in focus or significant investment required. SFT has already demonstrated the ability to adapt and develop its core commercial, technical and financial expertise into new areas of investment such as digital connectivity and supporting new programme areas such as Scotland’s Energy Efficiency Programme which has been designated a national infrastructure priority by Ministers.

#### Business Review & Key Performance Indicators

The business has continued to achieve its delivery targets as anticipated in the 2015/16 Business Plan, delivering benefits of £146m in the year which contributes significantly to our target of £500m - £750m of savings over a rolling five-year period. Our activities during the financial year straddled a wide arena of areas such as housing, economic investment, digital connectivity, asset management, low carbon as well as managing major infrastructure delivery programmes for the Scottish Government such as Scottish Schools for the Future and delivering new build infrastructure through the hub programme.

## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### STRATEGIC REPORT (continued)

#### Business Review & Key Performance Indicators(continued)

During the 2015/16 financial year this has included the following notable achievements:

- Following development work by SFT, the LAR (Local Affordable Rent) Housing Trust was launched as an independent charity to deliver an initial 1,000 mid-market rent homes over the next five years.
- Within economic investment, following the successful implementation of SFT's Growth Accelerator by The City of Edinburgh Council in 2014/15, it was announced in 2015/16 that Dundee City Council would adopt SFT's Growth Accelerator for use at the Waterfront area and other locations across the City. SFT continues to work with local authorities to develop strong business cases to allow the Growth Accelerator to be used to its full potential to unlock significant additional economic benefit across Scotland. These activities have facilitated £250m of planned public sector investment which in turn will unlock more than £1.5bn of private sector investment.
- SFT has led the development of an approach to implement the Scottish Government's World-Class digital programme which will continue into 2016/17.
- By 31 March 2015, over £1.9bn of community based infrastructure was either under construction, open or in development under the SFT managed hub and NPD programmes. This is supporting many thousands of jobs as construction of new schools, hospitals, roads and colleges continue.
- Within asset management SFT acted as a strategic partner with NHS Lothian, submitting a masterplan for the redevelopment of a vacant 220-acre hospital site on the outskirts of Edinburgh for more than 800 homes and the creation of a new community. We also assisted City of Glasgow College to sell its surplus sites including the now iconic 14-storey city-centre North Hanover Street building.
- Through SFT's Street Lighting Toolkit, investment in energy-efficient street lighting reached £45m with the Toolkit being rolled out across the UK by DECC.

Further success can be measured by the impact the company's work has had on peoples' lives. SFT's work is securing employment, opening up new training and apprenticeship positions, delivering more affordable-rent housing, expanding access to superfast broadband and is improving working environments by having flexible, energy-efficient and well-designed buildings.

The Company's objectives for each year are established in detail in its published business plan. This year, objectives were set against key performance indicators across ten separate areas of the business, with progress reported to the Board at each Board meeting. The objectives for 2015/16 and our performance against these can be found on SFT's website.

The SFT Group is structured with an operating company, SFT, which employs the staff and undertakes the day-to-day business and a wholly owned subsidiary SFTi. SFTi holds investments in hub companies, investments in infrastructure projects delivered by hub companies and membership of 28 joint venture LLPs delivering homes through the National Housing Trust. This helps separate investment activity from the operational aspects of the parent company.

This document comprises the Annual Report and Financial Statements of the Group (being SFT and SFTi together) and the parent Company, SFT. As is required by law, a separate Annual Report and Financial Statements are prepared for SFTi which can be viewed on SFT's website.

SFT follows International Financial Reporting Standards (IFRSs) and applies the best practice in Corporate Governance required by the Financial Reporting Council's "UK Corporate Governance Code". Each of these sets of standards imposes significant and very structured requirements for information that must be included in this document. SFT takes seriously the Financial Reporting Council's initiative on making reports

## **SCOTTISH FUTURES TRUST LIMITED**

### **ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

#### **STRATEGIC REPORT (continued)**

##### **Business Review & Key Performance Indicators (continued)**

less complex and more focused on material information. The Group has presented information as clearly and concisely as possible, which is consistent with these standards and gives users transparency over where and how public money is expended and invested. Pages 4-8 comprise the Strategic Report on the activities and finances of the Group including enhanced requirements to detail operational performance and risks. Pages 9-10 comprise the Directors' Report incorporating the Statement of the Directors' Responsibilities. Pages 11-24 provide a description of corporate governance arrangements and the role of our external auditor along with their opinion on the financial statements and corporate governance statement. Pages 25-30 comprise the key financial statements of the Group and the Company whilst pages 31-60 contain detailed notes accompanying the Financial Statements to explain the numbers in more detail and meet the requirements of applicable International Financial Reporting Standards.

The Group works to lead, develop and support delivery of major infrastructure investment programmes as discussed in the Business Review above. The funds associated with these projects do not generally flow through SFT as they come from the Scottish Government and a variety of other sources, and are granted directly to procuring public sector bodies such as Local Authorities, Health Boards and Scottish Government Agencies with which SFT works. These funds are then used by the public sector body to pay for the works procured from private sector contractors.

##### **Financial Review & Results**

In 2015/16 SFT's operating cost, reflecting the costs of our staff time and other internal and external resources used to deliver our work programme, was £9.7m. This increased from £8.7m in 2014/15 due principally to an increase in the resources required to deliver new programmes in Digital and Construction Procurement Review. The operating cost was fully funded by Scottish Government Grant and interest income from investments made in the hub programme. The investment income generated by our investments is now a significant source of our funding and has grown from £0.4m in 2014/15 to £0.8m in 2015/16, reflecting the increase in the scale of the investment portfolio.

Our Statement of Comprehensive Income also reflects the impact of fluctuations in the value of the pension scheme which supports our employees' pension interests. The results for 2015/16 include an actuarial gain of £1.6m in respect of the pension liability, compared to an actuarial loss of £1.6m in the prior year.

In addition to its operating costs, SFT provided £1.5m (2014/15: £9m) of capital enabling expenditure to projects progressing under the hub programme which was fully funded through receipt of Scottish Government capital grant. Capital grant is provided to support early stage project development and land purchases and the lower funding in 2015/16 reflects the maturity of the projects moving through the hub programme. SFT also made £3.8m (2014/15 £4.8m) of investments in the subordinated debt of hub projects funded by Scottish Government Loans. In 2014/15 investments were funded by a combination of £3.2m Scottish Government Grant and £1.6m of loans.

The Group Statement of Comprehensive Income records a surplus after tax of £0.5m (2015: £3.3m). The 2015/16 surplus was generated in SFT's subsidiary SFTi and reflects solely an operating surplus of investment income less administrative expenses and tax. In 2014/15 the higher surplus of £3.3m related to capital grant of £3.2m recorded as income and used to invest in hub projects (whereas all investments were made using loan funding in 2015-16) together with an operating surplus of £0.1m. Under the terms of its Memorandum and Articles of Association, the Company cannot distribute profits to its shareholders. Investments will make a return over time and these revenues will be used to offset costs in the Company and / or make further investments in infrastructure.

**SCOTTISH FUTURES TRUST LIMITED**  
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**STRATEGIC REPORT (continued)**

**Financial Review & Results (continued)**

The net assets of the Group increased by £0.5m from £6.1m at 31 March 2015 to £6.6m as at 31 March 2016. The major movements in the Statement of Financial Position contributing to this included a net increase in investments of £3.7m in the subordinated debt of and working capital loans to hub projects; an increase in cash balances of £0.3m to £2.0m (2014/15 £1.7m) and a decrease in the pension liability of £1.4m. This increase of £5.4m was offset by an increase in deferred income of £0.9m and a £4m increase in loans from the Scottish Government to fund the investments in the subordinated debt of hub projects.

**Risks and Mitigation**

The Group maintains a strategic risk register which is derived from an aggregation of the high-level risks of the projects and programmes in which SFT is involved, along with operational risks within the Group. Risks are evaluated against their potential to impact on the outcomes expected of SFT, the Group's operations and its stakeholders. The risks and management's mitigating actions are reviewed by the Board regularly. The table below details the significant Group operational risks and the Group's approach to managing and mitigating these. SFT is working with procuring bodies to mitigate these risks but does not have complete control over them.

<b>Significant Operational Risks</b>	<b>Approach to Management and Mitigation of Risks</b>
Risk of classification issues impacting upon the delivery of revenue funded infrastructure programmes	SFT are engaged in ongoing dialogue with Scottish Government, HM Treasury, Office of National Statistics and Eurostat regarding classification issues. This addresses the impact and mitigation of potential future changes in classification.
Resource levels in procuring authorities to take forward identified priority projects in a timely manner	SFT supports authorities by ensuring that resource needs are fully understood and where appropriate ensuring resource needs are incorporated into funding agreements for future projects.
Delay in progressing projects due to budgetary pressures	SFT promotes proactive management of programmes with clear, strong supporting evidence for the budgets required to ensure value for money is maximised and programmes continue to timetable.
The progress of TIF projects and the impact of developer delays	SFT works with Authorities and the respective developers to ensure that any assistance from a public sector perspective is considered fully.
Key staff retention	SFT's skilled staff are key to benefit delivery and have been recruited from a rare skills base. Failure to retain key staff remains a risk to benefit delivery. SFT will continue to focus on employee engagement and employee reward packages.

**Risk management and Internal Control**

The directors monitor SFT's risk management and internal control systems as detailed within the Statement of Internal Control. During the financial year 2015/16, an external review was undertaken of SFT's internal controls with no major issues being identified.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**STRATEGIC REPORT (continued)**

**Going Concern**

The directors believe it is appropriate for the SFT Financial Statements to adopt the going concern basis of accounting. This is based on confirmation of SFT's funding from its Shareholder, the Scottish Government, for the financial year 2016/17; SFT's role in delivering long-term programmes of investment which stretch into future financial years; and the regular discussion between the Board and the Scottish Government regarding SFT's future activities.

As such the directors believe SFT will be able to continue in operation and meet its liabilities taking account of its current position and principal risks and issues as detailed above and within the Report of the Audit Committee.

**Future Plans**

The Group's long-term plans are described in its 2014-19 Corporate Plan which can be found on SFT's website. The Group's priorities and detailed objectives are set out in its published 2016/17 Business Plan. Outcomes against these objectives will be published on SFT's website.

Following the year end, SFTi has invested in three hub projects namely the NHS Lothian Bundle DBFM, Largs Academy DBFM and Aberdeen South of City Schools DBFM.

Through delivering these objectives, the Group continues to aim to deliver between £500m and £750m of savings and benefits to infrastructure investment in Scotland over the five years of the corporate plan.

