

SCOTTISH
FUTURES
TRUST

SCOTTISH FUTURES TRUST LIMITED

**ANNUAL REPORT AND
GROUP FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2022

SC348382

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

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CHAIRMAN'S STATEMENT

It is my pleasure to present the 2021/2022 Annual Report and Group Financial Statements for the Scottish Futures Trust (SFT).

In 2008 Scottish Government established SFT as a centre of infrastructure expertise to work with its many public and private sector partners, creating innovative solutions to improve the economic, social and environmental outcomes from Scotland's infrastructure.

Despite the challenges brought on by the pandemic during the 2021/2022 financial year, SFT again performed an important leadership role across the infrastructure sector in Scotland.

All SFT's activities are aligned with our three corporate priorities of place, net zero and inclusive economic growth, and ultimately contribute to the ten infrastructure-related outcomes in our 2019-24 Corporate Plan. Working towards those outcomes requires teamwork with all our partners. Some examples of this collaborative work are outlined below:

- As a priority of the Scottish construction industry through its COVID-19 Recovery Plan, we developed an online construction forecast database that details £11bn of future infrastructure projects from local authorities and public bodies across Scotland. The tool is used by industry to improve business planning and maintain investment in skills and future training needs;
- Working with Scottish Government we manage the outcomes-based Learning Estate Investment Programme (LEIP) which has net-zero principles at its core. This year we saw construction start on the first school in the LEIP programme – the next-generation, low-carbon Wallyford Learning Campus in East Lothian;
- Working with Scotland's local authorities, public bodies and communities, we published the Place 'How-To' Guide as a practical, step-by-step approach for public bodies to implement the Place agenda, helping them make better informed place-based decisions;
- Working with councils across the Tay Cities Region, the Local Government Digital Office Scotland's 5G centre and local SME delivery partners, we received funding from the UK Government's Department for Digital, Culture, Media & Sport, to fund Infralink-Exchange. It is a pilot initiative we developed to enhance greatly Scotland's mobile digital connectivity by establishing tools to encourage the use of public sector owned assets to host mobile network transmitters across the Tay Cities Region, and
- Working with The City of Edinburgh Council, Scottish Government and international private investor Nuveen, the SFT-managed Growth Accelerator programme unlocked development of the £850m Edinburgh St James Quarter which opened its doors this year, creating 1.7million square feet of retail and leisure space and delivering substantial inward investment into the city.

Other, more quantitative deliverables include:

- The value of public infrastructure projects under construction made possible through our innovative funding and financing approaches exceeded £250m;
- Investment in private infrastructure continued to be unlocked with projects valued at over £2.4bn on site;
- Over the past 12 months our work has continued to contribute towards a net-zero carbon economy, with 20,000 tonnes of infrastructure-related CO2 emissions saved during 2021/22.

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CHAIRMAN'S STATEMENT (continued)

As has been the case since we started in 2008, our continued success lies in building strong partnerships across the public and private sectors. Successful collaborations contribute significantly to us achieving our goals and we continue to nurture and build on those strong relationships, working towards our vision of world class infrastructure for the people of Scotland.

A handwritten signature in black ink, appearing to read 'Ian Russell', is written on a light blue horizontal line.

Ian Russell
Chairman

Date: 20th September 2022

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STRATEGIC REPORT

The directors present their Annual Report and the Consolidated Financial Statements for the year ended 31 March 2022 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, understandable and to provide the information necessary to assess the Group and Company’s performance, business model and strategy.

During the 2021/22 financial year, SFT staff have been working in a hybrid manner due to the global pandemic. More recently, we have reconfigured our office to create more collaborative spaces and staff are spending much more time in the office. The Directors expect the business to continue to test out new ways of working during the upcoming year. We look forward to taking steps towards a speedy and ambitious infrastructure recovery in collaboration with our partners across the public sector and private industry.

PRINCIPAL ACTIVITY

As an arm’s length Company owned by Scottish Government, our aim is:

‘to improve the efficiency and effectiveness of infrastructure investment and use in Scotland by working collaboratively with public bodies and industry, 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 long term ambitions for inclusive economic growth, net zero carbon emissions and building sustainable places.’

In working towards that aim, employing and developing the right teams of people is crucial and SFT has built a 70+ strong professional team who have the specific skills and expertise to deliver, support and improve public sector infrastructure investment, right across Scotland.

Our teams contribute significantly to creating award-winning buildings and other infrastructure investments, delivered through innovative programmes which secure additional investment and support economic growth.

SFT OUTCOMES

Improving infrastructure planning, development, delivery and use brings many societal, environmental and economic benefits for Scotland. SFT has developed ten infrastructure outcomes linked to the National Performance Framework (NPF) which we monitor progress against. The information on these outcomes and monitoring is available on SFT’s outcomes website.

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STRATEGIC REPORT (continued)

SFT OUTCOMES (continued)

As an example, capital investment into Scotland is important for the economy and we have worked with partners to deliver additional investment into public and private infrastructure. During 2021/22, the total value of public infrastructure projects under construction that SFT is involved in, exceeded £1 billion (2020/21 £1.0bn), with over £250m (2020/21 £250m) of this made possible through SFT’s funding and financing approaches. Investment in private infrastructure also continued to be unlocked, with projects valued at over £2.4bn (2020/21 £2.4bn) on site in 2021/22. Progress towards net zero is vital for the global environment. The current expected impact of SFT’s work with partners in this area is for a reduction in infrastructure related CO2 emissions exceeding 500,000 (2020/21 500,000) tonnes by the end of the corporate plan period, with the new annual savings of over 20,000 (2020/21 12,000) tonnes recorded this year, contributing cumulatively to this. Effective public asset portfolio is key to enabling efficient service delivery.

FINANCIAL REVIEW & RESULTS

SFT follows International Financial Reporting Standards (IFRS) and applies the best practice in Corporate Governance required by the Financial Reporting Council’s “UK Corporate Governance Code.” The financial information provided within these Financial Statements is consistent with these standards and provides transparency over where and how public money is invested and expended.

SFT has recorded the following funding within the Group Financial Statements:

Source of Funds	2021/22 £'m	2020/21 £'m
Scottish Government revenue funding received to meet operating expenses	9.4	8.9
SFTi Investment Returns	1.9	1.9
Miscellaneous income from secondments and director fees	0.6	0.4
Income used to fund Operating Expenses and support SFT projects and programmes	11.9	11.2
Deferred income (2021: accrued income) relating to SFT’s pension scheme (Note: this is a non-cash accounting entry recognising the fact Scottish Government underwrite SFT’s membership in their pension scheme. It covers the IAS19 pension costs charged to Operating expenses (wages and salaries) and those charged directly to Other Comprehensive Income).	(3.4)	4.1
Total Income recognised within the Group Statement of Comprehensive Income	8.5	15.3
Total Funds Recognised	8.5	15.3

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STRATEGIC REPORT (continued)

FINANCIAL REVIEW & RESULTS (continued)

During 2021/22, SFT applied its funding to the following expenditure:

Application of Funds	2021/22	2020/21
	£'m	£'m
Operating costs	11.4	10.6
Corporation Tax payable	0.2	0.2
Total operating costs including taxation	11.6	10.8
Movement in pension fund funding position:		
Included in staff costs (IAS 19 current service cost charge)	1.1	0.7
Finance charge	0.2	-
(Credited)/Charged to the Statement of Comprehensive Income – actuarial (gain)/loss	(4.7)	3.4
Total Pension Scheme (credit) / costs arising from the application of accounting standards to SFT's Pension Scheme	(3.4)	4.1
Total operating costs and pension charges	8.2	14.9
SFTi profits retained for future infrastructure investment and development (SFTi profit less dividend to SFT in year)	0.3	0.4
Total Funds Applied	8.5	15.3

Within operating expenditure above, there is advisory fees within SFT of £1.8m (2021: £1.7m) an increase of c£100k. This increase is mainly due to expenditure directly related to additional funding from the 5G Centre.

Within the operating expenditure above there is corporate and professional fees of £510k (2021: £468k), an increase of £42k. This increase relates to costs associated with IT project consultancy (£22k) and a salary benchmarking exercise and employee opinion survey (£20k). These increases in professional fees were slightly compensated for by a fall in the costs associated with the Scottish Hospitals Inquiry which amounted to £347k during 21/22 (20/21: £373k).

SFT, the Company, had a profit of £nil (20/21: £nil) in the financial year with SFTi generating a profit of £1,105,170 (20/21: £1,113,105).

SFTi now generates a healthy return from its investment portfolio. Part of these profits is now transferred over to SFT via a dividend, with these funds used by SFT to help fund its activities. In the current year a dividend of £814K (20/21: £770k) was distributed by SFTi to SFT.

STRATEGIC REPORT (continued)

FINANCIAL REVIEW & RESULTS (continued)

As part of the preparation of the group financial statements, intergroup transactions, including this dividend are removed, thus the £814,000 (20/21: £770,000) was deducted from the cumulative individual profit of £1,105,170 (2020/21: £1,113,105) to give an overall group profit of £291,170 (20/21: £343,105).

The Group Statement of Financial Position (Balance Sheet) shows a movement in net assets from £8.5m as at 31 March 2021 to £8.8m as at 31 March 2022. However, within that overall position there were a number of increases and decreases including:

- **A decrease in non-current assets of £3.7m:** reflecting a:
 - £0.13m decrease in investments in subordinated debt of hub projects due to repayment of principal;
 - a £3.4m decrease in the deferred grant which would be payable by Scottish Government if the pension scheme liability crystallised;
 - £0.03m increase in investments due to the requirement for a fair value accounting adjustment under IFRS 9.
 - £0.12m decrease in trades and other receivables due after more than 1 year; and
 - £0.08m decrease in the right of use asset
- **A £0.1m increase in current assets:** reflecting a:
 - £0.3m decrease in cash balances;
 - £0.45m increase in debtor balances; and
 - £0.05m decrease in investments due to reclassification to non-current assets
- **A £0.3m decrease in current liabilities** due to a decrease in deferred income
- **A £3.6m decrease in long term liabilities:** representing a:
 - £3.4m decrease in the forecast pension deficit;
 - £0.1m decrease in finance lease liability; and
 - £0.1m decrease in repayable grants to Scottish Government

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.

