SCOTTISH FUTURES TRUST

SCOTTISH FUTURES TRUST LIMITED

ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

SC348382

Contents

OVERVIEW

2016/17 HIGHLIGHTS

Scottish Futures Trust

Highlights of 2016/17

SCOTTISH FUTURES TRUST

01 Managing economic investment

We are managing economic investment programmes that are allowing the public sector to invest **£200m** which is securing more than **£2bn** of investment from the private sector.

02 Investment in affordable-rent homes

We have secured **£400m** of additional investment to allow **2,700** affordable-rent homes to be built.

03 Leading on hub programme

We are leading on the hub programme that has developed and has under construction **over £1bn** of community-based projects which are **supporting 9,000 jobs.**

04 Significant LED street light savings

Our LED street lighting spend-to-save programme is on track to secure **£1.2bn** of energy and maintenance savings.

05 Award recognition

Community projects, delivered through our hub programme received **15 design awards.**

06 Public sector savings of over £200m

Through our New Ways of Working programme, Scotland's public sector has **saved over £200m** by using their buildings more effectively.

07 4G capability innovation

We developed a pathfinder to bring **4G** to the remote island of Coll, which as well as supporting the local community and local businesses, will also be used by the Home Office for its Emergency Services Network

08 On track to hit five-year target

With this year's benefits and savings estimated at **£138m**, we remain **on track** to secure our five-year corporate **target of £500-£750m** of benefits and savings.

CHAIRMAN'S STATEMENT

As the recently appointed Chairman of the Scottish Futures Trust (SFT), it is my pleasure to present SFT's ninth annual report and accounts for the year ending 31 March 2017.

As an infrastructure delivery company owned by Scottish Government, SFT works with many different partners across the public and private sectors to help them plan future investment, deliver major infrastructure programmes, deploy innovative financing approaches to build new infrastructure, as well as improve the management of existing buildings.

Improving the planning and delivery of infrastructure is vital in delivering and achieving sustainable economic growth across Scotland. The impact on the economy can be felt either directly in creating jobs now during construction, or indirectly from unlocking investment by the private sector to create longer-term employment in the production and services sector.

We have also been very pleased to see schools, health and social care centres and colleges, procured through our programmes, winning many awards for their design. Good design leaves a lasting legacy, not just in the visual impact within communities, but also by the functional design helping support the improvement in the delivery of public services.

Some examples of this work in action and the progress we have made are highlighted below:

- In the SFT led Scotland's Schools for the Future programme, the 50th school opened and collectively 30,000 pupils are now benefitting from new and inspiring learning environments;

- Across the hub programme, over 100 community-based buildings are now open and a further 60, valued at over £1.1bn, are under construction supporting over 9,000 jobs;

- During 2016/17 our surplus property team generated over £50m from the sale of surplus public properties which will be invested back to the public sector;

- Our housing team has created and initiated innovative housing programmes to deliver 2,700 mid-market rent homes totalling £400m of additional investment, with more than half of them already built and occupied;

- Our Growth Accelerator programme has unlocked £850m of additional economic investment into the heart of Edinburgh as construction gets underway on one of the most significant city-centre regeneration projects to be seen anywhere in the UK;

- Two additional Tax Incremental Financing projects have been given the green light to proceed that will deliver substantial economic benefits and support hundreds of jobs in Scotland;

- Our asset management team has aided Scotland's public sector save over £200m through the more efficient use of its properties, including a reduction in the amount of Council office space it uses by 30% over the past five years; and

- Our Street Lighting programme has enabled 28% of Scotland's 900,000 street lamps to be replaced by energy-efficient LEDs, helping councils save £12m a year, saving 71,000 tonnes of CO_2 annually.

The benefits of the work we do with partners is measured in a number of ways; one is financial and another is the wider benefit across society.

CHAIRMAN'S STATEMENT (Continued)

Across our work programmes, significant financial benefits have been generated. As shown on page 18, in 2016-17 we estimate the value of benefits to be £138m and remain on course to achieve our five-year corporate plan target of securing £500m - £750m of savings and benefits between 2014 and 2019.

Our work also makes a positive impact on society as it helps protect jobs and create employment and training opportunities. Our £850m Growth Accelerator initiative in Edinburgh is estimated to support 3,000 long term jobs. Other benefits flow through our low carbon work stream where the team's work is making a significant contribution to reach Scotland's carbon reduction targets by ensuring new buildings are as energy efficient as possible. This work is very much at the heart of our overall drive and purpose.

Along with the Board of SFT, I would like to thank Sir Angus Grossart for his time as Chairman. Sir Angus was instrumental in the creation of SFT and served as its inaugural chairman for eight years up to December 2016. Undoubtedly his commercial expertise and extensive business knowledge has helped forge SFT to become the successful organisation it is today.

Finally, I and my fellow Board members are very much looking forward to continuing to work with the excellent SFT team, to help drive efficient and effective use of infrastructure in Scotland, and through that supporting long term economic growth.

Ian Russell
Chairman

Date: 21 August 2017

OUR STRATEGY

SFT's Strategy is to develop opportunities to improve and secure value for money across infrastructure investment in Scotland. In doing so, we focus upon quality design to enable and facilitate service delivery; innovative financing to unlock and accelerate investment; and, dissemination of best practice. Our approach is detailed within our 2014-19 Corporate Plan and annual Business Plans.

The Company's objectives for each year are established in detail in its published business plan. During 2016/17, objectives were set against key performance indicators across eleven separate areas of the business, with progress reported to the Board at each Board meeting. The objectives for 2016/17 and our performance against them can be found on the SFT website.