The 2016/17 operating budget has been set at £10.3m reflecting £1.1m of third party income and £9.2m of Scottish Government grant. It is anticipated by the directors that the budget will be fully utilised in the forthcoming year.

The Strategic Report is approved by the Board of Directors and signed on its behalf by:



**Barry White**  
**Chief Executive**

**22 August 2016**



# SCOTTISH FUTURES TRUST LIMITED

## ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### DIRECTORS' REPORT

#### Directors

The business review of the Group is included in the Strategic Report in accordance with the Companies Act 2006 s.414 (C11).

The directors who held office during the year and post year end are as follows:

Sir Angus Grossart	Chairman
Graeme Bissett	Non-executive Director
James Fletcher	Non-executive Director
Fiona Mackenzie	Non-executive Director
Carolyn Dwyer	Non-executive Director
Barry White	Chief Executive
Peter Reekie	Deputy Chief Executive and Director of Investments

The Company is wholly owned by the Scottish Ministers. Under section 251 of the Companies Act 2006, the Scottish Ministers are considered to be a Shadow Director of the Company.

#### Disclosure of Information to the Auditor

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

#### Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under section 487 (2) of the Companies Act 2006. The Group has elected to dispense with the holding of the AGM, the laying of financial statements in a general meeting and the annual appointment of the auditor as meetings between the sole shareholder, Scottish Ministers and the Company occur on a regular basis.

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial period. Under that law they have elected to prepare the Group and Company's Financial Statements in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and Parent Company and of the Group's profit for that period.

In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**DIRECTORS' REPORT (continued)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS (continued)**

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors have decided to prepare voluntarily a Report on Corporate Governance as if the Group were required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters.

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

On behalf of the Board:

A handwritten signature in black ink, appearing to read 'Barry White', with a stylized flourish at the end.

**Barry White**  
**Chief Executive**

**22 August 2016**

## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### REPORT ON CORPORATE GOVERNANCE

The Group is committed to high standards of corporate governance, business integrity and professionalism in all its activities. Throughout the accounting year ending 31 March 2016, the Group has complied with all the relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council as best practice guidance, except as explained below, notwithstanding that the Group is not a listed group to which the provisions are directed. The following exceptions are noted:

- there is no Nominations Committee as non-executive Board appointments, including their terms and conditions of employment, are determined by the Group's sole shareholder, the Scottish Ministers. Executive director appointments are considered by the Board;
- Non-executive directors are appointed to the Board by the Scottish Ministers - these appointments are made under a system regulated and monitored by the Commissioner for Ethical Standards in Public Life in Scotland whose policy on diversity and equality is available on their website;
- In view of the Group's responsibilities to take account of the provisions set out in the Management Statement and Financial Memorandum (MSFM), compliance is not appropriate with the provision in the UK Corporate Governance Code that performance-related elements of remuneration should form a significant proportion of executive directors' total pay package. The Board carries out the role of a Remuneration Committee as remuneration of non-executive directors is set by Scottish Government; and the Board makes recommendations for setting the remuneration level of the Chief Executive, which requires the approval of Scottish Ministers;
- The Board has not identified a Senior Independent Director as the shareholder appoints and appraises the performance of the Chairman, and the Chairman is considered independent and has no financial interest in the performance of the Company;
- The Board has requested the Audit Committee regularly review the need for an internal audit function. The size and nature of the organisation, alongside a clear controls framework and a specific extended review of controls in January 2016, has led the Audit Committee to conclude to date that such a function is not required.

#### Board of Directors

The Board is the principal decision-making forum. It has overall responsibility for leading and controlling the Group and is accountable to the Group's sole shareholder, the Scottish Ministers, for financial and operational performance. The Board approves Group strategy and monitors performance. The Board has adopted a formal schedule of matters specifically reserved for its decision, which is reviewed on an annual basis.

The roles of the Chairman and the Chief Executive are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all the directors. Executive directors have responsibility for all operational business and act in accordance with the authority delegated from the Board. Responsibility for the implementation of policy, strategy and operational management is delegated to the executive directors.

The Chairman's other significant commitments are chairmanship of: Noble Grossart Ltd (and related entities), Scotland International Ltd, Fine Art Society Plc, Lyon & Turnbull Ltd, Wright Health Group Ltd, Edinburgh Partners Ltd, Charlotte Street Partners, the Burrell Renaissance and The Edinburgh International Cultural Summit. The Chairman is also a non-executive director of Culture and Sport Glasgow, The Great Steward of Scotland's Dumfries House Trust (resigned 3 December 2015), Major's Place Industries Ltd and FALS Property Ltd.

## **SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

### **REPORT ON CORPORATE GOVERNANCE (continued)**

#### **Board of Directors (continued)**

Board meetings take place regularly throughout each period. Board meetings are structured to allow open discussion and all directors participate in discussing the Group's strategic aims and performance and financial and risk management. The Board is supplied with comprehensive information in advance of each Board Meeting, including financial and operational reports covering the Group's business activities.

Seven Board meetings were held during the year. The directors also participated in other meetings relating to aspects of the Group's activities during the year.

#### **Board Balance and Independence**

In the year ended 31 March 2016, the Board included five non-executive directors (including the Chairman). The Board considers that, based on the criteria set out in the provisions of the UK Corporate Governance Code, all non-executive directors are independent. The non-executive directors combine broad business and commercial experience with independent and objective judgement and constructively challenge and assist development of strategic matters. The Board functions effectively and efficiently and is considered to be of an appropriate size in relation to the Group's level of business and associated responsibilities.

The Board aims to achieve a balance between non-executive and executive directors so as to promote clear and effective leadership and maintain the highest standards of integrity and professionalism across the Group's business activities.

#### **Re-election of Directors**

The non-executive directors have been appointed and re-appointed by Scottish Ministers in accordance with the Office for the Commissioner for Ethical Standards in Public Life in Scotland's Code of Practice for Ministerial Appointments to Public Bodies in Scotland. The Chairman's term of office will end during financial year 2016/17 and a new Chair is currently being recruited by the Commissioner.

#### **Information**

As permitted by the Companies Act 2006, the Board has dispensed with the appointment of a Company Secretary. The Chairman is responsible for advising the directors on all governance matters and for ensuring that Board procedures are followed. All directors are entitled to obtain independent professional advice at the Group's expense. Minutes of Board and Sub-Committee meetings are available on the SFT website following their approval.

#### **Performance Evaluation**

The performance of non-executive directors is assessed by the Chairman and the performance of executive directors is assessed by the Chairman and the non-executive Directors. The Chairman's performance is assessed by the Scottish Government.

#### **Board Committees**

To provide effective overview and leadership, the Board can establish Committees composed of non-executive directors with specific governance responsibilities. The Committee's Chairmanship and Membership will be refreshed on a regular basis. Executive directors and senior managers are invited to attend Board and Committee Meetings as appropriate. Currently the only Board Committees are the Group Audit Committee and SFT's Investment Committee.

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**REPORT ON CORPORATE GOVERNANCE (continued)**

**Attendance at Board and Committee Meetings**

Attendance by Board Members at Board and Committee meetings held during the year was as follows:

	<b>SFT Board</b>	<b>Group Audit Committee</b>	<b>SFTi Board</b>	<b>SFTi Investment Committee</b>
<b>Number of meetings</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>7</b>
Sir Angus Grossart	7	-	4	-
Graeme Bissett	7	3	4	6
Carolyn Dwyer	6	-	4	6
James Fletcher	5	2	2	3
Fiona Mackenzie	6	2	4	5
Barry White	7	2*	4	3
Peter Reekie	6	1*	4	6

\*In attendance, not members of the Committee

Attendance at SFTi Investment Committee is on the basis of the necessary quorum being present, reflecting the nature of the agenda and the frequency of the meetings.

**Relations with Sole Shareholder**

As disclosed in the Directors' Report, the Group's sole shareholder, the Scottish Ministers, is considered to be a Shadow Director of the Group. The Chairman, on behalf of the directors has met with Scottish Ministers regularly during the period to understand their views and has reported these to the Board.

On behalf of the Board:



**Barry White**  
**Chief Executive**  
**22 August 2016**

## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### STATEMENT OF INTERNAL CONTROL

The key elements of the system of internal control are as follows:

#### Control Structure

Given the nature and size of the Group, SFT's control structure is the responsibility of directors and managers at all levels and there is no current need for a separate internal audit function, though this will be kept under review. The organisation has clear lines of responsibility and effective communication channels which ensures that best practice in managing risks and controls is consistently applied. In addition, the Group's external auditor presents reports to the Audit Committee which include any significant internal control matters which they have identified.

Separate controls and governance structures are in place across SFT's programmes. The Audit Committee receives an annual update on these.

#### Identification and Monitoring of Business Risks

The Group has adopted a risk-based approach to internal control by evaluating the likelihood and impact of risk and putting in place appropriate levels of control to mitigate each risk. Procedures include an ongoing process of identifying, evaluating and managing key risks and, where appropriate, enhancing the systems which manage these risks. Regular review of the risks is undertaken by the Audit Committee and ultimately the Board.

#### Corporate Information Systems

The Group operates a budgeting and financial reporting system, which includes the preparation of a business plan containing detailed annual budgets. The system provides monthly comparison of actual results against financial year budget and regularly revised forecasts, all of which are reviewed by the Board. Standard financial control procedures are in place which provide assurance on the integrity of the Group's finances.

#### Effectiveness of Internal Controls

The directors are responsible for reviewing the effectiveness of the Group's system of internal control, including internal financial control. This is designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

On behalf of the Board:



**Barry White**  
Chief Executive

**22 August 2016**

## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### REPORT ON DIRECTORS' REMUNERATION

Details of the Board's responsibilities for remuneration are set out within the Report on Corporate Governance. Details of a directors' remuneration are as follows:

#### Directors' Remuneration

In the year to 31 March 2016, the Company's non-executive directors were paid fees for their services to the Group. Each non-executive director has a letter of appointment outlining their expected time commitment and details of the per diem rate set by Scottish Government for non-executive Directors of £325. Sir Angus Grossart did not receive payment from Scottish Futures Trust Limited for his services as Chairman which totalled 42 days over the period. Expenses of £6,738 (2015: £6,738) were paid to Noble Grossart Limited, which is controlled by Sir Angus Grossart, in respect of administrative support services provided.