RISKS AND MITIGATION

The Group maintains a strategic risk register which is derived from the high-level risks of the projects and programmes in which SFT is involved, along with corporate risks within the Group. Risks are evaluated by considering their probability of occurring along with 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 Group Audit Committee at every meeting (3 times a year) and by the Leadership Team monthly.

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STRATEGIC REPORT (continued)

RISKS AND MITIGATION (continued)

The table below details the significant Group operational risks and the Group’s approach to managing and mitigating these. SFT is working with stakeholders to mitigate these risks but does not have complete control over them.

Significant Operational Risks	Approach to Management and Mitigation of Risks
<p>Changes in Public Sector Landscape Changes in public sector landscape (organisations, departments, roles & responsibilities and individuals), can impact on SFT’s business approach and delivery of workstreams.</p>	<p>SFT Leadership Team review detailed plans and tactics monthly.</p>
<p>Limited resource levels in central Government and procuring authorities to take forward priority projects in a timely manner.</p>	<p>SFT supports authorities by aiming to understand resource needs and where appropriate trying to make sure resource needs are incorporated into funding agreements for future projects.</p>
<p>The financial and economic standing of key delivery partners deteriorates, impacting project delivery.</p>	<p>SFT works with a wide range of delivery partners. On many major projects, SFT has board level representation which would provide early warning of any such issues. However, the risk cannot be fully mitigated.</p>

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 2021/22, four external reviews were undertaken of SFT’s internal controls in the following area: IT services and continuity management, business continuity planning and cyber security, a review of one of the Housing LLPs and a review of the process for working capital loans. There were no significant issues noted.

GOING CONCERN AND VIABILITY STATEMENT

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 sole Shareholder, the Scottish Government, for the financial year 2022/23; SFT’s role in improving outcomes from infrastructure across Scotland with associated investment income forecast for a period in excess of 20 years; and the regular discussion between the Board and the Scottish Government regarding SFT’s future activities.

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STRATEGIC REPORT (continued)

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 Group Audit Committee.

FUTURE PLANS

The Group's long-term plans are described in its [2019-2024 Corporate Plan](#) which can be found on [SFT's Website](#). The Group's priorities and detailed objectives are set out in its [22/23 Business Plan](#) which can be found on SFT's website. Outcomes achieved against these objectives are published on the associated microsite [SFT Outcomes](#).

The 2022/23 operating budget has been set at £10.1m, reflecting £1.7m of third-party income and £8.4m 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:



Peter Reekie
Chief Executive

Date: 20th September 2022

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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 up to the signing of these financial statements are as follows:

Ian Russell	Chairman
Peter Reekie	Executive Director
Ann Allen	Non-Executive Director
Bill Matthews	Non-Executive Director
Pauline Mills	Non-Executive Director
Graham Watson	Non-Executive Director
Ann Faulds	Non-Executive Director (resigned 30 November 2021)

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 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 reasonably to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor and AGM

Azets Audit Services will be replaced as auditor for 2022/23 as the SFT group is expected to be audited by Audit Scotland or another audit firm appointed by Audit Scotland.

The SFT 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, the Scottish Ministers and the Group occur on a regular basis.

STATEMENT OF THE 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 UK adopted international accounting standards.

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 and Parent Company's results for that period.

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DIRECTORS' REPORT (continued)

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

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

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

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the 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 Parent Company 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:



Peter Reekie
Chief Executive

Date: 20th September 2022

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 2022, 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. However Executive director appointments to the Board are decided by the Board;
- directors are not subject to election or re-election at General Meetings as required by the Code. 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 policies on term of office and diversity are available on its website;
- In view of the Group's responsibilities to take account of the provisions set out in the Management Statement and Financial Memorandum (MSFM) agreed with the Scottish Government, compliance is not appropriate with the provision in the UK Corporate Governance Code that performance-related elements of remuneration be transparent, stretching and rigorously applied. The Board carries out the role of a Remuneration Committee as remuneration of non-executive directors is set by Scottish Government;
- 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 Group Audit Committee (GAC) to regularly review the need for an internal audit function. At its June 2021 meeting the GAC agreed that it would continue with a programme of internal control reviews rather than a formal internal audit function for the period 2021/22 to 2022/23. RSM were appointed in September 2020 to carry out the internal control reviews over the 3 year period 2020/21-2022/23. Since the year-end, the GAC has taken the decision to ask RSM to formally take on the role of internal auditor rather than carry out internal control reviews. This is due to a change in future reporting requirements. An internal audit plan has been agreed and will be put in place for the financial year 22/23 onwards.

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. The Chief Executive has responsibility for all operational business and acts in accordance with the authority delegated from the Board. Responsibility for the implementation of policy, strategy and operational management is delegated to the Chief Executive.

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REPORT ON CORPORATE GOVERNANCE (continued)

Board of Directors (continued)

The Chairman's other significant commitments are: chairman of HICL Infrastructure plc (resigned 20th July 2022) and chairman of National Museums of Scotland.

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. Six Board meetings were held during the year plus one Board Strategy day.

Board Balance and Independence

As at 31 March 2022, 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.

Election of Directors

The non-executive directors have been appointed by Scottish Ministers in accordance with the Office for the Commissioner for Ethical Standards in Public Life in Scotland's 2013 Code of Practice for Ministerial Appointments to Public Bodies in Scotland, and related guidance on its application.

Secretary and Meeting Minutes

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 Group Audit 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 the Chief Executive is assessed by the Chairman and the non-executive directors. The Chairman's performance is assessed by the Scottish Government.

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REPORT ON CORPORATE GOVERNANCE (continued)

Board Committees

To provide effective overview and leadership, the Board can establish Committees composed of non-executive directors with specific governance responsibilities. The Committees' 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. During 2021/22 the only Board Committee was the Group Audit Committee.

Attendance at Board and Committee Meetings

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

	SFT Board	Group Audit Committee	SFTi Board
Number of meetings	6	3	3
Ian Russell	5	N/A	2
Ann Faulds*	4	2	1
Graham Watson	5	3	3
Bill Matthews	6	2	3
Ann Allen	6	3	3
Pauline Mills	6	3	3
Peter Reekie	6	3**	3

*Ann Faulds resigned from the Board at the end of November 2021

**In attendance, not members of the Committee

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 and Chief Executive, on behalf of the directors have met with Scottish Ministers and officials during the year and post year end to understand their views and have reported these to the Board.

Gender Balance

The Table below discloses the gender balance of SFT's Board, Leadership Team and their Direct Reports. SFT will continue to take steps to promote gender equality:

Gender split as at 31 March 2022	Number and Percentage of Females	Number and Percentage of Males	Number and Percentage of "Preferred not to say"
Board	2 33%	4 67%	0 0%
Leadership Team	2 50%	2 50%	0 0%
Direct Reports	9 37%	17 63%	0 0%

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REPORT ON CORPORATE GOVERNANCE (continued)

On behalf of the Board:



Peter Reekie
Chief Executive

Date: 20th September 2022

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STATEMENT ON 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 was no need for a separate internal audit function in 21/22. RSM were appointed in September 2020 to carry out a series of internal control reviews over the 3 year period 2020/21-2022/23. Since the year-end, the GAC has taken the decision to ask RSM to formally take on the role of internal auditor rather than carry out internal control reviews. This is due to a change in future reporting requirements. An internal audit plan has been agreed and will be put in place for the financial year 22/23 onwards.

The organisation has clear lines of responsibility and effective communication channels which ensures that best practice in managing risks and controls is consistently applied.

Separate controls and governance structures are in place across SFT's programmes. The Audit Committee receives an update on these at each of its meetings (three times a year).

Identification and Monitoring of Business Risks

The Group has adopted a risk-based approach to internal control by evaluating the probability and impact of risks 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. A formal risk register is kept and regularly reviewed by the Leadership Team, the Group Audit Committee and ultimately the Board.

In addition, the Board has developed a formal Risk Policy which describes SFT's risk appetite and the formal responsibilities across the organisation for risk management. It also describes how workstream level risks should be managed and, if appropriate, escalated to the leadership team for possible inclusion in the corporate risk register.

Corporate Information Systems

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

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STATEMENT ON INTERNAL CONTROL (continued)

Effectiveness of Internal Controls

The directors are responsible for reviewing the effectiveness of the Group's system of internal control, including internal financial control, which 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. The directors do this through a range of internal control reviews currently conducted by RSM Risk Assurance Services LLP. In 2021/22, this included a review of: IT services and continuity management, business continuity planning and cyber security, a review of one of the Housing LLPs and a review of the process for working capital loans. There were no significant issues noted. 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:



Peter Reekie
Chief Executive

Date: 20th September 2022

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REPORT ON DIRECTORS' REMUNERATION

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

Directors' Remuneration

In the year to 31 March 2022, 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. Ian Russell has waived his remuneration for the role of Chairman of SFT and SFTi.

The fees received by the other directors in the years to 31 March 2022 and 31 March 2021 for duties provided to the Group are as follows:

	2022	2021
	£	£
Ann Faulds	5,200*	7,800
Graham Watson	7,800	7,800
Bill Matthews	7,800	7,800
Ann Allen	7,800	7,800
Pauline Mills	7,800	7,800

The total expenses reimbursed during the year were £209 (2020/21: £nil).