The SFT Group is structured with an operating company, SFT, which employs the staff and undertakes the day-to-day business and a wholly owned subsidiary SFTi. SFTi holds investments in hub companies, investments in infrastructure projects delivered by hub companies and membership of 29 joint venture LLPs delivering homes through the National Housing Trust. This helps separate investment activity from the operational aspects of the parent company.

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

Pages 9- 21 comprise the Strategic Report on the activities, key achievements and finances of the Group including enhanced requirements to detail operational performance and risks. Pages 23-33 detail our Corporate Governance arrangements and comprise the Directors' Report incorporating the Statement of the Directors' Responsibilities; the Report on Corporate Governance; the Statement on Internal Control, the Report on Directors' Remuneration and the Report of the Audit Committee. The Financials are reported on page 35 – 78 and include the role of our external auditor along with his opinion on the financial statements and corporate governance statement; the key financial statements of the Group and the Company and the detailed notes accompanying the Financial Statements to explain the numbers in more detail and meet the requirements of applicable International Financial Reporting Standards.

STRATEGIC REPORT

STRATEGIC REPORT

The directors present their Annual Report and the Consolidated Financial Statements for the year ended 31 March 2017 of the Scottish Futures Trust Limited Group (incorporating the wholly owned subsidiary Scottish Futures Trust Investments Limited "SFTi" and the Company, Scottish Futures Trust Limited "SFT").

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

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 ultimately improved public services.'

In working towards that aim, employing and developing the right team of people is crucial. Since becoming fully operational in 2009, 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.

Their work is underpinned by our four values, of being Bold, Collaborative, Dynamic and Ambitious. In following these guiding principles, our teams contribute significantly to creating award-winning buildings delivered through innovative programmes which secures additional investment and supports economic growth.

These teams lead and support wide and varied programmes of work which have been grouped under six headings - SFT home, SFT invest, SFT build, SFT connect, SFT green and SFT place - and the following provides a review of the significant progress being made.

BUSINESS REVIEW & KEY PERFORMANCE INDICATORS

SFT home

Increasing the supply and improving the quality of housing across Scotland remains a key priority for SFT, and our housing team has been very successful in developing and delivering innovative approaches to increase the supply of affordable housing.

Working with many of Scotland's councils along with Scottish Government, our team has enabled the construction of 2,700 energy-efficient, quality, affordable-rent homes; homes that would not have been built without SFT's involvement. Many of these new homes have been built by small or medium sized housebuilders and represent nearly £400m of additional investment in the affordable housing sector.

SFT's work has shown there is huge demand for mid-market rent properties. Over the past 12 months our team has been working with the City of Edinburgh Council on a new initiative to deliver at least 1,500 more new homes for mid-market and market rent, which, subject to final approvals will see a further investment of £245m made across Edinburgh.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

SFT invest

Our investment team continues to explore the best funding and financing solutions in pursuit of our overall objective of securing the best value for infrastructure investment in Scotland.

A hugely significant programme our team has developed and leads on is the Growth Accelerator approach. Within a relatively short space of time, this programme has secured massive levels of inward investment with construction well underway in two locations.

In Edinburgh, the Growth Accelerator is unlocking £850m of additional economic investment as demolition of the St James Centre has begun to make way for one of the most significant city-centre regeneration projects to be seen anywhere in the UK.

Edinburgh St. James Case Study

After securing planning permission from City of Edinburgh Council in late 2016, TH Real Estate is investing £850m into the area which, when complete, will quickly become a world-class destination, boasting a luxury five-star hotel, 150 exclusive apartments, 30 restaurants, 850,000 sq ft of first-class retail space and a deluxe multi-screen cinema

In delivering the new Edinburgh St James, all stakeholders are committed to the establishment of a new Training Academy which will develop employment and training opportunities in the retail, leisure and catering industries, targeting some of the capital's most deprived areas. It is predicted that this regeneration project will generate up to 3,000 permanent new jobs for many years to come.

During 2016, Dundee City Council was granted its own Growth Accelerator which has secured £175m of additional economic investment from the private sector into the city's Waterfront area. This will ensure the first phase of the Waterfront development will be completed sooner and is where the gravity defying and architecturally breath-taking V&A museum is being built. When open in 2018, it is anticipated that the V&A will attract hundreds of thousands of new visitors to Dundee, helping as part of the overall waterfront development to secure additional, long-term economic benefit to the city and wider areas.

In a similar vein, our Tax Incremental Financing (TIF) economic investment programme has continued to expand. In addition to the four existing TIF projects underway in Fife, Glasgow, Falkirk and Argyll & Bute, two additional projects in North Ayrshire and again in Fife were unveiled during 2016/17.

The TIF and Growth Accelerator programmes will enable the public sector's anticipated investment of £200m to attract more than £2bn of investment from the private sector.

Across our well-established Non-Profit Distributing (NPD) revenue funded programme many projects are reaching completion. During 2016/17 the City of Glasgow College City Campus opened as did the Kilmarnock Campus, part of Ayrshire College. They join the two other NPD funded college buildings already open, Inverness College and the Riverside Campus in Glasgow, again part of the City of Glasgow College.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

Outstanding design has been at the core of these college buildings. During the past year, the Riverside Campus received numerous architecture and design awards, the most notable being the Royal Incorporation of Architects in Scotland (RIAS) award.

Judges commented: "Located at the edge of a major crossing of the River Clyde, the site marks a gateway in the city and projects the College's importance as a civic institution as well as creating a new landmark."