The fees received by the other directors in the years to 31 March 2016 and 31 March 2015 for duties provided to the Group are as follows:

	2016	2015
	£	£
James Fletcher	7,800	7,800
Graeme Bissett	7,800	7,800
Fiona Mackenzie	7,800	7,800
Carolyn Dwyer	7,800	7,800

The total expenses reimbursed during the year were £67 (2014/15: £nil).

Barry White was appointed as Chief Executive on 1 May 2009.  
His remuneration for the year was:

	2016	2015
	£	£
Salary	185,897	182,700
Pension	37,179	36,540
Car Allowance	11,500	11,500

Peter Reekie was appointed as Executive Director on 29 June 2010 and became Deputy Chief Executive and Director of Investments on 18 August 2014.  
His remuneration for the year was:

	2016	2015
	£	£
Salary	154,914	152,250
Pension	30,983	30,450
Car Allowance	9,200	9,200

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**REPORT ON DIRECTORS' REMUNERATION (continued)**

**Directors' Remuneration (continued)**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Highest paid Director's total remuneration	<b>197,397</b>	<b>194,200</b>
Median total remuneration	<b>70,118</b>	<b>73,050</b>
Ratio	<b>2.82</b>	<b>2.66</b>

The ratio has increased due to the employment of new staff the impact of which was to decrease the median pay in the year. Total remuneration includes salary and car allowance. There were no bonuses or benefits in kind in financial years 2014/15 or 2015/16.

**Pensions**

SFT has established a pension scheme with Lothian Pension Fund which is administered by the City of Edinburgh Council. The Company's pension scheme is a contributory scheme where contributions paid by the employee and the Company operate on a sliding scale.

In the year ended 31 March 2016, 64 of the Company's employees including two directors were members of the pension fund.

The highest paid director's pension has a transfer value of £264,843 (2014/15: £210,785).

On behalf of the Board:



**Barry White**  
**Chief Executive**

**22 August 2016**



## **SCOTTISH FUTURES TRUST LIMITED**

### **ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

#### **REPORT OF THE AUDIT COMMITTEE**

##### **Role and Responsibilities**

The Group Audit Committee is responsible for assisting the Board in discharging its responsibilities in relation to the financial affairs of the Group, the arrangements for accounting, financial reporting and regulatory compliance, the standards and effectiveness of internal control, the arrangements for identifying, evaluating and managing the significant risks faced by the Group and the arrangements for external audit. The Group Audit Committee meets regularly throughout the accounting year and, in addition, it meets the external auditor privately.

##### **Composition**

Members of the Group Audit Committee are:

- Graeme Bissett is a Chartered Accountant, who spent 19 years in the accountancy profession, has been CFO in international groups and has chaired or is chairing several audit committees for listed companies.
- James Fletcher, Councillor and Leader of East Renfrewshire Council who has extensive experience in providing financial oversight to a variety of entities.
- Fiona Mackenzie is an honorary Professor of Management at Stirling University, was previously Chief Executive of Forth Valley NHS Board and has extensive experience of leading major public bodies.

In the year ended 31 March 2016, there were three meetings of the Audit Committee. The Board is satisfied that the Committee membership has relevant financial and business experience.

##### **Responsibilities and Review of the External Auditor**

During the year the principal activities of the Audit Committee included:

- considering and recommending to the Board for approval the Annual Financial Statements and reviewing the external auditor's report thereon;
- reviewing the scope, execution, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing and monitoring the independence of the external auditor in relation to non-audit assignments, taking into account relevant ethical guidance;
- reviewing and approving the external auditor's plan for the financial year, with a focus on the identification of areas of audit risk, and consideration of the appropriateness of the level of audit materiality adopted;
- reviewing the efficiency of the external audit process and the quality of the audit engagement partner and the audit team, and making a recommendation to the Board with respect to the reappointment of the auditor;
- reviewing the appropriateness of the Company's accounting policies; and
- ensuring the adequacy of the internal control systems and standards.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**REPORT OF THE AUDIT COMMITTEE (continued)**

**Auditor and Audit Tenure**

Scott Moncrieff has been auditor since the Company’s incorporation in 2008. The Audit Committee reviews the auditor’s performance on a regular basis, taking into consideration the services and advice provided to the Company and the fees charged for these services. A formal tender process took place in early 2014 and Scott Moncrieff were re-appointed as external auditor.

**Safeguarding the Auditor’s Objectivity and Independence**

The Group has a policy in place whereby their Auditor can provide non-audit services to a value not exceeding 50% of the agreed external audit fee if authorised by the Director of Corporate Services and Low Carbon. The Audit Committee can authorise non-audit services up to 100% of the audit fee. The Auditor cannot provide non-audit services to a value exceeding 100% of the external audit fee. This ensures the auditor’s objectivity and independence.

There were non-audit services provided to the Company by the Auditor in the year. These related to corporation tax compliance work, VAT advice, business technology support and a review of the group internal controls. These services were performed by staff from Scott-Moncrieff, who had no involvement with the external audit, thus the objectivity and independence of the external audit was not compromised. The total fees paid to the auditor can be found in note 7 to the Financial Statements. The audit and corporation tax fees for SFTi were paid by SFT and recharged via the management charge.

**Significant Issues Considered Regarding the Annual Report and the Financial Statements**

During the year, the Audit Committee considered the significant issues and areas of key audit risk in respect of the Annual Report and Financial Statements. The Audit Committee reviewed the external audit plan and concluded that the appropriate areas of audit risk relevant to the Company had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the Financial Statements as a whole would be free of material misstatements.

<b>Significant issue</b>	<b>How the issue was addressed</b>
Revenue being over or understated in the Financial Statements	<p>The group has two main sources of funding:</p> <ol style="list-style-type: none"> <li>1) The funding provided by the Scottish Government; and</li> <li>2) The interest it receives on the working capital loans and subordinated debt invested in the hub Companies.</li> </ol> <p>The Audit Committee reviews, through the Financial Procedures Manual, the process of the monthly drawdown from the Scottish Government and confirms that it has been accounted for correctly via oversight of the monthly management accounts process and the annual Financial Statements.</p> <p>The Audit Committee members as members of the SFTi Investment Committee and SFTi Board review each investment made and monitors their performance. In addition, confirmation of all interest income due is received from external third parties verifying the completeness of the amounts recorded within the accounts.</p>

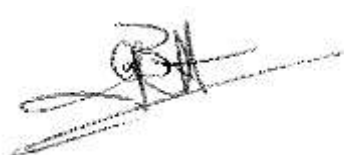
**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**REPORT OF THE AUDIT COMMITTEE (continued)**

**Significant Issues Considered Regarding the Annual Report and the Financial Statements (continued)**

<b>Significant issue</b>	<b>How the issue was addressed</b>
Accounting for the defined benefit pension scheme	The assumptions used in the IAS 19 pension valuation are provided by the actuary to the scheme and reviewed each year by the Audit Committee to ensure that the assumptions used are appropriate. The Audit Committee through discussions with the finance team and the external auditor ensure that the pension is accounted for and disclosed in accordance with IAS 19.
Funding from the Scottish Government	The Audit Committee members as members of the SFT board are involved in year round communication with the Scottish Government including in relation to future funding and consider the funding levels agreed when assessing the company's going concern status.
The risk that investments are not consolidated in SFT group accounts when they should be.	Through discussions with the auditor, the Audit Committee reviews the criteria regarding consolidation and the relationship the group has with the companies the group has invested in, in order to establish if consolidation is required.
Risk of the recoverability of investments in terms of repayment of loans and interest receivable.	The Investment Committee reviews investment performance. SFT also has board representation on all hubCos which provides additional reassurance regarding the performance of hubCos to whom SFTi provides working capital loans and their project companies to whom SFTi may provide subordinated debt.
Loans from the Scottish Government to SFT which are then on-lent to SFTi	SFT draws down loans from the Scottish Government which are then on-lent to SFTi to make investments in the subordinated debt and share capital of special purpose investment vehicles. The Investment Committee approves each investment made by SFTi and the funding that is drawn down from the Scottish Government and then on-lent to SFTi to fund these investments. Through the review of the management accounts and the statutory financial statements, the Board ensure that all loans from the Scottish Government by SFT which are on-lent to SFTi are recorded and disclosed correctly.

On behalf of the Audit Committee:



**Graeme Bissett**  
**Chairman**  
**Audit Committee**  
**22 August 2016**

## **SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST LIMITED**

We have audited the Financial Statements of Scottish Futures Trust Limited for the year ended 31 March 2016 which comprise the Group Statement of Comprehensive Income, the Group and the Parent Company Statements of Changes in Equity, the Group and the Parent Company Statements of Financial Position, the Group and the Parent Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective Responsibilities of the Directors and the Auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 8 and 9, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the Audit of the Financial Statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's [web-site at www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

In addition to our audit of the Financial Statements, the directors have engaged us to review their Corporate Governance Statement as if the Group were required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters. We review whether the Corporate Governance Statement reflects the Group's compliance with the UK Corporate Governance Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST LIMITED (continued)

#### Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

#### Our Assessment of the Risks of Material Misstatement

In arriving at our opinions set out in this report, the risks that had the greatest effect on our audit and the key procedures we applied to address them are set out below. Those procedures were designed in the context of the Financial Statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

#### Revenue Recognition

- **The risk:** There is a risk that revenue is either over or understated as a result of the accounting policies adopted or as a result of the Group recognising income transactions in such a way as to lead to a material misstatement in the reported revenue.
- **Our response:** We performed a reconciliation of income recognised as being received from the Scottish Government in the financial statements to confirmation from the Scottish Government. The Group also receives interest in respect of the working capital loans and subordinated debt invested in the five hub companies and special purpose investment vehicles and through reviewing the underlying agreements and the sums invested we confirmed the interest income recognised in the year was accurate.
- **Our findings:** From the work performed we gained assurance in respect of the completeness and occurrence of revenue transactions in the year.

#### Defined Benefit Pension Scheme

- **The risk:** There is a risk that the movement in the defined benefit pension scheme and the closing pension liability is not recorded and disclosed in the Financial Statements accurately. There is also a risk that the actuarial assumptions used to determine the pension valuation are not appropriate.
- **Our response:** We reviewed the actuarial assumptions used in the IAS 19 valuation and considered their appropriateness and ensured that the pension liability was accounted for and disclosed within the financial statements in accordance with IAS 19.
- **Our findings:** The actuarial assumptions are appropriate and the pension liability has been recorded and disclosed in the financial statements in accordance with IAS 19.

## SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST LIMITED (continued)

#### *Future funding*

- **The risk:** SFT requires funding from the Scottish Government to operate. Without this funding, SFT would not be able to continue to operate and thus would not be deemed a going concern.
- **Our response:** We reviewed the funding letter provided by the Scottish Government which confirms that the Group will receive sufficient funds to operate in 2016/17. Although, at this time, no funding letter is in place for 2017/18, the Board anticipates continued support from the Scottish Government in 2017/18 and beyond and thus the Board has prepared the Financial Statements on a going concern basis. Given the relationship that SFT has with the Scottish Government, the important role SFT plays in public sector investment and given there is no evidence to the contrary we are satisfied that the financial statements should be prepared on a going concern basis.
- **Our findings:** The Scottish Government has confirmed that resources will be provided to SFT to allow the Group to continue in 2016/17. The expectation at the date of signing the Financial Statements is that this funding from the Scottish Government will continue into 2017/18 and beyond and thus the financial statements have been correctly prepared on a going concern basis.

#### *Treatment of investments made by Scottish Futures Trust Investments Limited*

- **The risk:** There is a risk that the Group accounts of Scottish Futures Trust Limited (consisting of SFT and SFTi) are incomplete as they may not include all entities that SFTi has invested in which perhaps may be deemed subsidiaries or associates of SFTi.
- **Our response:** We performed a detailed review of the investments held in order to establish to what extent, if any, SFTi exerts significant influence or control over the financial and operational decisions of the investee. This included detailed discussions with SFT's Leadership Team and a review of underlying agreements.
- **Our findings:** The investments held by SFTi were reviewed and we concluded that no significant influence or control existed and therefore consolidation was not required for any of the investments held.

#### *Potential Impairment of Investments in SFTi*

- **The risk:** Capital investments in hub companies and special purpose investment vehicles in terms of both share capital and subordinated debt are impaired.
- **Our response:** From our review of investments we did not identify any indication of impairment. The progress of each project is in line with expectations.
- **Our findings:** No impairment has been identified in respect of any of SFT's investments.

#### *Loans from the Scottish Government to SFT which are then on-lent to SFTi*

- **The risk:** There is a risk that loans received by SFT from the Scottish Government which are then on-lent to SFTi to fund the investment in sub-ordinated debt and the share capital of hub projects via special purpose investment vehicles are not correctly recorded in the financial statements of SFT or SFTi.
- **Our response:** All loans received from the Scottish Government by SFT in the year which were then on-lent to SFTi to fund SFTi's investments were agreed to supporting documentation, the bank statements and both SFTi's and SFT's accounting systems.
- **Our findings:** From the work performed, we have gained assurance over the loans received from the Scottish Government in the year by SFT which were then on-lent to SFTi.

## **SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST LIMITED (continued)**

#### **Our Application of Materiality**

The materiality for the Group Financial Statements as a whole was set at £250,000. This has been assessed with reference to a benchmark of total income (representing 2% of reported other income and capital grant income) and gross assets (representing 2% of the reported gross assets) which we consider to be two of the principal considerations for the member of the company in assessing the financial performance of the Group.

We set a performance (testing) materiality, which we assessed as being 50% of the overall materiality of £250,000, i.e. £125,000. In respect of other areas, we performed audit procedures on all transactions and balances that exceeded our assessed low risk level performance materiality which was assessed as being 75% of the overall materiality of £250,000, i.e. £187,500. This meant that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement. All balances and transactions above £187,500 were audited whilst for higher risk items we tested all balances and transactions above £125,000. We tested smaller balances and transactions as we deemed necessary.

We agreed with the Audit Committee to report to it the following misstatements that we identified through our audit: (i) all material corrected misstatements; (ii) uncorrected misstatements with a value in excess of £5,000; and (iii) other misstatements below that threshold that we believe warranted reporting on qualitative grounds.

#### **An Overview of the Scope of our Audit**

Each of the risks noted above were identified at the planning stage of the audit and as such procedures designed to mitigate the risk of material misstatement were selected at planning. In our audit, we tested and examined information using sampling and other audit techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

**SCOTTISH FUTURES TRUST LIMITED  
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST LIMITED (continued)**

**Matters on which we are required to report by exception (continued)**

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the following:

- the directors' statement in relation to going concern: or
- the part of the Report on Corporate Governance relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.



**Nick Bennett (Senior Statutory Auditor)**

**For and on behalf of Scott Moncrieff Chartered Accountants and Statutory Auditor**

**Exchange Place 3**

**Semple Street**

**Edinburgh**

**EH3 8BL**

**22 August 2016**



**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**GROUP STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 MARCH 2016**

	Note	2016	2015
		£	£
<b>Continuing operations</b>			
<b>Revenue</b>		-	-
Cost of sales		-	-
		<u>          </u>	<u>          </u>
<b>Gross profit</b>		-	-
Other income	5	8,675,870	10,476,404
Capital grant income	6	1,483,270	12,199,291
Administrative expenditure	7	(9,712,877)	(8,730,198)
Capital grant expenditure	8	(1,483,268)	(9,004,235)
		<u>          </u>	<u>          </u>
<b>(Loss)/profit on ordinary activities before taxation</b>		(1,037,005)	4,941,262
Taxation on profit ordinary activities	23	(119,026)	(36,841)
		<u>          </u>	<u>          </u>
<b>Net (loss)/profit for the year</b>		(1,156,031)	4,904,421
		<u>          </u>	<u>          </u>
<b>Other comprehensive income:</b>			
Those that are not recyclable net of tax:			
Actuarial gains/(losses) on post-employment benefit obligations	16	1,630,000	(1,562,000)
		<u>          </u>	<u>          </u>
<b>Other comprehensive income for the year after tax</b>		1,630,000	(1,562,000)
		<u>          </u>	<u>          </u>
<b>Total comprehensive income for the year</b>		473,969	3,342,421
		<u>          </u>	<u>          </u>
<b>Attributable to:</b>			
Equity holder of the company		473,969	3,342,421
		<u>          </u>	<u>          </u>
Distributed as follow:			
Transferred to retained earnings		473,969	3,342,421
		<u>          </u>	<u>          </u>
<b>Profits available for distribution</b>		-	-
		<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these financial statements.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**GROUP STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2016**

<b>As at 31 March 2016 and 31 March 2015</b>	<b>Share Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At 1 April 2015	2	6,135,417	6,135,419
Total comprehensive income for the year	-	473,969	473,969
	<hr/>	<hr/>	<hr/>
At 31 March 2016	2	6,609,386	6,609,388
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	<b>Share Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At 1 April 2014	2	2,792,996	2,792,998
Total comprehensive income for the year	-	3,342,421	3,342,421
	<hr/>	<hr/>	<hr/>
At 31 March 2015	2	6,135,417	6,135,419
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**COMPANY STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2016**

<b>As at 31 March 2016 and 31 March 2015</b>	<b>Share Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At 1 April 2015	2	-	2
Total comprehensive income for the year	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2016	2	-	2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	<b>Share Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At 1 April 2014	2	-	2
Total comprehensive income for the year	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2015	2	-	2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**GROUP STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016**

	Note	2016	2015
		£	£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	10a	11,118,667	7,479,422
Property, plant and equipment	9	220,050	176,174
Trade and other receivables in more than 1 year	11	968,380	590,631
		<u>12,307,097</u>	<u>8,246,227</u>
<b>Current assets</b>			
Trade and other receivables in less than 1 year	11	81,801	828,058
Investments	11b	200,000	90,000
Cash and cash equivalents	12	2,032,641	1,729,145
		<u>2,314,442</u>	<u>2,647,203</u>
<b>Current liabilities</b>			
Trade and other payables	13	(970,436)	(1,330,938)
Deferred income	15	(790,021)	(122,507)
Current tax liabilities	23	(118,598)	(36,841)
		<u>(1,879,055)</u>	<u>(1,490,286)</u>
<b>Net current assets</b>		435,387	1,156,917
<b>Non-current liabilities</b>			
Pension liabilities	16	(294,000)	(1,671,000)
Loan from the Scottish Government	14	(5,630,365)	(1,596,725)
Deferred income	15	(208,731)	-
		<u>(6,133,096)</u>	<u>(3,267,725)</u>
<b>Net assets</b>		<u>6,609,388</u>	<u>6,135,419</u>
<b>Equity</b>			
Called up share capital	17	2	2
Retained earnings		6,609,386	6,135,417
		<u>6,609,388</u>	<u>6,135,419</u>
<b>Total shareholders' funds</b>		<u>6,609,388</u>	<u>6,135,419</u>

The accompanying notes are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 August 2016 and authorised for issue on its behalf by:



**Sir Angus Grossart, Chairman**  
Registered Company Number: SC348382



**Barry White, Chief Executive**

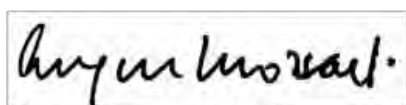
**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016**

	Note	2016	2015
		£	£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	10b	1	1
Property, plant and equipment	9	220,050	176,174
Loan to related party	11a	5,554,737	1,596,725
Trade and other receivables in more than 1 year	11	-	-
		<u>5,774,788</u>	<u>1,772,900</u>
<b>Current assets</b>			
Trade and other receivables in less than 1 year	11	796,984	1,453,750
Cash and cash equivalents	12	1,535,225	1,494,522
		<u>2,332,209</u>	<u>2,948,272</u>
<b>Current liabilities</b>			
Trade and other payables	13	(1,183,878)	(1,330,938)
Deferred income	15	(790,021)	(122,507)
		<u>(1,973,899)</u>	<u>(1,453,445)</u>
<b>Net current assets</b>		358,310	1,494,827
<b>Non-current liabilities</b>			
Pension liabilities	16	(294,000)	(1,671,000)
Loan from the Scottish Government	14	(5,630,365)	(1,596,725)
Deferred income	15	(208,731)	-
		<u>(6,133,096)</u>	<u>(3,267,725)</u>
<b>Net assets</b>		<u>2</u>	<u>2</u>
<b>Equity</b>			
Called up share capital	17	2	2
Retained earnings		-	-
		<u>2</u>	<u>2</u>
<b>Total shareholders' funds</b>		<u>2</u>	<u>2</u>

The accompanying notes are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 August 2016 and authorised for issue on its behalf by:



**Sir Angus Grossart**  
**Chairman**

Registered Company Number: SC348382



**Barry White**  
**Chief Executive**

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016**

	Note	2016	2015
		£	£
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax from operations for the period		(1,037,005)	4,941,262
Depreciation of property, plant and equipment	9	68,819	59,462
IAS19 pension charge/(income)	16	253,000	(38,000)
Decrease in trade and other receivables	11	368,508	100,477
(Decrease)/increase in trade and other payables	13	(360,502)	291,308
Increase/(decrease) in deferred income	15	876,245	(4,392,054)
<b>Net cash from operating activities</b>		<u>169,065</u>	<u>962,455</u>
<b>Corporation tax</b>		(37,269)	(3,608)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(112,695)	(90,122)
Purchase of investments	10a	(2)	(1)
Purchase of Share capital in SPVs	10a	(243)	-
Return of working capital loan	11b	90,000	-
Repayment of subordinated debt	10a	8,939	-
Loan from Scottish Government	14	4,033,640	1,596,725
Provision of working capital loans and subordinated debt	10a	(3,847,939)	(4,791,781)
		<u>171,700</u>	<u>(3,285,179)</u>
<b>Net (decrease) /increase in cash and cash equivalents</b>		303,496	(2,326,332)
<b>Cash and cash equivalents at beginning of period</b>		<u>1,729,145</u>	<u>4,055,477</u>
<b>Cash and cash equivalents at end of period</b>	12	<u>2,032,641</u>	<u>1,729,145</u>

The accompanying notes are an integral part of these financial statements.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016**

	Note	2016 £	2015 £
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax from operations for the period		(1,630,000)	1,562,000
Depreciation of property, plant and equipment	9	68,819	59,462
IAS 19 pension charge/(income)	16	253,000	(38,000)
Decrease in trade and other receivables	11	656,766	139,222
(Increase) in loan to related party	11a	(3,958,012)	(1,596,725)
(Decrease)/increase in trade and other payables	13	(147,060)	291,307
Increase/(decrease) in deferred income	15	876,245	(4,392,054)
		<u>(3,880,242)</u>	<u>(3,974,788)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(112,695)	(90,122)
Loan from Scottish Government	14	4,033,640	1,596,725
		<u>3,920,945</u>	<u>1,506,603</u>
<b>Net cash used in investing activities</b>		<u>3,920,945</u>	<u>1,506,603</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		40,703	(2,468,185)
<b>Cash and cash equivalents at beginning of period</b>		1,494,522	3,962,707
<b>Cash and cash equivalents at end of period</b>	12	<u>1,535,225</u>	<u>1,494,522</u>

The accompanying notes are an integral part of these financial statements.

# SCOTTISH FUTURES TRUST LIMITED

## ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

### NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

#### 1. Basis of preparation and accounting policies

The Group Financial Statements of Scottish Futures Trust Limited which include Scottish Futures Trust Investments Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006.

The Financial Statements are presented in British Pounds since this is the functional currency of the Group and Parent Company.

Scottish Futures Trust Limited is a Company limited by shares, incorporated and domiciled in United Kingdom. The address of its registered office is 11 – 15 Thistle Street, Edinburgh, EH2 1DF.

The report is prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where specifically stated (e.g. defined benefit pension), current valuations of non-current assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Inter-group transactions and balances between Group companies are eliminated. Accounting policies are consistent across the Group.

No Statement of Comprehensive Income has been prepared for the Company as provided by section 408 of the Companies Act 2006.

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

#### **Going Concern**

On the basis of the information available to them, the directors have a reasonable expectation that the Company will continue to receive funding from the Scottish Government. Consequently, the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

#### **Basis of consolidation**

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**1. Basis of preparation and accounting policies (continued)**

Investments in subsidiaries are accounted for at cost. The only subsidiary is Scottish Futures Trust Investments Limited.

**Financial instruments**

***Classification, recognition and measurement***

The Group classifies its financial assets in the available-for-sale and loans and receivables category. Management determines the classification of its financial assets at initial recognition.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method.

***De-recognition***

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

***Cash and cash equivalents***

In the Group Statement of Cash Flows, cash includes cash on hand and deposits with banks or financial institutions. It also can include cash held on behalf of the Group by its lawyers.

***Trade and other payables***

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised at cost.

***Deferred income***

Deferred income in these financial statements represents grant income received from the Scottish Government in advance of the related expenditure. As SFT is a non-profit making it does not recognise this income until the associated expenditure is recognised. It also includes income that has been received to fund the purchase of Fixed Assets which are capitalised within the Financial Statements and written off over their useful economic life. This grant is released to income in line with the amortisation of the related fixed asset.

In addition, Scottish Ministers have underwritten SFT's participation in its pension scheme. As such, any pension liability is matched by a commitment from the Scottish Government to fund this liability. This commitment is recognised in the financial statements by releasing income from deferred income to meet any liability outstanding.



**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**1. Basis of preparation and accounting policies (continued)**

**Revenue**

The Group receives funding from the Scottish Government. The funding that covers the revenue expenditure of the Group is recognised in other income when the Group is entitled to the funding. The funding received which is either invested in infrastructure projects or distributed to third parties for capital projects is disclosed as capital grant income. This is recognised once received.

The Group recognises revenue when the amount of revenue can be reliably measured, all performance conditions have been met and it is probable that future economic benefits will flow to the Group.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective rate.

**Current tax (i.e corporation tax)**

The tax expense for the period comprises current tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**Share capital**

Ordinary shares are classified as equity.

**Property, plant and equipment**

Each class of property, plant and equipment is carried at historical cost less any accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**1. Basis of preparation and accounting policies (continued)**

The depreciable amount of all fixed assets including buildings and capitalised leased assets are depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Office equipment - over 3 years

Furniture and fixtures - over 5 years

A *de minimis* cost of £1,000 is set for property, plant and equipment assets.

**De-recognition and disposal**

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is derecognised.

**Leases**

Leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

**Employee entitlements**

Provision is made for the Group's liability for employee entitlements arising from services rendered by employees in the Statement of Financial Position. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year have been measured at their nominal amount. Contributions are made by the Group to employee pension funds and are charged as expenses when incurred.

**Retirement benefits obligations**

The Group operates a defined benefit scheme in respect of its employees. The assets of the scheme are held in external funds managed by professional investment managers. In accordance with 'IAS 19 – Employee Benefits', the expected costs of providing pensions under this Scheme, as calculated by qualified actuaries using the projected unit credit method, is charged to the Statement of Comprehensive Income so as to spread the cost over the service lives of the current employees.

A Retirement Benefit Obligation recognised in the Statement of Financial Position represents the present value of the Defined Benefit Obligation as reduced by the fair value of Scheme Assets. Where the fair value of the Scheme Assets exceeds the present value of the Obligation, the Asset is only recognised in the Statement of Financial Position where the Group has an unconditional right to a refund or reduction in future contributions.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**2. New and amended standards adopted by the Group**

No new or amended IFRSs had a material impact on the 2015/16 financial statements.

**3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group**

**Guidance in Issue but not in Force – EU Endorsed**

There is no guidance in issue but not in force which has been EU endorsed which we consider will have a material effect on the financial statements of SFT.

**Guidance in Issue but not in Force – not EU Endorsed**

There is no guidance in issue but not in force and that has not been EU Endorsed which we consider will have a material effect on the financial statements of SFT.

**4. Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. If in the future should such estimates and assumptions deviate from actual circumstances, the original estimates and assumptions would be modified as appropriate in the year in which circumstances change.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

**Defined benefit scheme**

The Company has a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the Statement of Financial Position date has been calculated based on key assumptions and estimates of future events as set out in note 16.

**Depreciation of fixed assets**

The depreciation rates for the fixed assets held are based on the expected useful live of the underlying asset.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**5. Other income – Group**

	Note	2016	2015
		£	£
Release of Scottish Government funding relating to non-current assets	9	68,819	59,462
Scottish Government funding received to compensate for expenses incurred		7,464,707	9,735,358
Interest received on working capital loans		811,094	444,962
Bank interest		182	146
Secondment recharges		134,251	115,970
Other income		196,817	120,506
		<u>8,675,870</u>	<u>10,476,404</u>

Under the terms of its Memorandum with the Scottish Government, SFT are unable to make a profit. As such the income recognised within the Comprehensive Statement of Income is adjusted to reflect the impact of timing differences between the receipt of income and related expenditure; for the timing of non-cash items and for the movement on the pension scheme provision which is recognised within the Statement of Comprehensive Income. These adjustments are on the basis that SFT is non-profit-making and recognises that the Scottish Government underwrite SFT's participation in its pension scheme.

**6. Capital Grant Income – Group**

	Note	2016	2015
		£	£
SG capital grant for Scotland Schools for the Future projects	8	-	4,500,000
SG capital grant for SFTi investments in hub projects	10a	2**	3,195,056*
SG capital enabling grant for hub projects	8	1,483,268	4,504,235
		<u>1,483,270</u>	<u>12,199,291</u>

\*In the prior year £3,195,056 of grant funding was received from SFT and £1,596,725 of a loan from SFT, which was lent to SFT by the Scottish Government. This total funding of £4,791,781 was used to fund the investment in subordinated debt in 2014/15.

\*\*In 2015/16, £2 was receivable in grant funding to fund the investment of £2 in LLPs. £3,958,012 was lent by SFT to SFTi, which was used to fund the remaining investments of £243 in share capital (note 9a) and £3,847,939 in subordinated debt (note 9b).

These funds are due to be paid back to SFTi who will then repay SFT. SFT would then repay the Scottish Government. See notes 11a and 14.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**7. Administrative Expenditure – Group**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Profit before taxation is stated after charging:		
Chair and non-executive fees	31,267	31,200
Chair expenses for secretarial and administrative support	6,738	6,738
Salaries and associated costs	7,027,568	6,155,632
Agency, seconded & interim staff	710,843	556,294
Auditor's remuneration		
- SFT audit fee	12,513	12,000
- SFTi audit fee	5,000	4,800
- taxation services	2,000	1,800
- other services	3,900	5,000
Operating leases in respect of land and buildings	108,175	133,063
Depreciation of owned assets	68,819	59,462
Corporate Professional fees	9,880	84,576
Recruitment fees	56,497	74,723
Advisory fees	325,278	716,662
Grants made	387,981	53,904
Hub PDO Fees	55,392	40,903
Other administrative costs	901,026	793,441
	<u>9,712,877</u>	<u>8,730,198</u>

The average number of full time equivalent employees employed in the year was 69 (2014/15: 63) broken down as 7 (2014/15: 7) Leadership Team, 49 (2014/15: 44) programme delivery and 13 (2014/15: 12) business support.