*Ann Faulds resigned from the Board in November 2021

Peter Reekie was appointed as Executive Director on 29 June 2010 and became Chief Executive on 10 January 2018. His remuneration for the year was:

	2022	2021
	£	£
Salary	178,310	177,460
Pension	34,592	31,588
Car Allowance	12,600	12,600

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REPORT ON DIRECTORS' REMUNERATION (continued)

Directors' Remuneration (continued)

	2022	2021
	£	£
Highest paid director's total remuneration	190,000-195,000	190,000-195,000
Median total remuneration	73,802	77,363
Ratio	2.59	2.49

The ratio has increased slightly due to the reduction in staff at a certain level, the impact of which was to decrease the median pay in the year. The median pay is assessed with reference to total remuneration which includes gross salary and car allowance but excludes employer pension contributions. There were no bonuses or benefits in kind in financial years 2021/22 or 2020/21.

	2022	2021
	£	£
Highest paid director's total remuneration	190,000-195,000	190,000-195,000
25 th percentile total remuneration	31,402	43,729
Ratio	6.08	4.35

	2022	2021
	£	£
Highest paid director's total remuneration	190,000-195,000	190,000-195,000
75 th percentile total remuneration	95,793	100,367
Ratio	1.99	1.89

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 defined benefit scheme where contributions paid by the employee and the Company operate on a sliding scale.

In the year ended 31 March 2022, 68 of the Company's employees including one director were members of the pension fund.

The highest paid director's pension has a transfer value of £423,922 (2020/21: £371,389).

On behalf of the Board:



Peter Reekie
Chief Executive

Date: 20th September 2022

SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

REPORT OF THE GROUP 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 for the financial year were:

- Graham Watson is a Chartered Accountant and experienced investment banker bringing extensive strategic leadership and financial expertise to the board. Graham was appointed chair of the Group Audit Committee from 1 September 2017.
- Ann Allen MBE is a chartered surveyor with over 35 years' experience. She is Director of Innovation and Campus Development at the University of Leeds and Chair of Architecture and Design Scotland.
- Ann Faulds was a partner in the law firm, CMS and has 30 years' experience in consenting processes for developments and infrastructure projects (resigned 30 November 2021).
- Bill Matthews a Chartered Engineer with governance knowledge across a variety of policy areas and organisations. He was the founding Chair of hub West Scotland and has significant infrastructure development experience.
- Pauline Mills is a chartered town planner and member of the Royal Town Planning Institute. She is currently Land and Planning Director at Taylor Wimpey, responsible for managing the firm's land assets across the regional Board of which she is a member.

In the year ended 31 March 2022, there were three meetings of the Audit Committee. The Board is satisfied that the Committee membership has relevant financial and business experience.

Responsibilities

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;
- selecting and appointing 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 independence and quality of the audit engagement partner and the audit team;
- reviewing the appropriateness of the Group'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 GROUP AUDIT COMMITTEE (continued)

Auditor and Audit Tenure

In June 2020, Azets Audit Services were appointed for a further 2 years (after the completion of an initial 3 year contract), to carry out the 2021 and 2022 external audits. Azets Audit Services will be replaced as auditor for 2022/23 as the SFT group is expected to be audited by Audit Scotland or another audit firm appointed by Audit Scotland.

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 & Investments. 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 is intended to ensure the auditor’s objectivity and independence.

There were non-audit services provided to the Company by Azets Holdings Limited, a company in the same group as the Auditor in the year. These related to corporation tax compliance work, iXBRL tagging of the financial statements for submission to HMRC and VAT advice. These services were performed by staff from Azets Holdings Limited, who had no involvement with the external audit, thus the objectivity and independence of the external auditor was not compromised. The total fees paid to the auditor can be found in note 6 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 Group 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.

Significant issue	How the issue was addressed
Income being over or understated in the Financial Statements.	<p>The group has two main sources of income:</p> <ol style="list-style-type: none"> 1) The funding provided by the Scottish Government; and 2) The interest it receives on the working capital loans and subordinated debt invested in the hub Companies and the Design Build Finance Maintain (DBFM) Special Purpose Vehicles (SPV) companies. <p>The Audit Committee reviews, through the Internal Control and 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 quarterly management accounts process and the annual Financial Statements.</p> <p>The Audit Committee members as members of the SFTi Board review each investment made and monitor 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 financial statements.</p>

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

REPORT OF THE GROUP AUDIT COMMITTEE (continued)

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

Significant issue	How the issue was addressed
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 receive regular updates from the Chair and Chief Executive on funding following their meetings with Scottish Government on current and future funding. The Committee consider the funding levels agreed when assessing the Group's and 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 SFTi Board reviews investment performance. SFT also has board representation on all hubCos and DBFM SPV companies which provides additional reassurance regarding the performance of the companies to whom SFTi provides working capital loans or subordinated debt to.
The risk that the fair value of investments is over or under stated in the financial statements	The Group implemented IFRS 9 <i>Financial Instruments</i> in 18/19 which required the equity investments, in companies delivering infrastructure as part of wider SFT programmes, to be held at fair value. The fair value calculations are based on the discounted value of future cashflows. The future cashflows are based on operational models provided bi-annually by the companies in which SFTi holds the equity. These companies have a SFT nominated Director on their Boards who confirms the reasonableness of the operating models. The directors gain reassurance that the fair value calculations are reasonable based on the above controls.
Risk of incorrect accounting of repayable grants from the Scottish Government to SFT which are then on-lent to SFTi.	In previous years, SFT has drawn down repayable grants from the Scottish Government which are then granted on to SFTi to make investments in the subordinated debt and share capital of DBFM SPV companies. The SFTi Board approves each investment made by SFTi and the funding that is drawn down from the Scottish Government and then granted on to SFTi to fund these investments. Through the review of the management accounts and the statutory financial statements, the Board ensure that all repayable grants from the Scottish Government by SFT which are granted to SFTi, are recorded and disclosed correctly.

On behalf of the Group Audit Committee:



Graham Watson
Chairman
Group Audit Committee

Date: 20th September 2022

SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

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

Opinion

We have audited the Financial Statements of Scottish Futures Trust Limited (the 'Parent Company') and its subsidiary (the 'Group') for the year ended 31 March 2022 which comprise the Group and the Company Statements of Comprehensive Income, the Group and the Company Statements of Changes in Equity, the Group and the Company Statements of Financial Position, the Group and the Company Statements of Cash Flows and the notes to the financial statements including significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2022 and of the Group's and the Parent Company's results for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included our review of the funding letter provided by the Scottish Government which confirms that the Group will receive sufficient funds to operate in 2022/23. Although, at this time, no funding letter is in place for 2023/24, the Board anticipates continued support from the Scottish Government in 2023/24 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 infrastructure investment and use, and given there is no evidence to the contrary we are satisfied that the financial statements should be prepared on a going concern basis.

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

SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

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

In relation to the Group and Parent Company reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors' considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

Each of the key audit matters noted below 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Income Recognition

- **The risk:** There is a risk that income is misstated as a result of the accounting policies adopted or as a result of the Group or Parent Company recognising income transactions in such a way as to lead to a material misstatement in the reported income.
- **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 and dividend income in respect of investments, working capital loans and subordinated debt invested in the hub companies and DBFM SPV companies and through reviewing 3rd party supporting documentation we confirmed the interest and dividend income recognised in the year was accurate.
- **Our findings:** From the work performed we gained assurance in respect of the recognition of income 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 in its current form and may 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 2022/23. Although, at this time, no funding letter is in place for 2023/24, the Board anticipates continued support from the Scottish Government in 2023/24 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 2022/23. The expectation at the date of signing the Financial Statements is that this funding from the Scottish Government will continue into 2023/24 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 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 the Audit Committee and Leadership Team and a review of underlying agreements.
- **Our findings:** The investments held were reviewed and we concluded that no significant influence or control existed and therefore consolidation was not required for any of the investments held.

Recoverability of investments in terms of the repayment of the loans and interest receivable

- **The risk:** Capital investments and working capital loans in hub companies and special purpose investment vehicles in terms of both share capital and subordinated debt are impaired.
- **Our response:** We discussed the risk of impairment with the senior management team and the directors. We also performed a detailed review of Board and Audit Committee minutes where the performance of investments is reported to identify any impairment indicators which would suggest an unrecorded impairment.
- **Our findings:** No unrecorded impairment has been identified in respect of any of the Group's investments.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

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

The recognition of the equity investments at fair value in accordance with IFRS 9 *Financial Instruments*

- **The risk:** Equity investments are not recorded at their fair value.
- **Our response:** We reviewed the fair valuation calculations and are satisfied that the equity investments are held at fair value and that the movement in the fair value in the year has been accounted for correctly.
- **Our findings:** The equity investments are held at fair value in line with the requirements of IFRS 9 *Financial Instruments* and the movement in the fair value in the year has been accounted for correctly.

Repayable grants from the Scottish Government to SFT which are then granted on to SFTi

- **The risk:** There is a risk that repayable grants received by SFT from the Scottish Government which are then granted on to SFTi to fund the investment in sub-ordinated debt and the share capital of DBFM SPV companies are not correctly recorded in the financial statements of SFT or SFTi.
- **Our response:** There was no further drawdown from the Scottish Government in the year.
- **Our findings:** From the work performed, we have gained assurance over the closing balance at the year end.

Our Application of Materiality

The materiality for the Group Financial Statements as a whole was set at £120,000. This has been assessed with reference to a benchmark of 1% of other income which we consider to be the principal consideration for the Member of the Group in assessing the financial performance of the Group.