The Riverside Campus was also one of only seven projects (the only one in Scotland) to be shortlisted for the 2016 Royal Institute of British Architects Stirling Award (RIBA), narrowly missing out to the winner. It is widely recognised that shortlisting is in itself a considerable honour with this being only the sixth building in Scotland nominated since the RIBA Stirling Prize started 21 years ago.

And continuing Glasgow College's haul of design awards, the City Campus also picked up a RIAS award in 2017 and has similarly been shortlisted for the 2017 RIBA Stirling award, this year one of only six buildings across the UK to do so.

RIBA President, Jane Duncan, has said of the shortlisted projects: "The RIBA Stirling Prize is awarded to the building that has made the biggest contribution to the evolution of architecture in a given year.

"This year's shortlisted schemes show exceptionally creative, beautifully considered and carefully detailed buildings that have made every single penny count. Commissioned at the end of the recession, they are an accolade to a creative profession at the top of its game.

"Each of these outstanding projects has transformed their local area and delights those who are lucky enough to visit, live, study or work in them."

Now that all colleges are operational, they are providing more than 50,000 students with world-class learning environments thereby helping them to fulfil their career ambitions.

Inverness College Case Study

Having been funded through the NPD programme, construction of the £45m Inverness College could start much sooner. This in turn allowed the College to open in August 2015 and it is now home to over 7,000 students from Scotland, the rest of the UK, Europe and further afield. Whilst the College is making a positive impact on students' future career paths, it is also supporting the economy. The College is the anchor organisation on the Inverness Campus, which is a strategic business park developed by Highlands and Islands Enterprise (HIE) situated on the outskirts of the City. As well as having the very best teaching facilities, the College boasts the latest computer technology as well as a first-class research centre and is expert in designing and delivering education, training and development programmes which is helping attract businesses across a wide range of sectors to locate to the Campus.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

Of the two major NPD funded road projects, the M8/M73/M74 motorway improvements has been completed, directly connecting Edinburgh and Glasgow by motorway for the first time. This link, one of the busiest parts of Scotland's motorway network, is already benefitting thousands of road users daily by reducing congestion and significantly cutting down journey times, with the aim of saving up to 20 minutes at peak times.

Construction continues at pace on the Aberdeen Western Peripheral Route (AWPR), the second NPD road project. When fully operational it is estimated the AWPR will deliver £6bn of wider economic benefit to the area as well as dramatically improve travel times in the north east of Scotland.

And across Scotland's NHS estate, during the year the NPD funded Acute Mental Health and North Ayrshire Community Hospital opened, with a further four acute health projects worth £450m in construction, including the Royal Hospital for Sick Children and Department of Clinical Neurosciences.

When all complete, they will become first-class, modern hospital and health facilities capable of delivering the very finest in healthcare for the benefit of many communities across Scotland.

SFT build

Well-designed buildings, built for community use, have the power to transform lives and be uplifting for local communities. Through our build programme, new schools and community buildings are doing just that – creating employment, helping the environment, as well as providing locals with much-improved places for them to learn, access health and social care services, play sport or work.

The Scotland-wide hub programme sits firmly within our build programme and is based upon a partnership approach to deliver new community facilities which are built by five hub companies spread across Scotland.

Since becoming fully operational in 2012, hub companies have built over 100 community-based buildings with a further 60, valued at £1.1bn under construction, providing an economic stimulus in the areas where they are built. The vast majority of this work is being awarded to many hundreds of SMEs which is supporting over 9,000 jobs.

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hub Supporting Employment Case Study

Laura Wilson who was previously a site administration assistant on a hub site was invited by BAM to become a trainee site manager after demonstrating an eagerness to learn and showing real zeal for the construction industry.

BAM put her through college and is now funding her studies for a BA Hons degree in Construction and Project Management at Napier University in Edinburgh, which Laura will complete over the next five years as she continues to work on construction projects delivered through the hub programme.

Enhancing the use of buildings for communities and improving the quality of their design are important elements of our work. Over the past year our teams have been buoyed by the steady stream of good news where numerous hub projects have picked up highly-coveted industry awards – 15 in total.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

A highlight during this past financial year was the opening of our "Reference Design" Health and Care Centre in Eastwood in East Renfrewshire, which during 2017 received an award at the Scottish Design Awards, a RIAS award and a prestigious design award at the European Healthcare Awards. This is a joint, benchmark project between NHS Greater Glasgow & Clyde and East Renfrewshire Council, delivered by hub West and developed to accelerate the plan to bring health and social care together and to help make services more accessible to the public.

Eastwood Health and Care Centre Case Study

The Eastwood Health and Care Centre in the Williamwood area of East Renfrewshire has brought together the services of East Renfrewshire Council and NHS Greater Glasgow & Clyde into a unique, community-focussed serviced building employing 'agile' working principles.

This joint occupancy allows the community to access multiple services in one location in a central setting with easy access. It incorporates GP practices, integrated health & social care services, it has a community hub facility and a cafe that serves as a focal point for both the community and professionals alike.

The reference design used for this building was developed and supported by SFT as an approach to be shared with others to improve future health centres across Scotland.

SFT has continued to lead on the £1.8bn Scotland's Schools for the Future programme.

These schools are designed to meet advances in new teaching methods and technology, with the local community very much at their heart. Typically they are open out-with normal school hours and are providing the local community with access to first-class health, leisure and education facilities.

Alford Community Campus Case Study

Many local authorities are now extending the use of their secondary school for local communities to use as well as incorporating nurseries and primary schools into the building so even more people can benefit.

Alford Community Campus in Aberdeenshire is one such building. It provides education facilities for children and pupils aged 3-18, it has a 25m four lane swimming pool, community library, indoor and outdoor sports facilities available for the community to use as well as being the base for Aberdeenshire Council's Community Learning and Development team.