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Wages and salaries	5,060,492	4,561,652
National Insurance	552,501	483,661
Pension costs (including IAS 19 income / (charge))	1,414,575	1,110,319
	<u>7,027,568</u>	<u>6,155,632</u>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

**8. Capital Grant Expenditure – Group**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Capital grant for Scotland Schools for the Future Programme projects	-	4,500,000
Capital enabling grant for hub projects	1,483,268	4,504,235
	<u>1,483,268</u>	<u>9,004,235</u>

**9. Property, plant and equipment – Group and Company**

	<b>Office equipment</b>	<b>Furniture &amp; Fixtures</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>			
At 1 April 2015	216,755	189,720	406,475
Additions	105,249	7,446	112,695
	<u>322,004</u>	<u>197,166</u>	<u>519,170</u>
At 31 March 2016	<u>322,004</u>	<u>197,166</u>	<u>519,170</u>
<b>Depreciation</b>			
At 1 April 2015	155,862	74,439	230,301
Charge for period	35,095	33,724	68,819
	<u>190,957</u>	<u>108,163</u>	<u>299,120</u>
At 31 March 2016	<u>190,957</u>	<u>108,163</u>	<u>299,120</u>
<b>Net book value</b>			
At 31 March 2016	<u>131,047</u>	<u>89,003</u>	<u>220,050</u>
At 31 March 2015	<u>60,893</u>	<u>115,281</u>	<u>176,174</u>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**10a. Investments – Group**

	hub Co & NHT LLP share capital	hub Co working capital	hub Co subordinated debt	Total
	£	£	£	£
<b>Cost and Net book value</b>				
At 31 March 2015	87	400,000	7,079,335	7,479,422
Additions	245	-	3,847,939	3,848,184
Principal repaid in the year	-	-	(8,939)	(8,939)
Transferred to current assets (note 11b)	-	(200,000)	-	(200,000)
At 31 March 2016	332	200,000	10,918,335	11,118,667

**Share capital**

SFTi invested £2 in a further one housing partnership LLP during the current year together with £243 in share capital of SPVs in connection with sub debt investments.

Share capital investments cannot be classified in any other category of financial asset. There is no intention to dispose of any of these investments.

**Hub Co Working Capital**

***Working Capital Loans - Non-Current Assets***

SFTi loaned working capital of £100,000 to hub West Scotland Limited on 27 April 2012. This working capital facility is available until 26 April 2017 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 6.5% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June).

SFTi loaned working capital of £100,000 to hub South West Scotland Limited on 17 November 2012. This working capital facility is available until 16 November 2017 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 6% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June).

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**10a. Investments – Group (continued)**

**Working capital loans - current assets**

SFTi loaned working capital of £100,000 to hub South East Scotland Limited on 30 July 2010. This working capital facility was originally available until 30 July 2015 but was extended until 31 March 2017. At this date the full amount of the working capital facility shall be due and payable on demand. The rate of interest applicable shall be: the amount of interest (net of tax) received where amounts are held in a reserve account, or 5% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June).

SFTi loaned working capital of £100,000 to hub East Central Scotland Limited on 7 February 2012. This working capital facility is available until 6 February 2017 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 5% p.a. on all other sums. Interest will be payable semi-annually (on 31 December and 30 June).

**Working capital loans – repaid**

SFTi loaned working capital of £90,000 to hub North Scotland Limited on 28 January 2011. This working capital facility was repaid in February 2016. It was treated as a current asset in the previous year.

Working capital loans are held as financial assets – loans and receivables.

**Capital Management**

The Scottish Government grants SFT funds which SFT grants on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub Cos. The Scottish Government also loans SFT funds which SFT loans on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub Cos. These investments are detailed in note 10a.



**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**10a. Investments – Group (continued)**

**Hub Co Subordinated Debt**

During 2015/16, SFTi invested £3,847,939 as subordinated debt within the following hub projects:

- Forfar Community Campus for Angus Council (Total capital cost: £34m) - £364,200 invested
- Anderson High School for Shetland Council (Total capital cost: £41m) - £342,962 invested
- Ayr Academy for South Ayrshire Council (Total capital cost: £24m) - £490,168 invested
- Dalbeattie Learning Campus for Dumfries & Galloway Council (Total capital cost: £24m) - £209,081 invested
- Newbattle High School for Midlothian Council (Total capital cost: £32m) - £310,265 invested
- Kelso High School for Scottish Borders Council (Total capital cost: £20m) - £205,150 invested
- East Ayrshire Learning Campus for East Ayrshire Council (Total capital cost: £42m) - £368,416 invested
- Elgin High School for Moray Council (Total capital cost: £27m) - £253,654 invested
- Baldragon Academy for Dundee City Council (Total capital cost: £27m) - £299,790 invested
- Inverclyde Care Home for NHS Glasgow & Clyde (Total capital cost: £7m) - £70,413 invested
- Barrhead High School for East Renfrewshire Council (Total capital cost: £22m) - £213,748 invested
- Campbeltown and Oban High Schools for Argyll & Bute Council (Total capital cost: £56m) - £491,691 invested
- Our Lady & St Patricks School for West Dunbartonshire Council (Total capital cost: £24m) - £228,401 invested

Further details on SFTi's investment in the subordinated debt of hub projects including details of the principal invested, the coupon and the redemption dates can be found in the tables below by hubco.

Investment In	Investment Type	Value	Interest Rate	Redemption Date
<b>Hub North territory</b>				
Aberdeen Community Health Village Ltd	Fixed coupon unsecured loans	£576,191 less £1,759 principal repaid totals £574,432	10.2%	2039
hub North Scotland (FWT) Ltd	Fixed coupon unsecured loans	£133,884 less £7,180 principal repaid totals £126,704	10.2%	2039
hub North Scotland (Alford) Ltd	Fixed coupon unsecured loans	£747,036	10.2%	2040
hub North Scotland (Wick) Ltd	Fixed coupon unsecured loans	£1,568,509	10.2%	2042
hub North Scotland (Anderson) Ltd	Fixed coupon unsecured loans	£342,962	10.2%	2043
hub North Scotland (Elgin High School) Ltd	Fixed coupon unsecured loans	£253,654	10.2%	2043
hub North Scotland (O & C) Ltd	Fixed coupon unsecured loans	£491,691	10.2%	2043
<b>Hub North territory total</b>		<b>£4,104,988</b>		

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016**  
**(continued)**

**10a. Investments – Group (continued)**

<b>Investment In:</b>	<b>Investment Type</b>	<b>Value</b>	<b>Interest Rate</b>	<b>Redemption Date</b>
<b>Hub South East territory</b>				
James Gillespie's Campus Subhub Holdings Ltd	Fixed coupon unsecured loans	£1,252,424	10.87%	2041
REH Phase 1 Subhub Holdings Ltd	An advance	£410,685	2.48% during construction and 10.75% during operation	2042
Newbattle DBFM Holdco Ltd	Fixed coupon unsecured loans	£310,265	3.35% during construction and 10.5% during operation	2043
KHS DBFM Holdco Ltd	Fixed coupon unsecured loans	£205,150	3.35% during construction and 10.5% during operation	2042
<b>Hub South East territory total</b>		<b>£2,178,524</b>		
<b>Hub South West territory</b>				
Hub SW NHSL Holdco Ltd	Fixed coupon unsecured loans	£325,055	10.5%	2040
Hub SW Greenfaulds Holdco Ltd	An advance	£271,509	2.33% during construction and 10.5% during operation	2041
Hub SW Ayr Holdco Ltd	Fixed coupon unsecured loans	£490,168	3.78% during construction and 10.65% during operation	2042

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**10a. Investments – Group (continued)**

<b>Investment In:</b>	<b>Investment Type</b>	<b>Value</b>	<b>Interest Rate</b>	<b>Redemption Date</b>
Hub SW Dalbeattie Holdco Ltd	Fixed coupon unsecured loans	£209,081	3.62% during construction and 10.85% during operation	2042
Hub SW EALC Holdco Ltd	Fixed coupon unsecured loans	£368,416	3.26% during construction and 10.5% during operation	2043
<b>Hub South West territory total</b>		<b>£1,664,229</b>		
<b>Hub West territory</b>				
Hub West Scotland Project Company (No.1) Ltd	Fixed coupon unsecured loan	£186,042	9.75%	2041
Hub West Scotland Project Company (No.2) Ltd	Fixed coupon unsecured loan	£70,413	9.75%	2042
Hub West Scotland Project Company (No.3) Ltd	Fixed coupon unsecured loan	£213,748	9.75%	2042
Hub West Scotland Project Company (No.4) Ltd	Fixed coupon unsecured loan	£228,401	9.75%	2042
<b>Hub West territory total</b>		<b>£698,604</b>		
<b>Hub East Central territory</b>				
Hub East Central (Levenmouth) Ltd	Fixed coupon unsecured loans	£1,608,000	10.2%	2041
Hub East Central Scotland (Baldragon) Ltd	Fixed coupon unsecured loans	£299,790	10%	2042
Hub East Central (Forfar) Ltd	Fixed coupon unsecured loans	£364,200	10%	2041
<b>Hub East Central territory total</b>		<b>£2,271,990</b>		
<b>Total sub-ordinated debt</b>		<b>£10,918,335</b>		

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**10b. Investments – Company**

	<b>Investment in Subsidiary</b>
	<b>£</b>
<b>Cost and Net book value</b>	
At 31 March 2015 and 31 March 2016	1

The Company's investment is in the share capital of Scottish Futures Trust Investments Limited, registered in Scotland.

Nature of business	To hold investments in infrastructure companies, assets and projects across Scotland
Class of shares	Ordinary
Holding	100%

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Aggregate capital and reserves	6,609,387	6,135,418
Profit for the year	473,969	3,342,421

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**11. Trade and other receivables**

	<b>Group 2016</b>	<b>Company 2016</b>	<b>Group 2015</b>	<b>Company 2015</b>
	£	£	£	£
<b>Due in more than 1 year</b>				
Accrued interest income from sub-ordinated debt investments	968,380	-	590,631	-
<b>Due in less than 1 year</b>				
Other receivables (SG funding re operational expenditure)	-	-	746,308	746,308
Other receivables	39,996	39,996	42,264	42,264
Prepayments and accrued interest income	41,805	35,554	39,486	198,512
Amounts due from subsidiary – SFTi	-	721,434	-	466,666
	<u>81,801</u>	<u>796,984</u>	<u>828,058</u>	<u>1,453,750</u>

**11a. Loan to related party**

	<b>Company 2016</b>	<b>Company 2015</b>
	£	£
At beginning of the year	1,596,725	-
Increase in period	3,958,012	1,596,725
At 31 March 2016	<u>5,554,737</u>	<u>1,596,725</u>

SFT made a loan of £3,958,012 (2015: £1,596,725) to SFTi during the year. £3,847,939 (2015: £1,596,725) was used to invest in subordinated debt in the year. The loan is non-interest bearing and repayable between September 2017 and March 2043.