The materiality for the Parent Company Financial Statements as a whole was set at £100,000. This has been assessed with reference to a benchmark of 1% of the Parent Company's other income less the dividend income of £814,000 from SFTi and the management charge to SFTi of £550,108, with materiality capped at £100,000.

We set a performance (testing) materiality for high risk areas, which we assessed as being 75% of the overall materiality. All balances and transactions above 75% of overall materiality were audited. 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% of materiality so £6,000 for the Group and £5,000 for the Parent Company; and (iii) other misstatements below that threshold that we believe warranted reporting on qualitative grounds.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information contained within the audit report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

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

- 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 and these reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 Report on Directors' Remuneration 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.

Corporate governance statement

We are required to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's and the Parent Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

SCOTTISH FUTURES TRUST LIMITED ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

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

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified (set out on page 7);
- The Directors' explanation as to the assessment of the Group's and the Parent Company's prospects, the period this assessment covers and why the period is appropriate (set out on page 7);
- The Directors' statement on the Annual Report and financial statements as a whole being fair, balanced and understandable (set out on page 3);
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on pages 6 and 7);
- The section of the annual report that describes the review of effectiveness of risk management and internal financial controls (set out on page 7);
- The section describing the work of the Audit Committee (set out on pages 19 to 21).

Responsibilities of the directors

As explained more fully in the directors' responsibilities statement set out on pages 9 and 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's [website](http://www.frc.org.uk/auditorsresponsibilities) at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the FRC's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the Group and Parent Company, their activities, their control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the Group and Parent Company is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

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

The extent to which the audit was considered capable of detecting irregularities, including fraud
(continued)

This includes consideration of the risk of acts by the Group and Parent Company that were contrary to applicable laws and regulations, including fraud.

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the Group and Parent Company through discussions with directors and other management, and from our commercial knowledge and experience;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the Group and Parent Company, including the Companies Act 2006, the UK Corporate Governance code, UK adopted international accounting standards and taxation, data protection, anti-bribery, environmental, employment and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance;
- enquiring of management as to actual and potential litigation and claims; and
- reviewing correspondence with HMRC and the Group's and Parent Company's legal advisors.

We assessed the susceptibility of the financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and

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

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

**The extent to which the audit was considered capable of detecting irregularities, including fraud
(continued)**

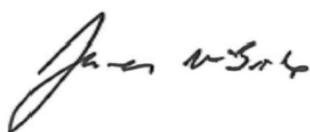
- investigated the rationale behind significant or unusual transactions.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In addition to our audit of the Financial Statements, the directors have engaged us to review their Report on Corporate Governance as if the Group was required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters. We review whether the Report on Corporate Governance 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 Statement on Internal Control covers 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.

Use of our report

This report is made solely to the Parent Company's sole 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 Parent Company's Member, as a body, 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 Parent Company and the Parent Company's Member, as a body, for our audit work, for this report, or for the opinions we have formed.



**James McBride (Senior Statutory Auditor)
For and on behalf of Azets Audit Services, Statutory Auditor
Exchange Place 3, Semple Street
Edinburgh, EH3 8BL**

Date: 22 September 2022

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 MARCH 2022

	Note	2022	2021
		£	£
Continuing operations			
Revenue		-	-
Cost of sales		-	-
		<u>-</u>	<u>-</u>
Gross profit		-	-
Other income	5	8,530,653	15,261,868
Operating expenditure	6	(12,583,778)	(11,319,937)
Finance charge (DB Pension)		(166,000)	-
		<u>(4,219,125)</u>	<u>3,941,931</u>
(Loss)/profit on ordinary activities before taxation		(4,219,125)	3,941,931
		<u>(4,219,125)</u>	<u>3,941,931</u>
Taxation on ordinary activities	7	(242,376)	(234,874)
		<u>(4,461,501)</u>	<u>3,707,057</u>
Net (loss)/profit for the year		(4,461,501)	3,707,057
Other comprehensive income:			
Those that are not recyclable net of tax:			
Actuarial gains/(losses) on post-employment benefit obligations	15	4,719,000	(3,443,000)
Gain on fair value on SPV investments	9	33,671	79,048
		<u>4,752,671</u>	<u>(3,363,952)</u>
Other comprehensive income for the year after tax		4,752,671	(3,363,952)
		<u>4,752,671</u>	<u>(3,363,952)</u>
Total comprehensive income for the year		291,170	343,105
		<u>291,170</u>	<u>343,105</u>
Attributable to:			
Equity holder of the company		291,170	343,105
		<u>291,170</u>	<u>343,105</u>
Distributed as follow:			
Transferred to retained earnings		291,170	343,105
		<u>291,170</u>	<u>343,105</u>
Profits available for distribution		-	-
		<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

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 MARCH 2022

	Note	2022 £	2021 £
Continuing operations			
Revenue		-	-
Cost of sales		-	-
		<u>-</u>	<u>-</u>
Gross profit		-	-
Other income	5	8,029,489	14,762,897
Operating expenditure	6	(12,582,489)	(11,319,897)
Finance charge (DB Pension)		(166,000)	-
		<u>(4,719,000)</u>	<u>3,443,000</u>
(Loss)/profit on ordinary activities before taxation		(4,719,000)	3,443,000
Taxation on ordinary activities	7	-	-
		<u>-</u>	<u>-</u>
Net (loss)/profit for the year		(4,719,000)	3,443,000
Other comprehensive income:			
Those that are not recyclable net of tax:			
Actuarial gains/(losses) on post-employment benefit obligations	15	4,719,000	(3,443,000)
		<u>4,719,000</u>	<u>(3,443,000)</u>
Other comprehensive income for the year after tax		4,719,000	(3,443,000)
		<u>4,719,000</u>	<u>(3,443,000)</u>
Total comprehensive income for the year		-	-
		<u>-</u>	<u>-</u>
Attributable to:			
Equity holder of the company		-	-
		<u>-</u>	<u>-</u>
Distributed as follow:			
Transferred to retained earnings		-	-
		<u>-</u>	<u>-</u>
Profits available for distribution		-	-
		<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 2022

As at 31 March 2022 and 31 March 2021	Share Capital	Retained Earnings	Other Reserve – Capital Grants for Investments	Fair Value Reserve	Total
	£	£		£	£
At 1 April 2021	2	2,483,877	5,410,903	602,910	8,497,692
Total comprehensive income for the year	-	291,170	-	-	291,170
Transfer between reserves	-	2,028	(35,699)	33,671	-
At 31 March 2022	2	2,777,075	5,375,204	636,581	8,788,862
At 1 April 2020	2	7,630,723	-	523,862	8,154,587
Total comprehensive income for the year	-	343,105	-	-	343,105
Transfer between reserves	-	(5,489,951)	5,410,903	79,048	-
At 31 March 2021	2	2,483,877	5,410,903	602,910	8,497,692

The Other reserve – Capital Grants for Investments, is funding received pre 2015 from the Scottish Government to fund capital investments. As the capital is returned to SFTi, SFT will return these funds via a distribution to the Scottish Government. £36k was returned to the Scottish Government in 21/22.

COMPANY STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2022

As at 31 March 2022	Share Capital	Retained Earnings	Total
	£	£	£
At 1 April 2021	2	-	2
Total comprehensive income for the year	-	-	-
At 31 March 2022	2	-	2
At 31 March 2021	2	-	2

As at 31 March 2021	Share Capital	Retained Earnings	Total
	£	£	£
At 1 April 2020	2	-	2
Total comprehensive income for the year	-	-	-
At 31 March 2021	2	-	2

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 2022

	Note	2022	2021
		£	£
ASSETS			
Non-current assets			
Property, plant and equipment	8a	-	-
Right of use asset	8b	382,774	459,523
Investments	9	16,446,509	16,446,491
Trade and other receivables in more than 1 year	10	1,763,779	1,928,336
Accrued income in respect of pension liabilities	14	4,134,000	7,547,000
		<u>22,727,062</u>	<u>26,381,350</u>
Current assets			
Trade and other receivables in less than 1 year	10	1,060,772	641,476
Investments	10b	60,000	110,000
Cash and cash equivalents	11	2,068,016	2,358,693
		<u>3,188,788</u>	<u>3,110,169</u>
Current liabilities			
Trade and other payables	12	(1,713,541)	(1,686,450)
Deferred income	14	(244,926)	(568,081)
Current tax liabilities	7	(242,402)	(235,007)
		<u>(2,200,869)</u>	<u>(2,489,538)</u>
Net current assets		<u>987,919</u>	<u>620,631</u>
Non-current liabilities			
Repayable grants from the Scottish Government	13	(10,522,107)	(10,584,385)
Finance lease liability	12	(270,012)	(372,904)
Pension liabilities	15	(4,134,000)	(7,547,000)
		<u>(14,926,119)</u>	<u>(18,504,289)</u>
Net assets		<u>8,788,862</u>	<u>8,497,692</u>
Equity			
Called up share capital	16	2	2
Retained earnings	16	2,777,075	2,483,877
Other reserve – Capital Grants for Investments	16	5,375,204	5,410,903
Fair value reserve	16	636,581	602,910
		<u>8,788,862</u>	<u>8,497,692</u>
Total shareholder's funds		<u>8,788,862</u>	<u>8,497,692</u>

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

These financial statements were approved by the Board of Directors on 20th September 2022 and authorised for issue on its behalf by:



Ian Russell
Chairman



Peter Reekie
Chief Executive

Registered Company Number: SC348382

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS
COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022