Of the 112 schools in the programme, 50 are open which are benefiting some 30,000 pupils who are being educated in first-class environments and a further 42 schools are being built, with the remaining schools in the final stages of development and design.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

The ways in which pupils learn are ever-changing so it is vital the environment where they are taught keeps pace. In 2014, Scottish Government launched its £5m Inspiring Learning Spaces programme aimed at trialling new approaches to learning and teaching methods, with SFT managing the programme funds.

Across the programme, SFT has worked with 21 councils on their creative and ambitious projects. Their ideas are being shared and are providing all Scotland's councils with a variety of new approaches to help shape future investment.

Scottish Government is set to nearly double parents' entitlement to free childcare for pre-school children. To support this expanded Early Years initiative and building on the experience of managing the school investment programme, SFT's education team is collating data across all 32 councils' existing buildings, to inform decision making on future infrastructure investment to support the initiative.

As part of SFT's support to the Construction Procurement Review, SFT has been leading on the promotion of Building Information Modelling, or BIM as it is referred to across the world. This digital technology allows architects, engineers and all those involved in the construction industry to share information more easily and work better together.

Understanding the huge benefits BIM would have across the public sector, SFT led on a Scotland-wide stakeholder engagement programme, guiding and informing those responsible for construction in the public sector, on the benefits of BIM on their projects.

As a result of the engagement programme, SFT launched its BIM website in April 2017 as a bespoke resource for the public sector to use. On the back of our work, Scottish Government issued a policy note in the same month stating that BIM must be used on most future Scottish Government construction projects.

Reflecting the success of this ground-breaking work, over the course of the year several administrations from across the world have been in touch with our BIM team, seeing aspects of what is happening in Scotland as market leading.

SFT connect

For any country, securing the very best digital connectivity is an essential part of creating a successful economy. Within SFT connect, our team is working with industry to ensure the right mechanisms, partnerships and commercial approaches are developed that will deliver a world-class telecommunication infrastructure for Scotland in a practical way.

Despite significant investment being made by both the public and private sectors in digital infrastructure across Scotland, there is a patchwork of unreliable levels of mobile coverage in places where investment by Mobile Network Operators is not seen as commercially viable.

Such places, for example, are on Scotland's islands. However, SFT's digital and commercial expertise is beginning to change that with a novel approach being taken on the island of Coll to deliver 4G which is also acting as a pathfinder for further projects.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

4G on Coll Case Study
Being able to use a mobile phone, no matter where you are, is regarded as a vital element of modern living. But on the Isle of Coll, the remoteness and rugged landscape of the Inner Hebridean island meant there has never been a mobile reception which impacts negatively on local businesses, the community and tourist trade Working in partnership with numerous stakeholders SFT developed an innovative and long-term solution to the islander's problem with a state-of-the-art telecoms mast now owned and maintained by 'Development Coll', with the mobile network supplied by EE and Vodafone.
The Isle of Coll was the first Scottish island to have 4G mobile coverage which is now opening up many commercial opportunities for local businesses that are taken for granted on the mainland.

SFT has also supported the Home Office on its Emergency Services Network (ESN) programme where 4G mobile coverage will be used to replace the current radio service. As part of the ESN, the Home Office will install its own mast infrastructure to fill gaps between its suppliers' commercial road coverage where our team has influenced the delivery approach. Because of SFT's work, the new mast design will be future-proofed to ensure other Mobile Network Operators can use it with minimal additional investment to incentivise sharing across these rural locations, and thus being able to provide additional coverage in rural areas.

Building on the success of the team's ground-breaking work to bring 4G connectivity to the Isle of Coll and the support provided to the Home Office's Emergency Services Network programme, the team has started to develop a 4G infill programme for Scottish Government that will focus on installing future proofed masts into areas where there will otherwise be no coverage, even after the Mobile Network Operators have completed their investment.

To support the Scottish Government's Digital Strategy, SFT is working to establish a 5G hub in partnership with industry and universities to ensure Scotland is at the forefront of 5G research and development. More recently, SFT has led on the development and establishment of the Scotland Innovation Partnership. SIP is an open framework to which companies or individuals can contribute to support Scottish Government's world-class digital connectivity vision as they progress the development of 5G using the extension of 4G rural coverage as a stepping stone.

SFT green
Our focus is to support the transition to a low carbon economy and to help Scotland reach its climate change targets. Not only does our work generate cost and carbon savings, but it supports local economic development and improves the quality of public buildings and assets.

Our street lighting replacement programme is one initiative that is making a big impact on climate change targets. As of 31 March 2017, 28% of Scotland's 900,000 street lamps had been replaced by energy-efficient LEDs helping Scotland's councils save over £12m a year in reduced energy costs and is saving Scotland 71,000 tonnes of CO2 annually.

Spend-to-save investment by Scotland's councils on LED street lighting is projected to reach £300m by 2021 which is estimated to secure £1.2bn of long-term savings across the LED replacement programme.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

West Dunbartonshire Street Lighting Case Study

West Dunbartonshire Council was one of the first councils to get involved in SFT's pilot street lighting programme and to trial SFT's innovative and award-winning Street Lighting Toolkit.

It quickly became apparent to West Dunbartonshire Council that by replacing all its 16,500 lamps, it could cut its energy bill by 65% thereby saving £0.5m a year. Such has been the success of the programme that the Council is on track to save £20m from its future budgets.

Our work with Scottish Government in launching the Non-Domestic Energy Efficiency Framework has seen the first ten projects progress to procurement with a capital value of over £10m generating guaranteed savings in excess of £20m over a 20-year period.