This is expected to be repaid:

	<b>2016</b>	<b>2015</b>
	£	
1-2 years	2,250	1,971
2-5 Years	559,909	121,181
>5 years	4,992,578	1,473,573
At 31 March 2016	<u>5,554,737</u>	<u>1,596,725</u>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**11b. Investments - Group**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Cost and Net book value</b>		
At 1 April 2015	90,000	-
Repaid in current year	(90,000)	-
Transferred from non-current assets (note 10a)	200,000	90,000
	<u>200,000</u>	<u>90,000</u>
At 31 March 2016	<u>200,000</u>	<u>90,000</u>

**12. Cash and cash equivalents**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Cash at bank	1,776,414	1,278,998	1,728,937	1,494,314
Cash on deposit held by lawyer	256,000	256,000	-	-
Cash on hand	227	227	208	208
	<u>2,032,641</u>	<u>1,535,225</u>	<u>1,729,145</u>	<u>1,494,522</u>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**13. Trade and other payables**

	<b>Group 2016</b>	<b>Company 2016</b>	<b>Group 2015</b>	<b>Company 2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Other payables (operational expenditure)	257,303	257,303	474,362	474,362
Other taxes and social security	194,851	194,544	179,509	179,509
Other creditors and accruals	518,282	518,253	677,067	677,040
Amounts payable to subsidiary – SFTi	-	213,778	-	27
	<u>970,436</u>	<u>1,183,878</u>	<u>1,330,938</u>	<u>1,330,938</u>

**14. Loan from the Scottish Government**

	<b>Group 2016</b>	<b>Company 2016</b>	<b>Group 2015</b>	<b>Company 2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
At beginning of the year	1,596,725	1,596,725	-	-
Increase in the period	4,033,640	4,033,640	1,596,725	1,596,725
As at 31 March 2016	<u>5,630,365</u>	<u>5,630,365</u>	<u>1,596,725</u>	<u>1,596,725</u>

The loan is non-interest bearing and repayable between September 2016 and March 2043. This is expected to be repaid in:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
1-2 years	2,250	1,971
2-5 years	559,909	121,181
>5 years	5,068,206	1,473,573
At 31 March 2016	<u>5,630,365</u>	<u>1,596,725</u>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**15. Deferred income – Group and Company**

Deferred income relates to funding received from Scottish Government in an accounting period which is not matched with the corresponding expenditure within the Financial Statements. As SFT is non-profit making such income is recognised as deferred income. Deferred income balances therefore relate to funding received to purchase fixed assets; funding to cover dilapidations and timing differences between receipt of grant funding and the timing of expenditure. In addition, movements on the actuarial gains or losses of the Group's pension scheme are also charged to Deferred Income as the Scottish Government underwrites SFT's participation in its pension scheme.

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
As at beginning of period	176,174	145,514
Increase in period	112,695	90,122
Released to statement of income and retained earnings	(68,819)	(59,462)
	<hr/>	<hr/>
As at period end	220,050	176,174
	<hr/> <hr/>	<hr/> <hr/>
Deferred income above relates to capital funding received which is released over the expected life of the asset.		
As at beginning of period	47,500	37,500
Increase in period	10,000	10,000
	<hr/>	<hr/>
As at period end	57,500	47,500
	<hr/> <hr/>	<hr/> <hr/>
Deferred income above relates to funding received to provide for the dilapidation over the expected life of the premises.		
Deferred income from the Scottish Government relating to funding received in advance of costs incurred	721,202	(101,167)
	<hr/>	<hr/>
<b>Total deferred income</b>	<b>998,752</b>	<b>122,507</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Split as follows:</b>		
Current liabilities	790,021	122,507
	<hr/>	<hr/>
Non-current liabilities	208,731	-
	<hr/> <hr/>	<hr/> <hr/>



**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**16. Retirement benefits obligation – Group and Company**

The Company is an admitted body of the Lothian Pension Fund. The Superannuation Fund is a defined benefit scheme into which employees' and employer's contributions, and interest and dividends from investments are paid and from which pensions, lump sums and superannuation benefits are paid out. Contributions to the scheme are charged to the Statement of Comprehensive Income, so as to spread the cost of pensions over the employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value. The most recent formal triennial valuation of the fund was at 31 March 2014 by Hymans Robertson, independent actuaries.

The group financial statements include the results of the IAS 19 valuation carried out, by Hymans Robertson, as at 31 March 2016 which projects forward the results of the 2014 triennial valuation and adjusts for changes in assumptions. SFT's Contributions due to the Scheme will be funded by the drawdown of grant from the Scottish Government. The assumptions used in this analysis are determined by Lothian Pension Fund on the advice of Lothian Pension Fund Actuaries, Hymans Robertson, taking into account the requirements of accounting standards.

Each employee is allocated to a duration category, as defined below:

<b>Weighted average duration</b>	<b>Discount rate category</b>
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

There are only active members. The defined benefit obligation has a duration of 25.1 (2015: 25.1) years and thus a long rate discount rate has been applied. The main assumptions used are:

	<b>31 Mar 2016</b>	<b>31 Mar 2015</b>
	<b>% p.a.</b>	<b>% p.a.</b>
Inflation / Pension Increase Rate	2.2%	2.5%
Salary Increase Rate	4.2%	4.4%
Discount Rate	3.6%	3.3%

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**16. Retirement benefits obligation – Group and Company (continued)**

**Mortality**

Life expectancy is based on the Funds Vita Curves, with improvements in line with the CMI 2012 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25% per annum and a 1% profit underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	<b>Males</b>	<b>Females</b>
Current pensioners	22.1 years	23.7 years
Future pensioners	24.2 years	26.3 years

**Assets (Employer)**

	<b>31 March 2016</b>
	<b>Assets</b>
	<b>£000</b>
Equities	5,798
Bonds, Debt securities and Funds	2,201
Property	803
Cash	580
	<hr/>
Total Market Value of Assets	<b>9,382</b>
	<hr/>
Present Value of Scheme of Liabilities	<b>9,676</b>
	<hr/>
Net Pension Liability	<b>(294)</b>
	<hr/> <hr/>
	<b>31 March 2015</b>
	<b>Assets</b>
	<b>£000</b>
Equities	5,626
Bonds	609
Property	557
Cash	583
	<hr/>
Total Market Value of Assets	<b>7,375</b>
	<hr/>
Present Value of Scheme of Liabilities	<b>9,046</b>
	<hr/>
Net Pension Liability	<b>(1,671)</b>
	<hr/> <hr/>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**16. Retirement benefits obligation – Group and Company (continued)**

**Recognition in the Income Statement:**

	<b>31 March 2016</b>		<b>31 March 2015</b>	
	<b>£(000)</b>	<b>% of Pay</b>	<b>£(000)</b>	<b>% of Pay</b>
Current service cost	(1,359)	29.7%	(1,057)	26.3%
Net interest income	(58)	1.3%	(5)	0.1%
Contributions paid in year per IAS 19 valuation	1,164	25.4%	1,100	27.4%
<b>Total (charge)/income included in the Statement of Comprehensive Income</b>	<b>(253)</b>	<b>5.5%</b>	<b>38</b>	<b>1.0%</b>

The IAS 19 pension charge (above) is included within salaries and associated costs in note 7 of the financial statements. The actual pension contribution of the company paid as part of the payroll was £1,161,575 (2015: £1,148,319). This included an additional contribution of £250,000 (2015: £350,000) made in the year. The employer's contribution rate is 20% and the employee's contribution rate ranges from 5.5% to 10.8%.

**Analysis of the amount recognised in other comprehensive income**

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£(000)</b>	<b>£(000)</b>
Actual return less expected return on pension scheme assets	133	1,756
Changes in financial assumptions underlying the present value of scheme liabilities	1,497	(3,318)
Actuarial gain/(loss)	1,630	(1,562)

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**16. Retirement benefits obligation – Group and Company (continued)**

**Recognition of defined benefit obligations:**

<b>Year Ended</b>	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>31 March 2014</b>	<b>31 March 2013</b>
	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>
<b>Opening Defined Benefit Obligations</b>	<b>9,046</b>	<b>4,088</b>	<b>2,618</b>	<b>1,490</b>
Current Service Cost	1,359	1,057	694	398
Interest Cost	328	206	140	87
Contributions by Members	453	387	319	252
Actuarial (Gains)/ Losses	(1,497)	3,318	320	394
Past Service Costs/(Gains)	-	-	-	-
Estimated benefits paid	(13)	(10)	(3)	(3)
<b>Closing Defined Benefit Obligations</b>	<b>9,676</b>	<b>9,046</b>	<b>4,088</b>	<b>2,618</b>

**Reconciliation of fair value of employer assets:**

<b>Year Ended</b>	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>31 March 2014</b>	<b>31 March 2013</b>
	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>	<b>£(000)</b>
<b>Opening Fair Value of Employer Assets</b>	<b>7,375</b>	<b>3,941</b>	<b>2,816</b>	<b>1,766</b>
Expected Return On Assets	270	201	147	123
Contributions by Members	453	387	319	252
Contribution by Employer	1,164	1,100	613	474
Actuarial Gains/ (Losses)	133	1,756	49	203
Estimated Benefits Paid	(13)	(10)	(3)	(2)
<b>Closing Fair Value of Employer Assets</b>	<b>9,382</b>	<b>7,375</b>	<b>3,941</b>	<b>2,816</b>
<b>Closing Asset/(Liability)</b>	<b>(294)</b>	<b>(1,671)</b>	<b>(147)</b>	<b>198</b>

Projected IAS 19 charge to be charged to the Statement of Comprehensive Income for the year ended 31 March 2017:

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

**16. Retirement benefits obligation – Group and Company (continued)**

	<b>31 March 2017</b>	
	<b>£(000)</b>	<b>% of pay</b>
Projected Current Service Cost	(1,103)	24.1%
Interest on Obligation	(376)	8.2%
Interest on Plan Assets	362	7.9%
	<b>(1,117)</b>	
Estimated Employer's contribution for the year ended 31 March 2017	896	
	<b>(221)</b>	

Sensitivity analysis:

<b>Sensitivities at 31 March 2016</b>	<b>Approximate % increase to Employer Obligation</b>	<b>Approximate monetary amount (£000)</b>
0.5% decrease in Real Discount Rate	14%	1,332
1 year increase in member life expectancy	3%	290
0.5% increase in the Salary Increase Rate	7%	599
0.5% increase in the Pension Increase Rate	7%	699

**17. Share capital and retained earnings – Group and Company**

	<b>Group &amp; Company 2016</b>	<b>Group &amp; Company 2015</b>
	<b>£</b>	<b>£</b>
<b>Share capital</b>		
<b>Authorised, issued and fully paid – ordinary shares of £1 each</b>		
As at beginning of period	2	2
Issued in the period	-	-
As at period end	<b>2</b>	<b>2</b>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**17. Share capital and retained earnings – Group and Company (continued)**

The shares have attached to them full voting and capital distribution (including on winding up) rights. The shares do not confer any rights of redemption and do not confer any rights to a dividend.