	Note	2022	2021
		£	£
ASSETS			
Non-current assets			
Property, plant and equipment	8a	-	-
Right of use asset	8b	382,774	459,523
Investments	9b	1	1
Repayable grants due from subsidiary	10a	10,674,708	10,736,986
Accrued income in respect of pension liabilities	14	4,134,000	7,547,000
		<u>15,191,483</u>	<u>18,743,510</u>
Current assets			
Trade and other receivables in less than 1 year	10	868,494	1,080,220
Cash and cash equivalents	11	824,230	934,719
		<u>1,692,724</u>	<u>2,014,939</u>
Current liabilities			
Trade and other payables	12	(1,713,160)	(1,686,077)
Deferred income	14	(244,926)	(568,081)
		<u>(1,958,086)</u>	<u>(2,254,158)</u>
Net current liabilities		<u>(265,362)</u>	<u>(239,219)</u>
Non-current liabilities			
Repayable grants from the Scottish Government	13	(10,522,107)	(10,584,385)
Finance lease liability	12	(270,012)	(372,904)
Pension liabilities	15	(4,134,000)	(7,547,000)
		<u>(14,926,119)</u>	<u>(18,494,289)</u>
Net assets		<u><u>2</u></u>	<u><u>2</u></u>
Equity			
Called up share capital	16	2	2
Retained earnings	16	-	-
		<u>2</u>	<u>2</u>
Total shareholder's funds		<u><u>2</u></u>	<u><u>2</u></u>

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

These financial statements were approved by the Board of Directors on 20th September 2022 and authorised for issue on its behalf by:



Ian Russell
Chairman



Peter Reekie
Chief Executive

Registered Company Number: SC348382

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022	2021
		£	£
Cash flows from operating activities			
(Loss)/profit before tax from operations for the period		(4,219,125)	3,941,931
Depreciation of plant and equipment	8a	-	642
Expected credit loss provision	6	1,245	-
Depreciation of ROU asset	8b	120,691	100,015
IAS19 pension charge and finance charge	15	1,306,000	723,000
Increase in trade and other receivables	10	(254,739)	(219,278)
(Decrease)/increase in trade and other payables	12	(119,825)	335,701
Increase/(decrease) in net accrued income/deferred income	14	3,089,845	(4,251,479)
Grants repaid in the year netted off within receipts from the Scottish Government	10a	(62,196)	(57,916)
Net cash from operating activities		<u>(138,104)</u>	<u>572,616</u>
Corporation tax paid	7	<u>(234,981)</u>	<u>(201,907)</u>
Cash flows from investing activities			
Disposal of investments	9	3	-
Repayment of subordinated debt	9	72,405	217,293
Repayment of working capital loan	10b	10,000	-
		<u>82,408</u>	<u>217,293</u>
Net (decrease)/increase in cash and cash equivalents		<u>(290,677)</u>	<u>588,002</u>
Cash and cash equivalents at beginning of period	11	<u>2,358,693</u>	<u>1,770,691</u>
Cash and cash equivalents at end of period	11	<u>2,068,016</u>	<u>2,358,693</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 2022

	Note	2022	2021
		£	£
Cash flows from operating activities			
(Loss)/profit before tax from operations for the period		(4,719,000)	3,443,000
Depreciation of property, plant and equipment	8a	-	642
Depreciation of ROU asset	8b	120,691	100,015
IAS 19 pension charge and finance charge	15	1,306,000	723,000
Decrease/(increase) in trade and other receivables	10	211,808	(12,722)
(Decrease)/increase in trade and other payables	12	(119,833)	335,698
Increase/(decrease) in net accrued income/deferred income	14	3,089,845	(4,251,479)
Grants repaid in the year netted off within receipts from the Scottish Government	10a	(62,196)	(57,916)
Net cash from operating activities		(172,685)	280,238
Cash flows from investing activities			
Repayment of repayable grant from subsidiary	10a	62,196	199,011
Net cash used in investing activities		62,196	199,011
Net (decrease)/increase in cash and cash equivalents		(110,489)	479,249
Cash and cash equivalents at beginning of period	11	934,719	455,470
Cash and cash equivalents at end of period	11	824,230	934,719

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 2022

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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards and IFRIC interpretations.

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 (for example the defined benefit pension and equity investments), 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.

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 Group will continue to receive funding from the Scottish Government. The Group, through its subsidiary SFTi, is also due to receive investment income from sub-ordinated debt invested in hub projects for a period in excess of 20 years. Consequently, the Group 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 Parent 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date that control ceases.

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

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

1. Basis of preparation and accounting policies (continued)

Financial instruments

Classification, recognition and measurement

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

Investments

Equity investments are held at fair value. An irrevocable election has been made to recognise the fair value movements through Other Comprehensive Income.

Impairment

The Company reviews its investments for impairment based on changes in expected future cash flows. Where the discounted value of future cash flows exceeds the carrying value of investments no impairment is recognised; where it is less a provision is made for future expected credit losses.

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 and Parent Company 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 and Parent Company by its lawyers in connection with transactions straddling the year end.

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.

Accrued income/Deferred income

Accrued income in these financial statements represents grant income due from the Scottish Government in respect of incurred expenditure. Deferred income represents grant income received from the Scottish Government in advance of incurring expenditure. As SFT is a non-profit making it does not recognise this income until the associated expenditure is recognised. Deferred income includes capital funding received which is released over the expected life of the fixed asset the grant funding has been used to purchase.

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 via accrued income included in non-current assets.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (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.

Capital Grants for investments

Prior to 2015, the Scottish Government provided grants to SFT which SFT then granted on to SFTi to fund investments. These grants were recognised as income by SFTi when the investment was made. As the capital is returned to SFTi, SFT will return the funds via a distribution to the Scottish Government.

Repayable grants

The Scottish Government provides repayable grants to SFT who in turn grants these onto SFTi to fund investments, mainly sub-debt in project companies. These repayable grants are not amortised and instead have been accounted for as deferred income. The amount expected to be repaid within 12 months is included in current liabilities with the balance in non-current liabilities. Repayment to the Scottish Government via SFT may occur as capital repayments are received from the investment.

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.

Property, plant and equipment

A de-minimis level for capitalisation of £5,000 is applied by the Group. 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.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

1. Basis of preparation and accounting policies (continued)

Property, plant and equipment (continued)

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

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 Group commencing from the time the asset is held ready for use.

Office equipment - over 3 years

Furniture and fixtures - over 5 years

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

IFRS 16 requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments discounted using the interest rate implicit in the lease.

A lessee recognises depreciation of the right-of-use asset using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term and interest on the lease liability.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

The lease asset is shown separately on the face of the statement of financial position.

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.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

1. Basis of preparation and accounting policies (continued)

Retirement benefits obligations (continued)

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.

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, unless it relates to items recognised directly in reserves in which case it is recognised in reserves. Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Dividends

Dividends announced during the year are accrued if not paid by the year end.

Share capital

Ordinary shares are classified as equity.

2. New and amended standards adopted by the Group

No new or amended IFRSs had a material impact on the 2021/22 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 or UK Endorsed

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

Guidance in Issue but not in Force – not EU or UK Endorsed

There is no guidance in issue but not in force and that has not been EU or UK 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 15.

Fair value of investments

SFTi holds equity investments in a range of Special Purpose Vehicles ("SPVs") whose purpose is to contribute to the delivery of SFT's wider programmes of infrastructure investment. In accordance with IFRS 9, this equity is valued at fair value. The fair value is calculated based on the future cash flows expected to be generated from the SPVs discounted at 11%, the Group's risk rate of return. The fair value calculations are based on bi-annual operating models provided by the SPVs which indicate the latest profile of forecast dividends. SFT appoints a Director to each of these companies providing reassurance regarding the reasonableness of the cash flow forecasts.

Expected Credit Loss

As at 31 March 2022 a provision of £10,926 (2021: £36,000) was required in relation to working capital loans (note 9).

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

5. Other income

	2022	2021
	£	£
Release of Scottish Government funding relating to depreciation on property, plant and equipment	-	642
Scottish Government funding to compensate for expenses incurred	10,770,456	9,574,837
Scottish Government accrued funding (derecognised)/recognised to compensate for actuarial (gains)/losses on employment benefit obligations	(4,719,000)	3,443,000
Secondment charges	43,957	47,662
Inter-company dividend	814,000	770,000
Management fee due from SFTi	550,108	578,514
Other income	569,968	348,242
Total Company other income	8,029,489	14,762,897
Interest received on sub-debt investment	1,808,854	1,793,009
Working capital loan interest	2,687	6,874
Project Dividend income	38,073	32,052
Bank interest	20	117
Other income	15,638	15,433
Inter-company dividend (eliminated on consolidation)	(814,000)	(770,000)
Management fee due from SFTi (eliminated on consolidation)	(550,108)	(578,514)
Total Group other income	8,530,653	15,261,868

Under the terms of its Management Statement and Financial Memorandum (MSFM) with the Scottish Government, and its Memorandum and Articles of Association, Scottish Futures Trust Limited is non profit distributing. As such the income recognised within the Statement of Comprehensive 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, to ensure it breaks even. These adjustments are on the basis that Scottish Futures Trust Limited is non-profit-distributing and recognises that the Scottish Government underwrite Scottish Futures Trust Limited's participation in its pension scheme (note 20).

SFT charge SFTi a Management fee which reflects the time SFT employees incur on managing SFTi investments.