As a key partner in Scotland's Low Carbon Infrastructure Transition Programme, our team has helped invest more than £68m in low-carbon projects that will attract match-funding and deliver low carbon technology innovation and secure wider economic benefits to local areas.

SFT place

Huge advancements are being made as to how public buildings are used and maintained. In turn this is supporting the delivery of improved public services and significant progress is being made with much of our activity focusing on offices and the sale of surplus properties.

The driving force behind public service reform across Scotland is to create a more efficient and effective public sector for the benefit of people living and working there. To support this, buildings are key and our team is providing practical support to progress a range of collaborative projects, both large and small, demonstrated recently when the Care Inspectorate relocated 100 of its staff to Renfrewshire Council's head office in March 2017, which has achieved efficiency savings for both organisations.

Following guidance prepared by our team, the public sector has embraced a "Smarter Workplaces" programme and is pursuing much higher performance and occupancy levels for its buildings.

On the office estate, for example, and demonstrating their commitment to a programme of change, Scotland's local authorities, emergency services and the NHS have already achieved significant revenue savings of over £200m and have also reduced the amount of office space they use by on average 30%.

Similarly, as part of our ongoing programme with Scottish Government, over £20m of annual revenue savings have been achieved from the better use of existing buildings and the release of all, or part of, 50 buildings.

STRATEGIC REPORT (Continued)
Business Review & Key Performance Indicators (Continued)

Smarter Workplaces Case Study

Scottish Government's Social Security Directorate at Atlantic Quay in Glasgow is the latest to sign-up to SFT's Smarter Workplaces programme.

Previously, as with many other public and private sector organisations, each member of staff at the Directorate had their own desk and storage. Today, desks are now shared and more informal meeting space has been created which also includes small quiet pods for concentrated work. An increase in laptops, video conferencing and Skype usage are making it easier to work from different spaces and on the move.

As a result, across all directorates at Atlantic Quay, the Smarter Workplaces programme has seen staff numbers increase 50% to 900 which is allowing Scottish Government to exit from other office space. Importantly, this is also about providing first-class working environments allowing staff to feel more connected to their wider organisation and enabling collaborative working between departments.

SFT's team of property specialists are collaborating with many public bodies to streamline the disposal of surplus properties. The recent sale of Victoria Hospital by NHS Greater Glasgow and Clyde has produced both capital receipts and revenue savings as well as allowing 500 new houses to be built by the Sanctuary Group – one of the UK's leading social landlords.

Over the year, our support to the public sector has resulted in more ambitious projects moving quicker to market and achieving greater cash returns. In the case of the NHS alone, over the past year, over £50m of property sales have been generated, allowing reinvestment in new health and social care facilities.

Our team has championed a "one public sector approach", which is being embedded in the framing of policy and the prioritisation of infrastructure investment, that has led to the creation of a smaller, leaner and greener estate. This approach will continue.

STRATEGIC REPORT (Continued)

ESTIMATE OF BENEFITS

As set out in this report, the benefits from SFT's work are wide ranging and much of it achieved by joint working with colleagues across the public and private sectors.

Every year we provide a financial estimate of the benefits delivered by SFT's work. Given the diverse and long-term nature of SFT's work programmes, the methodology is based upon an in-year calculation approach which is then considered on a 10-year rolling average basis. This methodology has been independently validated by both the London School of Economics and Grant Thornton and the approach is summarised on our website.

For the 2016/17 financial year, the SFT benefit estimate is £138m. This sits between last year's figure of £146m and the 2014/15 figure of £135m and demonstrates good progress in meeting the target set in SFT's 2014/19 Corporate Plan to deliver benefits within a range of £500m-£750m over that five-year period. Supporting material and Grant Thornton's Benefit validation report on this year's estimate can be found on our website. Taking this year's benefits, together with the seven previous years, the total benefits of SFT's work are estimated to be over £1bn.

The financial estimate is one measure of the benefits flowing from SFT's work. We have previously highlighted some of the wider benefits such as: the impact of improving digital connectivity on rural economies; the carbon savings from street lighting and energy efficiency programmes; and how approaches supporting economic investment, such as the Growth Accelerator, unlocks private investment and creates long term employment. Work is currently underway to consider better ways to capture, collate and present the wider benefits. Next years annual report will include more detail on this work.

FINANCIAL REVIEW & RESULTS

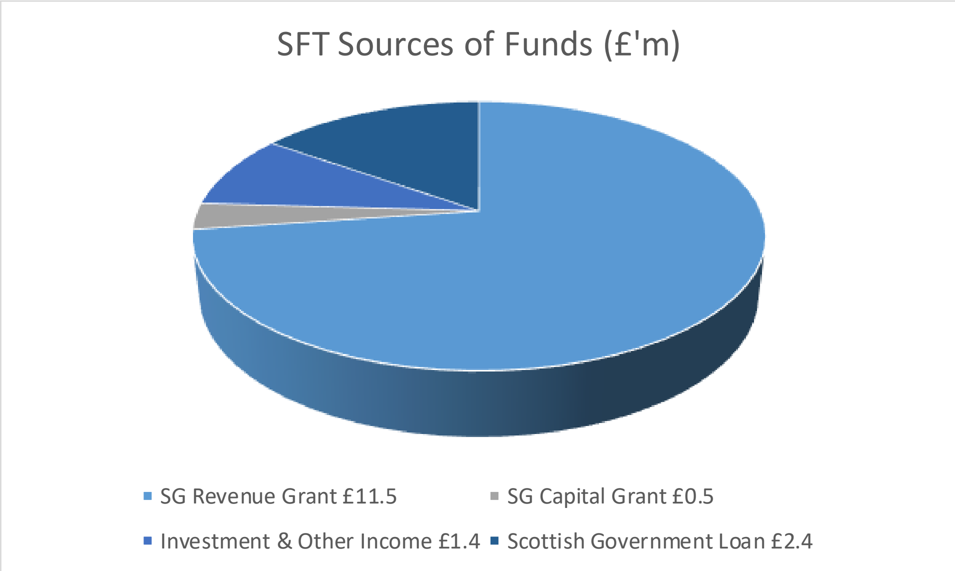
SFT follows International Financial Reporting Standards (IFRSs) and applies the best practice in Corporate Governance required by the Financial Reporting Council's "UK Corporate Governance Code". SFT takes seriously the Financial Reporting Council's initiative on making reports less complex and more focused on material information. The financial information provided is consistent with these standards and provides transparency over where and how public money is invested and expended.