	<b>Group 2016</b>	<b>Company 2016</b>	<b>Group 2015</b>	<b>Company 2015</b>
	£	£	£	£
<b>Retained earnings</b>				
As at beginning of period	6,135,417	-	2,792,996	-
Total comprehensive income for the year	473,969	-	3,342,421	-
As at period end	<u>6,609,386</u>	<u>-</u>	<u>6,135,417</u>	<u>-</u>

The retained earnings reserve comprises the cumulative profits of the group.

**18. Related party transactions**

**Scottish Ministers**

The Company is wholly owned by Scottish Ministers. Details of transactions with the Scottish Government are included below.

	<b>2016</b>	<b>2015</b>
	£	£
<b><u>Scottish Government Funding received</u></b>		
Capital government funding received	112,695	90,122
Revenue government funding received	7,994,538	8,184,878
Capital grant income	1,483,270	12,199,291
	<u>9,590,503</u>	<u>20,474,291</u>

	<b>2016</b>	<b>2015</b>
	£	£
<b><u>Statement of Comprehensive Income</u></b>		
Capital government funding income – released in period	68,819	59,462
Revenue government funding received	7,464,707	9,735,358
Capital grant income	1,483,270	12,199,291
	<u>9,016,806</u>	<u>12,094,111</u>

**SCOTTISH FUTURES TRUST LIMITED**  
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**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**18. Related party transactions (continued)**

The figures above are reflected in the financial statements as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Statement of Financial Position</b>		
Balance included in other receivables	-	746,308
Deferred income - capital	220,050	176,174
Deferred income - funding received in advance of costs incurred	934,951	(94,429)
Deferred income - dilapidations	57,500	47,500
Loan from the Scottish Government	5,630,365	1,596,725
	<u>                    </u>	<u>                    </u>

**Noble Grossart Limited**

Sir Angus Grossart, the chairman of the Scottish Futures Trust Limited, is an ultimate controlling shareholder of Noble Grossart Limited.

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Income Statement</b>		
Expense for secretarial and administrative support	6,738	6,738
	<u>                    </u>	<u>                    </u>
<b>Statement of Financial Position</b>		
Balance included in other creditors and accruals	6,738	6,738
	<u>                    </u>	<u>                    </u>

Remuneration in respect of the directors was as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Executive directors' emoluments</b>		
Emoluments	361,511	355,650
Pension costs	68,162	66,990
	<u>                    </u>	<u>                    </u>
	429,673	422,640
	<u>                    </u>	<u>                    </u>
<b>Non-executive directors' fees</b>	31,200	31,200
	<u>                    </u>	<u>                    </u>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**18. Related party transactions (continued)**

**Hub South East Scotland Limited**

John Hope, an associate director of SFT, is a non-executive director of hub South East Scotland Ltd. but does not have a financial interest in the Company. Details of material transactions with hub South East Scotland Ltd are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Current assets – Investments (working capital loans)	100,000	100,000
Financial assets – subordinated debt	2,178,524	1,663,109
Trade and other receivables – accrued interest income	352,250	200,086
Trade and other receivables – hub director fees	1,845	-
<b><u>Income statement</u></b>		
Other income – hub director fees	6,075	-
Other income – Interest income	173,208	147,509
Administrative expenditure	2,010	5,958
	<u>          </u>	<u>          </u>

**Hub North Scotland Limited**

Andrew Bruce, an associate director of SFT, is a non-executive director of hub North Scotland Ltd. but does not have a financial interest in the Company. Details of material transactions with hub North Scotland Ltd are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Current assets – Investments (working capital loans)	-	90,000
Financial assets – subordinated debt	4,104,988	3,025,620
Trade and other receivables – accrued interest income	470,019	272,382
<b><u>Income statement</u></b>		
Other income – Interest income	397,910	195,813
	<u>          </u>	<u>          </u>



**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**18. Related party transactions (continued)**

**Hub East Central Scotland Limited**

John Hope, an associate director of SFT, is a non-executive director of hub East Central Scotland but does not have a financial interest in the Company. Details of material transactions with hub East Central Scotland Ltd are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	2,271,990	1,608,000
Trade and other receivables – accrued interest income	1,688	44,607
<b><u>Income statement</u></b>		
Other income – Interest income	166,164	46,296

**Hub West Scotland Limited**

John Hope, an associate director of SFT, is a non-executive director of hub West Scotland Ltd but does not have a financial interest in the Company. Details of material transactions with hub South East Scotland Limited are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	698,604	186,042
Trade and other receivables – accrued interest income	43,914	24,873
Trade and other payables	7,410	-
<b><u>Income statement</u></b>		
Other income – hub director fees	30,500	-
Other income – Interest income	19,041	16,475
Administrative expenditure	12,854	-

An amount of £7,410 was payable to hub West Scotland by SFT as at 31 March 2016 (2015: £nil) being reimbursement of costs incurred.

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**18. Related party transactions (continued)**

**Hub South West Scotland Limited**

John Hope, an associate director of SFT, is a non-executive director of hub South West Scotland Limited but does not have a financial interest in the Company. Details of material transactions with hub South West Scotland Limited are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	100,000	100,000
Financial assets- subordinated debt	1,664,229	596,564
Trade and other receivables – accrued interest income	104,914	50,143
Trade and other payable	-	4,800
<b><u>Income statement</u></b>		
Other income – Interest income	54,771	38,869
Administrative expenditure	-	4,800

**LAR Housing Trust**

LAR Housing Trust was incorporated as a Scottish Charitable Incorporated Organisations (“SCIO”) on 25 April 2014 to assist in the provision of affordable housing. SFTi has the right to appoint a Partner Trustee to the organisation who is one of six Trustees – four being Independent Trustees and one an Executive Trustee. Barry White, Chief Executive of SFT and Director of SFTi is currently SFTi’s nominated Trustee. Details of material transactions with LAR Housing Trust are noted below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
<b><u>Income statement</u></b> – secondment of staff	74,455	-

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**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**18. Related party transactions (continued)**

**Hub Community Foundation**

The Hub Community Foundation was incorporated as a Scottish Charitable Incorporated Organisation (“SCIO”) on 10 December 2015 to assist in the delivery of community benefits through the hub programme and to provide finance to specific projects delivered by the hub programme. SFTi has the right to appoint a Partner Trustee to the organisation who is one of five Trustees – three being Independent Trustees and one Trustee representing the Private Sector Development Partners. Peter Reekie, Deputy Chief Executive of SFT and SFTi is currently SFTi’s nominated Trustee. Details of material transactions with Hub Community Foundation are noted below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>	-	-
<b><u>Income statement</u></b>	-	-

**19. Commitments under operating leases – Group and Company**

At 31 March 2016 the Company had outstanding total commitments for future minimum lease payments under non-cancellable operating leases as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Office Premises (rent and service charges)</b>		
Due less than one year	110,400	112,344
Due in more than one year and less than five years	331,200	455,796
Due in more than five years	36,800	37,983
	<u>478,400</u>	<u>606,123</u>

**SCOTTISH FUTURES TRUST LIMITED**  
**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

**NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)**

**20. Financial Instruments**

The Group's financial instruments comprise of cash resources which arise directly from its operations and loans from the Scottish Government, subordinated debt issued to hub companies and working capital loans made to hub companies. The Group has not entered into derivatives transactions. Each of the main risk exposures related to financial instruments are considered below.

***Interest rate risk***

As the Group has no borrowings subject to interest or significant amounts of cash on deposit, for significant periods of time, it has no significant exposure to interest rate risk. Interest rates in respect of subordinated debt investment and working capital loans are fixed.

***Credit Risk***

The Group does not have a significant concentration of credit risk. Bank deposits are held with major national banks and the principal customer is the Scottish Government.

***Liquidity Risk***

The Group operates within a budget agreed with the Scottish Government and as such liquidity is not seen as a major risk area.

***Fair value of financial assets and liabilities***

The Group recognises financial assets and liabilities at fair value where appropriate. No revaluation has arisen during the period.

**21. Ultimate Controlling Party**

The Company is wholly-owned by the Scottish Ministers.

**22. Contingent asset**

The Company became an admitted body of the Lothian Pension Fund on 1 May 2009. A Deed of Guarantee and Indemnity exists with Scottish Ministers whereby any default by the Company of monies owed to the Fund will be met by Scottish Ministers.

**23. Taxation - Group**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Under provision in prior year	428	-
Corporation tax charge @ 20%	118,598	36,841
	<hr/>	<hr/>
	119,026	36,841
	<hr/> <hr/>	<hr/> <hr/>

The corporation tax charge is in respect of the surplus generated as a result of the interest on working capital loans and sub-ordinated debt exceeding the administration expenses of Scottish Futures Trust Investments Limited. No profit was generated by Scottish Futures Trust Limited and thus no corporation tax was due.

## **SCOTTISH FUTURES TRUST LIMITED**

### **ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS**

#### **OFFICERS AND PROFESSIONAL ADVISORS**

##### **Directors**

Sir Angus Grossart (Chairman)  
Graeme Bissett (Non-executive Director)  
James Fletcher (Non-executive Director)  
Fiona Mackenzie (Non-executive Director)  
Carolyn Dwyer (Non-executive Director)  
Barry White (Chief Executive)  
Peter Reekie (Deputy Chief Executive and Director of Investments)

##### **Chief Executive**

Barry White

##### **Registered Office & Principal Place of Business**

11-15 Thistle Street  
Edinburgh  
EH2 1DF

##### **Registered Company Number**

SC348382

##### **Auditor**

Scott-Moncrieff  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

##### **Bankers**

The Royal Bank of Scotland plc  
36 St Andrews Square  
Edinburgh  
EH2 2YB

##### **Website**

[www.scottishfuturestrust.org.uk](http://www.scottishfuturestrust.org.uk)