In 2021/22, dividend income was provided by SFT's subsidiary to fund wider group infrastructure activities.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

6. Operating Expenditure

	2022	2021
	£	£
Profit before taxation is stated after charging:		
Non-executive director fees	36,400	39,000
Salaries and associated costs	8,743,482	8,131,301
Agency, seconded & interim staff	145,649	77,695
Auditor's remuneration – SFT audit fee	21,830	17,467
– SFTi audit fee	7,277	5,000
– taxation services	9,840	2,046
– other services	1,200	2,543
Operating leases in respect of land and buildings	55,119	2,336
Depreciation		642
- plant & equipment	-	
- right of use asset	120,691	100,015
Corporate Professional fees	509,600	468,143
Recruitment fees	83,767	12,470
Advisory fees	1,843,978	1,721,707
Grants made	297,826	118,054
Other operating costs	705,830	621,478
	<hr/>	<hr/>
Company operating expenditure	12,582,489	11,319,897
SFTi operating expenditure	44	40
Expected credit loss provision	1,245	-
	<hr/>	<hr/>
Group operating expenditure	12,583,778	11,319,937
	<hr/> <hr/>	<hr/> <hr/>

Operating costs include £1,140,000 (2021: £723,000) within salary costs in respect of the IAS 19 pension movement (note 15).

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

6. Operating Expenditure (continued)

The average number of full time equivalent employees employed in the year was 71 (2020/21: 71) broken down as 6 (2020/21: 7) Leadership Team, 51 (2020/21: 50) programme delivery, and 14 (2020/21: 14) corporate services and business support.

	2022	2021
	£	£
Wages and salaries	5,804,572	5,814,122
National Insurance	699,723	702,953
Pension costs (including IAS 19 charge)	2,239,187	1,614,226
	<u>8,743,482</u>	<u>8,131,301</u>

Pension costs included an additional contribution of £200,000 (2021: £nil). Also included in pension costs is £1,140,000 (2021: £723,000) in respect of the IAS 19 pension movement (note 15).

The emoluments of the key management personnel, comprising directors and leadership team was £1,176,429 (2021: £1,275,451).

7. Taxation

The corporation tax charge is in respect of the surplus generated by Scottish Futures Trust Investments Limited as a result of the interest on working capital loans and sub-ordinated debt plus other income exceeding the operating costs.

	2022	2021
Group	£	£
Profit for the year before taxation for SFTi	1,313,875	1,268,931
Less: dividends not subject to tax	(38,073)	(32,052)
Taxable profit	<u>1,275,802</u>	<u>1,236,879</u>
Corporation tax charge @ 19% (2020/21: @ 19%)	242,402	235,007
Overprovision in previous year	(26)	(133)
Corporation tax charge in statement of comprehensive income	<u>242,376</u>	<u>234,874</u>
Corporation tax creditor	<u>242,402</u>	<u>235,007</u>

Company

No taxable 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

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

8a. Plant and equipment – Group and Company

	Office equipment	Furniture & fixtures	Total
	£	£	£
Cost			
At 1 April 2020 and 1 April 2021	322,004	197,166	519,170
Additions	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2021 and 31 March 2022	322,004	197,166	519,170
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation			
At 1 April 2020	322,004	196,524	518,528
Charge for the year	-	642	642
	<hr/>	<hr/>	<hr/>
At 1 April 2021	322,004	197,166	519,170
Charge for the year	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2022	322,004	197,166	519,170
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 31 March 2022	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2021	-	-	-
	<hr/> <hr/>	<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 2022 (continued)

8b. Right of use asset – Group and Company

	Office premises	Office premises
	2022	2021
	£	£
Cost		
At 1 April	530,219	205,229
Additions	43,942	530,219
Disposals	-	(205,229)
	<hr/>	<hr/>
At 31 March	574,161	530,219
	<hr/> <hr/>	<hr/> <hr/>
Depreciation		
At 1 April	70,696	175,910
Charge for the year	120,691	100,015
Released on disposal	-	(205,229)
	<hr/>	<hr/>
At 31 March	191,387	70,696
	<hr/> <hr/>	<hr/> <hr/>
Net book value		
At 31 March	382,774	459,523
	<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 2022 (continued)

9. Investments – Group

Capital Management

The Scottish Government grants SFT capital funds which SFT grants on to SFTi for investment in subordinated debt and share capital in special purpose vehicles and working capital in hub Cos. The Scottish Government also provides repayable grant to SFT which SFT then grants onto SFTi for investment in subordinated debt and share capital in special purpose vehicles.

	hub Co & NHT LLP share capital	hub Co working capital	Subordinated debt (note 11a)	Total
	£	£	£	£
Cost and Net book value				
At 1 April 2021	603,833	87,807	15,754,851	16,446,491
Additions	-	-	-	-
Disposals	(3)	-	-	(3)
Transferred from current assets (note 10b)	-	40,000	-	40,000
Interest capitalised	-	-	-	-
Principal repaid in the year	-	-	(72,405)	(72,405)
Gain on fair value revaluation	33,671	-	-	33,671
Movement on expected credit loss provision	-	(1,245)	-	(1,245)
At 31 March 2022	637,501	126,562	15,682,446	16,446,509

Share capital

SFTi invested £nil (2020/21: £nil) in housing partnership LLPs and £nil (2020/21: £nil) in share capital of SPVs in connection with sub debt investments. Three Housing LLPs were disposed of during 2021/22 (2020/21: one).

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

Fair Value

Equity investments are held at fair value based upon the forecast dividend returns. As at 31 March 2022 their estimated fair value was £638k compared to £604k as at 31 March 2021. The increase in fair value of £33,671 reflects (i) the receipt of dividend income of £38,073; (ii) a net increase in the forecast dividends across the portfolio of £8,560; (iii) an increase in fair value of £63,184 reflecting the impact of discounting with forecast cashflows now 1 year closer to being received.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

9. Investments – Group (continued)

Hub Co Working Capital

Working Capital Loans – non-current assets

SFTi loaned working capital of £100,000 to hub South West Scotland Limited on 17 November 2012. This working capital facility was available until 16 November 2017 but was extended, initially to 16 November 2018, and then to 15 November 2021. The loan commitment has been reduced by 50% to £50,000 with a new expiry date of 30 November 2024 on which date the full amount of the working capital facility shall be due and payable. All providers of working capital loans agreed to extend these facilities (at a 50% reduced commitment) to support the ongoing operations of the company. 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 accrued-semi-annually (on 31 December and 30 June) and added to the loan. An expected credit loss provision of £3,000 has been recognised in the year to 31 March 2022 in relation to the working capital loan of hub South West Scotland. The sum of £50,000 plus interest accrued to date was received in May 2022, in part repayment of the original loan of £100,000 and in line with the reduced loan commitment. This loan principal to be repaid has been treated as an Investment current asset in the year ended 31 March 2022 with interest receivable recognised within current debtors (see note 10b.), whereas the remaining £50,000 has been taken to non-current assets.

SFTi loaned working capital of £100,000 to hub West Scotland Limited on 27 April 2012. This working capital facility was available until 26 April 2017 but was extended, initially to 31 December 2018, then to 31 March 2022 and to 31 March 2028. The most recent extension incorporated annual repayments of £10,000 to be made on 31st March each year (commencing 31st March 2022), with the remaining sums due being repaid in full on 31 March 2028. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 2.5% p.a. on all other sums. Interest is payable annually on 31 March. An expected credit loss provision of £36,000 was recognised in 2019/20. In 2020/21 the expected credit loss provision was recognised as £26,319 provision against the amount held for capital contribution and £9,681 as a general credit loss provision. In 2021/22 (April), £26,319 of the balance was written off as part of a capital contribution exercise. The general credit loss provision has been reduced to £7,926 as at 31 March 2022. £10,000 of the remaining working capital loan is to be repaid by 31 March 2023 and this amount has been treated as a current asset in the year ended 31 March 2022 (see note 10b).

Working capital loans are held as investments – loans and receivables.

9a. Investments – Subordinated debt (Group)

During 2021/22, SFTi invested £nil (2020/21: £nil) as subordinated debt.

Further information on SFTi's investment in the subordinated debt of hub projects, can be found in the tables below. More detailed information on the principal invested, the coupon and the redemption dates can be found in the SFTi financial statements.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

9a. Investments – Subordinated debt (Group) (continued)

Summary totals by hub territory

Investment In:		Value	Historical cost of Equity	Fair Value of Equity 31/3/2022	Interest Receivable 31/03/2022	Interest income	Dividend Income
hub North territory total		2022: £4,526,159 2021: £4,526,159	£700	2022: £121,371 2021: £48,492	2022: £1,103,569 2021: £1,115,862	2022: £571,206 2021: £576,174	2022: £19,932 2021: £Nil
hub South East territory total		2022: £3,827,351 2021: £3,842,010	£80	2022: £117,289 2021: £158,434	2022: £798,391 2021: £796,679	2022: £466,997 2021: £446,487	2022: £Nil 2021: £Nil
hub South West territory total		2022: £2,783,484 2021: £2,818,292	£ Nil	2022: £140,959 2021: £137,803	2022: £145,745 2021: £147,565	2022: £292,583 2021: £285,537	2022: £16,384 2021: £Nil
hub West territory total		2022: £1,453,202 2021: £1,453,202	£5	2022: £170,649 2021: £183,841	2022: £357,110 2021: £330,781	2022: £167,732 2021: £167,122	2022: £1,757 2021: £Nil
hub East Central territory total		2022: £3,092,250 2021: £3,155,188	£50	2022: £87,233 2021: £75,263	2022: £154,148 2021: £Nil	2022: £310,336 2021: £317,689	2022: £Nil 2021: £32,052
Grand total sub-ordinated debt		2022: £15,682,446 2021: £15,754,851	£835	2022: £637,501 2021: £603,833	2022: £2,558,963 2021: £2,390,887	2022: £1,808,854 2021: £1,793,009	2022: £38,073 2021: £32,052

Summary of Subordinated Debt Investments

	2022	2021
	£	£
Original cost of investments	15,754,851	15,916,547
Interest capitalised into subordinated debt	-	55,597
Principal repaid	(72,405)	(217,293)
Net Book Value of investments	15,682,446	15,754,851

The most significant risk to the subsidiary is investment performance. The Board do not anticipate any losses as payments are anticipated to be received in all cases and hence except for minor re-profiling, investments are performing according to their base cases and making returns as anticipated.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