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

In 2016/17, SFT received income from the Scottish Government comprising revenue funding; capital funding and a loan to fund investments. The revenue funding met operating costs of £10.1m (2015/16 £9.8m) and covered movement in the pension liability of £1.9m (2015/16: (£1.63m)) and other non-cash items. The core operating cost of SFT met by Scottish Government therefore increased by £0.3m from 2015/16 to 2016/17. Capital grant funding of £0.5m (2015/16: £1.5m) was passed through to projects in SFT's hub programme. This was supplemented by investment and other third party income of £1.4m (2015/16: £1.1m) which was used to offset relevant costs and created an operating surplus in the investment subsidiary. Finally, £2.4m (2015/16: £4.0m) of funds were provided as an interest free loan from the Scottish Government which were used to fund investments by SFT's subsidiary, SFTi.

STRATEGIC REPORT (Continued)
Financial Review & Results (Continued)

The diagram below summarises the sources of SFT Group's funding and the following table sets out the uses in more detail:



The funds received by SFT totalled £15.8m (2015/16: £14.1m) and were applied to the following areas:

Application of Funds	2016/17 £'m	2015/16 £'m
Hub programme delivering education, health and social care projects which was applied as follows:		
Sub-ordinated debt investments in hub projects (funded by Scottish Government loans or retained cash)	2.6	3.9
Capital enabling funds – passed through to projects in SFT's hub programme	0.5	1.5
Total capital expenditure	**3.1**	**5.4**
Revenue grant applied to operating costs (see note 7 for analysis) and corporation tax payable	10.1	9.8
Movement on pension fund deficit: increase/(decrease)	1.9	(1.6)
Total operating costs and charges	**12.0**	**8.2**
Total	**15.1**	**13.6**
SFTi Profits retained for infrastructure development and investment	0.7	0.5
Total Funds Received	**15.8**	**14.1**

The investments support a range of community facilities across Scotland and are anticipated to produce financial returns over future years. Our operating costs are carefully controlled and relate primarily to the salary costs of SFT employees. The annual benefits generated by SFT from these resources is assessed annually and was £138m for 2016/17, as outlined in the preceding Business Review.

STRATEGIC REPORT (continued)
Financial Review & Results (continued)

The Group Statement of Comprehensive Income records a surplus after tax of £0.7m (2016: £0.5m). The 2016/17 surplus was generated in SFT's subsidiary, SFTi, and reflects solely an operating surplus of investment income less operating expenses and tax as was the case in the previous year. This is applied to our wider infrastructure development and investment opportunities.

The net assets of the Group increased by £0.7m from £6.6m at 31 March 2016 to £7.3m as at 31 March 2017. The major movements in the Statement of Financial Position contributing to this include:

- Investments in the subordinated debt of hub projects totalling £2.5m which were funded through an interest free loan from the Scottish Government;
- Accrued investment income due from hub projects of £1.8m; and
- A decrease in cash balances of £1.1m and other miscellaneous movements in working capital.

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

Significant Operational Risks	Approach to Management and Mitigation of Risks
Resource levels in central Government and procuring authorities to take forward priority projects in a timely manner	SFT supports authorities by ensuring that resource needs are fully understood and where appropriate ensuring resource needs are incorporated into funding agreements for future projects.
Operational performance of bodies involved in delivering SFT infrastructure programmes lead to quality, programme or commercial issues during project delivery.	SFT provides operational team support for public bodies preparing for the operational phases of NPD projects and DBFM projects delivered through hub. SFT also ensures key stakeholders are regularly updated on project progress and specific delivery issues.
Delay in progressing projects due to budgetary pressures	SFT promotes proactive management of programmes with clear, strong supporting evidence for the budgets required to ensure value for money is maximised and programmes continue to timetable.
Key staff retention	SFT's skilled staff are key to benefit delivery and have been recruited from a rare skills base. Failure to retain key staff remains a risk to benefit delivery. SFT will continue to focus on employee engagement and employee reward packages.

STRATEGIC REPORT (continued)

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 2016/17, an external review was undertaken of SFT's internal controls with no major issues being identified.

GOING CONCERN

The directors believe it is appropriate for the SFT Financial Statements to adopt the going concern basis of accounting. This is based on confirmation of SFT's funding from its Shareholder, the Scottish Government, for the financial year 2017/18; SFT's role in delivering long-term programmes of investment 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.

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

FUTURE PLANS

The Group's long-term plans are described in its 2014-19 Corporate Plan which can be found on SFT's website. The Group's priorities and detailed objectives are set out in its published 2017/18 Business Plan. Outcomes against these objectives will be published on SFT's website.

Through delivering these objectives, the Group continues to aim to deliver between £500m and £750m of savings and benefits to infrastructure investment in Scotland over the five years of the current 2014-19 corporate plan.