9b. Investments in subsidiary – Company

	Investment in Subsidiary
	£
Cost and Net book value	
At 31 March 2021 and 31 March 2022	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 Share Holding	Ordinary 100%	2022 £	2021 £
Aggregate capital and reserves		8,788,861	8,497,691
Profit for the year		1,071,499	1,034,057
Total comprehensive income for the year		1,105,170	1,113,105

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

10. Trade and other receivables

	Group 2022	Company 2022	Group 2021	Company 2021
	£	£	£	£
Due in more than 1 year				
Accrued interest income from sub-ordinated debt investments and working capital loans	1,763,779	-	1,928,336	-
Due in less than 1 year				
Other receivables	131,155	128,976	110,835	108,717
Prepayments and accrued interest income	911,809	109,312	530,641	60,780
VAT debtor	17,808	17,808	-	-
Amounts due from subsidiary – SFTi	-	550,120	-	848,527
Repayable Grant due from subsidiary – SFTi (note 10a)	-	62,278	-	62,196
	<u>1,060,772</u>	<u>868,494</u>	<u>641,476</u>	<u>1,080,220</u>

10a. Repayable grants due from subsidiary (current and non-current liabilities)

	Company 2022	Company 2021
	£	£
Non-current assets	10,674,708	10,736,986
Current assets	62,278	62,196
	<u>10,736,986</u>	<u>10,799,182</u>
At beginning of the year	10,799,182	10,998,193
(Decrease) in period	(62,196)	(199,011)
At 31 March 2022	<u>10,736,986</u>	<u>10,799,182</u>

SFT made a repayable grant of £nil (2021: £nil) to SFTi during the year. £nil (2021 £nil) was used to invest in subordinated debt in the year.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

10a. Repayable grants due from subsidiary (continued)

The expected repayment profile of the repayable grants is:

	2022	2021
	£	£
< 1 year	62,278	62,196
1-2 years	50,036	66,302
2-5 Years	233,973	200,625
> 5 years	10,390,699	10,470,059
	<hr/>	<hr/>
At 31 March 2022	10,736,986	10,799,182
	<hr/> <hr/>	<hr/> <hr/>

10b. Investments - Group

	2022	2021
	£	£
Working Capital Loans		
Cost and Net book value		
At 1 April 2021	110,000	-
Repaid in the year	(10,000)	-
Transferred from non-current assets (note 9)	40,000	110,000
	<hr/>	<hr/>
At 31 March 2022	60,000	110,000
	<hr/> <hr/>	<hr/> <hr/>

11. Cash and cash equivalents

	Group	Company	Group	Company
	2022	2022	2021	2021
	£	£	£	£
Cash at bank	2,067,894	824,108	2,358,390	934,416
Cash on hand	122	122	303	303
	<hr/>	<hr/>	<hr/>	<hr/>
	2,068,016	824,230	2,358,693	934,719
	<hr/> <hr/>	<hr/> <hr/>	<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 2022 (continued)

12. Trade and other payables

	Group	Company	Group	Company
	2022	2022	2021	2021
	£	£	£	£
Other payables (operational expenditure)	901,285	901,285	832,957	832,957
Other taxes and social security	199,467	199,105	242,006	241,654
Other creditors and accruals	550,511	550,492	549,291	549,270
Repayable grants due to the Scottish Government (note 13)	62,278	62,278	62,196	62,196
	<u>1,713,541</u>	<u>1,713,160</u>	<u>1,686,450</u>	<u>1,686,077</u>

The expected repayment profile of the finance lease liability, included in other creditors and accruals is:

	2022	2021
	£	£
< 1 year	122,841	108,304
1-2 years	123,963	112,716
2-5 years	146,049	260,188
	<u>392,853</u>	<u>481,208</u>
At 31 March 2022	<u>392,853</u>	<u>481,208</u>
Disclosed as		
Current liabilities	122,841	108,304
Non-current liabilities	270,012	372,904
	<u>392,853</u>	<u>481,208</u>

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

13. Repayable grant due to the Scottish Government

	Group 2022	Company 2022	Group 2021	Company 2021
	£	£	£	£
At beginning of the year	10,646,581	10,646,581	10,704,497	10,704,497
Increase in the period	-	-	-	-
Repaid in the period	(62,196)	(62,196)	(57,916)	(57,916)
As at 31 March 2022	<u>10,584,385</u>	<u>10,584,385</u>	<u>10,646,581</u>	<u>10,646,581</u>

The repayable grants are repayable to Scottish Government between September 2017 and March 2044. The expected repayment profile is:

	2022	2021
	£	£
< 1 year	62,278	62,196
1-2 years	50,036	66,302
2-5 Years	233,973	200,625
> 5 years	10,238,098	10,317,458
At 31 March 2022	<u>10,584,385</u>	<u>10,646,581</u>
Disclosed as	£	£
Current assets	62,278	62,196
Non-current assets	10,522,107	10,584,385
	<u>10,584,385</u>	<u>10,646,581</u>

14. Accrued income/deferred income – Group and Company

Accrued income/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 accrued income if costs exceed the funding provided, or deferred income when funding is received in advance of costs being incurred. Deferred income balances also include funding received to purchase fixed assets.

Included in accrued income greater than one year is funding that will be drawn down in the future from the Scottish Government to meet the pension liability as the Scottish Government has underwritten SFT's participation in the pension scheme.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

14. Accrued income/deferred income – Group and Company (continued)

The accrued/deferred income balances comprise:

	2022	2021
	£	£
Non-current asset		
Accrued income in respect of the pension liability underwritten by the Scottish Government (note 15)	4,134,000	7,547,000
	<u> </u>	<u> </u>
Current liability		
Deferred income arising as a result of receiving funding from the Scottish Government in advance of costs being incurred.	(244,926)	(568,081)
	<u> </u>	<u> </u>

The movement on the deferred funding relating to the funding of fixed assets is:

	2022	2021
	£	£
Fixed asset deferred income		
As at beginning of period	-	(642)
Released to statement of income and retained earnings	-	642
	<u> </u>	<u> </u>
As at period end	-	-
	<u> </u>	<u> </u>
Split		
Current liabilities	-	-
Non-current liabilities	-	-
	<u> </u>	<u> </u>
	<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 2022 (continued)

15. 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 2020 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 2022 which projects forward the results of the 2020 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 (the length of time, from the date of the actuarial report, of the pension obligation), as defined below:

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

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

15. Retirement benefits obligation – Group and Company (continued)

As at 31 March 2020, there were 66 active members, 26 deferred members (former employees of SFT who retain benefits in the pension scheme but no longer pay contributions into the scheme) and 7 pensioner members. The defined benefit obligation has a duration of 25 (2021: 25) years and thus, a long-term discount rate has been applied. The main assumptions used are:

	31 Mar 2022	31 Mar 2021
	% p.a.	% p.a.
Inflation / Pension Increase Rate	3.15%	2.8%
Salary Increase Rate	3.65%	3.3%
Discount Rate	2.75%	2.05%

Mortality

Life expectancy is based on the Funds Vita Curves, with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data assuming current rates of improvement have peaked and will converge to a long term rate of 1.5% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	20.3 years	23.1 years
Future pensioners	21.6 years	25.0 years

	31 March 2022
	Assets
	£ 000
Equities	14,516
Bonds, Debt securities and Funds	7,031
Property	1,372
Cash	2,902
Total Market Value of Assets	25,821
Present Value of Scheme of Liabilities	(29,955)
Net Pension Liability	(4,134)

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

15. Retirement benefits obligation – Group and Company (continued)

	31 March 2021
	Assets
	£ 000
Equities	16,433
Bonds, Debt securities and Funds	2,162
Property	1,160
Cash	2,275
	<hr/>
Total Market Value of Assets	22,030
	<hr/>
Present Value of Scheme of Liabilities	(29,577)
	<hr/>
Net Pension Liability	(7,547)
	<hr/> <hr/>

Recognition in the Income Statement:

	31 March 2022		31 March 2021	
	£ (000)	% of Pay	£ (000)	% of Pay
Current service cost	(2,239)	38.6%	(1,529)	26.3%
Past service costs	-	-	-	-
Net interest charge	(166)	2.9%	(85)	1.5%
Contributions paid in year per IAS 19 valuation	1,099	18.9%	891	15.3%
	<hr/>	<hr/>	<hr/>	<hr/>
Total (charge) included in the Statement of Comprehensive Income	(1,306)	22.5%	(723)	12.4%
	<hr/>	<hr/>	<hr/>	<hr/>

The IAS 19 pension charge (above) is included within salaries and associated costs in note 6 of the financial statements. The employer's contribution rate approximates to 20% and the employee's contribution rate ranges from 5.5% to 10.8%.