The 2017/18 operating budget has been set at £10.4m reflecting £1.2m of post tax third party income and £9.2m of Scottish Government grant. It is anticipated by the directors that the budget will be fully utilised in the forthcoming year.

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

Barry White
Chief Executive

Date: 21 August 2017

GOVERNANCE

DIRECTORS' REPORT

Directors

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

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

Ian Russell	Chairman (appointed 1 January 2017)
Sir Angus Grossart	Former Chairman (retired 31 December 2016)
Graeme Bissett	Non-Executive Director
James Fletcher	Non-Executive Director
Fiona Mackenzie	Non-Executive Director
Carolyn Dwyer	Non-Executive Director
Ann Faulds	Non-Executive Director (appointed 1 April 2017)
Graham Watson	Non-Executive Director (appointed 1 April 2017)
Barry White	Chief Executive
Peter Reekie	Deputy Chief Executive and Director of Investments

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

Disclosure of Information to the Auditor

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

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487(2) of the Companies Act 2006. However, the Group will be undertaking a competitive re-tender process in respect of the provision of external audit services in 2017/18. The Group has elected to dispense with the holding of the AGM, the laying of financial statements in a general meeting and the annual appointment of the auditor as meetings between the sole shareholder, Scottish Ministers and the Company occur on a regular basis.

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

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

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

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

DIRECTORS' REPORT (continued)
STATEMENT OF 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 judgments and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the 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:

Barry White
Chief Executive

Date: 21 August 2017

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 2017, the Group has complied with all the relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council as best practice guidance, except as explained below, notwithstanding that the Group is not a listed group to which the provisions are directed. The following exceptions are noted:

- there is no Nominations Committee as non-executive Board appointments, including their terms and conditions of employment, are determined by the Group's sole shareholder, the Scottish Ministers. Executive director appointments are considered by the Board;
- 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 their website;
- In view of the Group's responsibilities to take account of the provisions set out in the Management Statement and Financial Memorandum (MSFM), compliance is not appropriate with the provision in the UK Corporate Governance Code that performance-related elements of remuneration to 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 Audit Committee regularly review the need for an internal audit function. The size and nature of the organisation, alongside a clear controls framework and a specific extended review of controls in January 2016 and February 2017, has led the Audit Committee to conclude to date that such a function is not required.

Board of Directors

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

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

During 2016/17, Sir Angus Grossart retired as Chair of SFT and SFTi on 31 December 2016 and Ian Russell was appointed as Chair on 1 January 2017.

The retiring Chairman's other significant commitments are chairmanship of: Noble Grossart Ltd (and related entities), Scotland International Ltd, Fine Art Society Plc, Lyon & Turnbull Ltd, Wright Health Group Ltd, Edinburgh Partners Ltd, Charlotte Street Partners, the Burrell Renaissance and The Edinburgh International Cultural Summit. The retiring Chairman is also a Non-executive Director of Culture and Sport Glasgow, Major's Place Industries Ltd and FALS Property Ltd.

REPORT ON CORPORATE GOVERNANCE (continued)
Board of Directors (continued)

The new Chairman's other significant commitments are chairmanship of HICL Infrastructure Company Limited, directorship of The Mercantile Investment Trust plc and Aberdeen Diversified Income and Growth Trust. His non-financial interests include Chair of Disabled People's Employment Corporation (GB) Ltd.

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

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

Board Balance and Independence

In the year ended 31 March 2017, the Board included five non-executive directors (including the Chairman). To facilitate succession planning, two additional non-executive directors were appointed on 1 April 2017. The Board considers that, based on the criteria set out in the provisions of the UK Corporate Governance Code, all non-executive directors are independent. The non-executive directors combine broad business and commercial experience with independent and objective judgement and constructively challenge and assist development of strategic matters. The Board functions effectively and efficiently and is considered to be of an appropriate size in relation to the Group's level of business and associated responsibilities.

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

Re-election of Directors

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

The retired Chairman's term of office ended on 31 December 2016 and a new Chair was recruited, commencing office on 1 January 2017. Two of the non-executive directors are scheduled to step down during 2017/18 and their replacements commenced their roles on 1 April 2017.

Information

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

REPORT ON CORPORATE GOVERNANCE (continued)

Performance Evaluation

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

Board Committees

To provide effective overview and leadership, the Board can establish Committees composed of non-executive directors with specific governance responsibilities. The Committee's Chairmanship and Membership will be refreshed on a regular basis. Executive directors and senior managers are invited to attend Board and Committee Meetings as appropriate. Currently the only Board Committees are the Group Audit Committee and SFTi's Investment 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	SFTi Investment Committee
Number of meetings	**7**	**2**	**3**	**6**
Ian Russell[1]	3	-	1	-
Sir Angus Grossart[2]	4	-	1	-
Graeme Bissett	7	2	3	6
Carolyn Dwyer	7	-	3	4
James Fletcher	6	2	2	5
Fiona Mackenzie	7	2	3	6
Barry White	7	2*	3	3
Peter Reekie	7	2*	3	6

*In attendance, not members of the Committee
[1] Ian Russell was appointed as Chair of SFT and SFTi on 1 January 2017
[2] Sir Angus Grossart retired as Chair of SFT and SFTi on 31 December 2016
Attendance at SFTi Investment Committee is on the basis of the necessary quorum being present, reflecting the nature of the agenda and the frequency of the meetings.