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

15. Retirement benefits obligation – Group and Company (continued)

Analysis of the amount recognised in other comprehensive income

	31 March 2022	31 March 2021
	£ (000)	£ (000)
Actual return less expected return on pension scheme assets	1,995	2,479
Changes in financial assumptions and other experience underlying the present value of scheme liabilities	2,724	(5,922)
Actuarial gain/(loss)	<u>4,719</u>	<u>(3,443)</u>

Recognition of defined benefit obligations:

Year Ended	31 March 2022	31 March 2021	31 March 2020	31 March 2019
	£ (000)	£ (000)	£ (000)	£ (000)
Opening Defined Benefit Obligations	29,577	21,435	21,322	17,408
Current Service Cost	2,239	1,529	1,788	1,553
Interest Cost	631	512	571	494
Contributions by Members	417	405	408	402
Actuarial (Gains)/Losses	(2,724)	5,922	(2,622)	1,596
Past Service Costs/(Gains)	-	-	119	-
Estimated benefits paid	(185)	(226)	(151)	(131)
Closing Defined Benefit Obligations	<u>29,955</u>	<u>29,577</u>	<u>21,435</u>	<u>21,322</u>

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

15. Retirement benefits obligation – Group and Company (continued)

Reconciliation of fair value of employer assets:

Year Ended	31 March 2022	31 March 2021	31 March 2020	31 March 2019
	£ (000)	£ (000)	£ (000)	£ (000)
Opening Fair Value of Employer Assets	22,030	18,054	17,455	14,708
Expected Return on Assets	465	427	451	414
Contributions by Members	417	405	408	402
Contribution by Employer	1,099	891	1,097	1,027
Actuarial Gains/(Losses)	1,995	2,479	(1,206)	1,035
Estimated Benefits Paid	(185)	(226)	(151)	(131)
Closing Fair Value of Employer Assets	25,821	22,030	18,054	17,455
Closing (Liability)	(4,134)	(7,547)	(3,381)	(3,867)

Projected IAS 19 charge to be charged to the Statement of Comprehensive Income for the year ended 31 March 2023:

	31 March 2023	
	£ (000)	% of pay
Projected Current Service Cost	(1,996)	(48.3%)
Interest on Obligation	(854)	(13.9%)
Interest on Plan Assets	725	10.2%
	(2,125)	
Estimated Employer's contribution for the year ended 31 March 2023	899	
	(1,226)	

SCOTTISH FUTURES TRUST LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

15. Retirement benefits obligation – Group and Company (continued)

Sensitivity analysis:

Sensitivities at 31 March 2022	Approximate % increase to Employer Obligation	Approximate monetary amount (£000)
0.1% decrease in Real Discount Rate	2%	722
0.1% increase in the Salary Increase Rate	0%	84
0.1% increase in the Pension Increase Rate	2%	633
1 year increase in member life expectancy	4%	1,198

16. Share capital and retained earnings – Group and Company

	Group & Company 2022	Group & Company 2021
	£	£
Share capital		
Authorised, issued and fully paid – ordinary shares of £1 each		
As at the beginning and end of the period	2	2

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.

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

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NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

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

The fair value reserve comprises the fair value movement of the equity investments. As this unrealised gain is not distributable it has been transferred to the fair value reserve.

Other reserve – Capital Grants for Investments represents grants received from Scottish Government prior to 2015 which were used to fund capital investments. As the capital is returned to SFTi, the Board of SFT will discuss and agree with Scottish Government regarding any funds to be returned via a distribution to the Scottish Government.

17. Related party transactions

Scottish Ministers

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

	2022	2021
	£	£
<u>Scottish Government Funding received</u>		
Revenue government funding cash received	9,141,301	8,767,000
	<u>9,141,301</u>	<u>8,767,000</u>
	<u>9,141,301</u>	<u>8,767,000</u>
	2022	2021
	£	£
<u>Statement of Comprehensive Income</u>		
Release of deferred capital grants in respect of fixed assets	-	642
Revenue government funding recognised	6,051,456	13,017,837
	<u>6,051,456</u>	<u>13,018,479</u>
	<u>6,051,456</u>	<u>13,018,479</u>

Scottish Government funding is recognised within the Statement of Comprehensive Income to match the corresponding expenditure. Further details are provided in note 5.

	2022	2021
	£	£
<u>Statement of Financial Position</u>		
Repayment of repayable grant	62,196	57,916
	<u>62,196</u>	<u>57,916</u>
	<u>62,196</u>	<u>57,916</u>

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NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

17. Related party transactions (continued)

Scottish Ministers (continued)

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

	2022	2021
	£	£
Statement of Financial Position		
Accrued income in respect of the pension liability (note 14)	4,134,000	7,547,000
Deferred income – funding received in advance of costs incurred (note 14)	(244,926)	(568,081)
Repayable grants from the Scottish Government (note 13)	10,584,385	10,646,581
	<u> </u>	<u> </u>

Remuneration in respect of the directors was as follows:

	2022	2021
	£	£
Executive directors' emoluments		
Emoluments	190,910	190,060
Pension costs	34,592	31,588
	<u> </u>	<u> </u>
	225,502	221,648
	<u> </u>	<u> </u>
Non-executive directors' fees		
	36,400	39,000
	<u> </u>	<u> </u>
Emoluments (including employers NIC) paid to key management personnel which is the directors and the leadership team	1,176,429	1,275,451
	<u> </u>	<u> </u>

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NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

17. Related party transactions (continued)

Hub South East Territory

SFTi holds 10% of the share capital of hub South East Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9a.

A Senior Associate Director of SFT, is a non-executive director of hub South East Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them. Details of material transactions with these joint ventures are included below:

	2022	2021
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	3,827,351	3,842,010
Trade and other receivables – accrued interest income	798,391	796,679
Trade and other receivables – hub director fees	2,180	2,118
<u>Statement of Comprehensive Income</u>		
Other income – hub director fees	3,633	3,530
Other income – Interest income	466,997	446,487

Hub North Scotland Territory

SFTi holds 10% of the share capital of hub North Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9a.

A Senior Associate Director of SFT, is a non-executive director of hub North Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them. Details of material transactions with these joint ventures are included below:

	2022	2021
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	4,526,159	4,526,159
Trade and other receivables – accrued interest income	1,103,569	1,115,862
<u>Statement of Comprehensive Income</u>		
Other income – Interest income	571,206	576,174
Other income – dividend income	19,932	-

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NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

17. Related party transactions (continued)

Hub East Central Scotland Territory

SFTi holds 10% of the share capital of hub East Central Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9a.

A Senior Associate Director of SFT, is a non-executive director of hub East Central Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them. Details of material transactions with these joint ventures are included below:

	2022	2021
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	3,092,250	3,115,188
Trade and other receivables – accrued interest income	154,148	-
<u>Statement of Comprehensive Income</u>		
Other income – interest income	310,336	317,689
Other income – dividend income	-	32,052
	<u> </u>	<u> </u>

Hub West Scotland Territory

SFTi holds 10% of the share capital of hub West Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9a.

A Senior Associate Director of SFT, is a non-executive director of hub West Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them. Details of material transactions with these joint ventures are included below:

	2022	2021
	£	£
<u>Statement of Financial Position</u>		
Financial assets – working capital loans	89,562*	97,807*
Financial assets – subordinated debt	1,453,202	1,453,202
Trade and other receivables – accrued interest income	357,110	330,781
<u>Statement of Comprehensive Income</u>		
Other income – interest income (including working capital loan interest)	170,419	173,996
Other income – dividend income	1,757	-
	<u> </u>	<u> </u>

***Includes £7,926 expected credit loss provision (2021: £36,000).**

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ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

17. Related party transactions (continued)

Hub South West Scotland Territory

SFTi holds 10% of the share capital of hub South West Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9a.

A Senior Associate Director of SFT, is a non-executive director of hub South West Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them. Details of material transactions with these joint ventures are included below:

	2022	2021
	£	£
<u>Statement of Financial Position</u>		
Financial assets – working capital loans	97,000*	100,000
Financial assets- subordinated debt	2,783,484	2,818,292
Trade and other receivables – accrued interest income	153,055	154,875
<u>Statement of Comprehensive Income</u>		
Other income – hub director fees	12,005	11,903
Other income – interest income	292,583	285,537
Other income - dividends	16,384	-

***Includes £3,000 expected credit loss provision (2021: £nil).**

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 mid market rent 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. A Senior Associate Director of SFT is currently SFTi’s nominated Trustee. There were no financial transactions between SFTi and LAR.

The Edinburgh Homes Delivery Partnership

The Edinburgh Homes Delivery Partnership is a joint venture between City of Edinburgh Council and SFTi to create two LLPs for the delivery of mid-market and market rent accommodation. SFTi does not have joint control or significant influence over either joint venture as SFTi is merely an investor in these joint ventures. There were no financial transactions between SFTi and the Edinburgh Homes Delivery Partnership.

The East Lothian Housing Delivery Partnership

The East Lothian Housing Delivery Partnership is a joint venture between East Lothian Council and SFTi to create an LLP for the delivery of mid-market and market rent accommodation. SFTi does not have joint control or significant influence over the joint venture as SFTi is merely an investor in this joint venture. There were no financial transactions between SFTi and the East Lothian Homes Delivery Partnership.

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NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

17. 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. A Senior Associate Director of SFT is currently SFTi’s nominated Trustee. There were no financial transactions between SFT and Hub Community Foundation or its fully owned subsidiary, HCF Investments Limited.

18. Financial Instruments

The Group’s financial instruments comprise of cash resources which arise directly from its operations and repayable grant 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 funder 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 directors consider that there is no significant difference between the book value and fair value of the Company’s financial assets and liabilities except for equity investments in hub projects whose fair value is estimated to be £637,501 as at 31 March 2022 (£603,833 as at 31 March 2021), as disclosed in Note 9, compared with a historic cost of £915 (2020/21: £918). The increase of £36,671 after a reduction of £3 in relation to the disposal of 3 LLPs between 2020/21 and 2021/22 can be seen in the Statement of Comprehensive Income.

19. Ultimate Controlling Party

The Company is wholly-owned by the Scottish Ministers.

20. 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.

SCOTTISH FUTURES TRUST LIMITED
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OFFICERS AND PROFESSIONAL ADVISORS

Directors

Ian Russell (Chairman)

Peter Reekie (Executive Director)

Ann Allen (Non-executive Director)

Bill Matthews (Non-executive Director)

Pauline Mills (Non-executive Director)

Graham Watson (Non-executive Director)

Chief Executive

Peter Reekie

Registered Office & Principal Place of Business

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Registered Company Number

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Auditor

Azets Audit Services

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