Relations with Sole Shareholder

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

On behalf of the Board:

Barry White
Chief Executive

Date: 21 August 2017

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

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

Identification and Monitoring of Business Risks

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

Corporate Information Systems

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

Effectiveness of Internal Controls

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

On behalf of the Board:

Barry White
Chief Executive

Date: 21 August 2017

REPORT ON DIRECTORS' REMUNERATION

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

Directors' Remuneration

In the year to 31 March 2017, the Company's non-executive directors were paid fees for their services to the Group. Each non-executive director has a letter of appointment outlining their expected time commitment and details of the per diem rate set by Scottish Government for non-executive directors of £325. Sir Angus Grossart waived payment from Scottish Futures Trust Limited for his services as Chairman which totalled 32 days over the period. Expenses of £5,053 (2016: £6,738) were paid to Noble Grossart Limited, which is controlled by Sir Angus Grossart, in respect of administrative support services provided. 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 2017 and 31 March 2016 for duties provided to the Group are as follows:

	2017	2016
	£	**£**
James Fletcher	**7,800**	**7,800**
Graeme Bissett	**7,800**	**7,800**
Fiona Mackenzie	**7,800**	**7,800**
Carolyn Dwyer	**7,800**	**7,800**

The total expenses reimbursed during the year were £150 (2015/16: £67).

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

	2017	2016
	£	**£**
Salary	**189,615**	**185,897**
Pension	**37,923**	**37,179**
Car Allowance	**11,500**	**11,500**

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

	2017	2016
	£	**£**
Salary	**158,012**	**154,914**
Pension	**31,602**	**30,983**
Car Allowance	**9,200**	**9,200**

REPORT ON DIRECTORS' REMUNERATION (continued)
Directors' Remuneration (continued)

	2017	2016
	£	**£**
Highest paid director's total remuneration	**201,115**	**197,397**
Median total remuneration	**73,330**	**70,118**
Ratio	**2.74**	**2.82**

The ratio has decreased due to the employment of new staff the impact of which was to increase the median pay in the year. Total remuneration includes salary and car allowance. There were no bonuses or benefits in kind in financial years 2015/16 or 2016/17.

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

In the year ended 31 March 2017, 64 of the Company's employees including two directors were members of the pension fund.

The highest paid director's pension has a transfer value of £327,161 (2015/16: £264,843).

On behalf of the Board:

Barry White
Chief Executive

Date: 21 August 2017

REPORT OF THE AUDIT COMMITTEE

Role and Responsibilities

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

Composition

Members of the Group Audit Committee for the financial year were:

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

In the year ended 31 March 2017, there were two meetings of the Audit Committee. The Board is satisfied that the Committee membership has relevant financial and business experience.

Responsibilities and Review of the External Auditor

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

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

Auditor and Audit Tenure

Scott Moncrieff has been auditor since the Company's incorporation in 2008. The Audit Committee reviews the auditor's performance on a regular basis, taking into consideration the services and advice provided to the Company and the fees charged for these services. A formal re-tender exercise will take place in 2017/18.

REPORT OF THE AUDIT COMMITTEE (continued)

Safeguarding the Auditor's Objectivity and Independence

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

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

Significant Issues Considered Regarding the Annual Report and the Financial Statements

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

Significant issue	How the issue was addressed
Revenue being over or understated in the Financial Statements	The group has two main sources of funding: 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. 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 monthly management accounts process and the annual Financial Statements. The Audit Committee members as members of the SFTi Investment Committee and SFTi Board review each investment made and monitors their performance. In addition, confirmation of all interest income due is received from external third parties verifying the completeness of the amounts recorded within the accounts.
Accounting for the defined benefit pension scheme	The assumptions used in the IAS 19 pension valuation are provided by the actuary to the scheme and reviewed each year by the Audit Committee to ensure that the assumptions used are appropriate. The Audit Committee through discussions with the finance team and the external auditor ensure that the pension is accounted for and disclosed in accordance with IAS 19.
Funding from the Scottish Government	The Audit Committee members as members of the SFT board are involved in year round communication with the Scottish Government including in relation to future funding and consider the funding levels agreed when assessing the Company's going concern status.

REPORT OF THE AUDIT COMMITTEE (continued)

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

Significant issue	How the issue was addressed
The risk that investments are not consolidated in SFT group accounts when they should be.	Through discussions with the auditor, the Audit Committee reviews the criteria regarding consolidation and the relationship the Group has with the companies the Group has invested in, in order to establish if consolidation is required.
Risk of the recoverability of investments in terms of repayment of loans and interest receivable.	The Investment Committee reviews investment performance. SFT also has board representation on all hubCos 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.
Loans from the Scottish Government to SFT which are then on-lent to SFTi	SFT draws down loans from the Scottish Government which are then on-lent to SFTi to make investments in the subordinated debt and share capital of DBFM SPV companies. The Investment Committee approves each investment made by SFTi and the funding that is drawn down from the Scottish Government and then on-lent to SFTi to fund these investments. Through the review of the management accounts and the statutory financial statements, the Board ensure that all loans from the Scottish Government by SFT which are on-lent to SFTi are recorded and disclosed correctly.

On behalf of the Audit Committee:

Graeme Bissett
Chairman
Audit Committee

Date: 21 August 2017

FINANCIALS

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

We have audited the Financial Statements of Scottish Futures Trust Limited for the year ended 31 March 2017 which comprise the Group and Parent Company Statement of Comprehensive Income, the Group and the Parent Company Statements of Changes in Equity, the Group and the Parent Company Statements of Financial Position, the Group and the Parent Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective Responsibilities of the Directors and the Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 23 and 24, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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

In addition to our audit of the Financial Statements, the directors have engaged us to review their Report on Corporate Governance as if the company 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 company'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 company's corporate governance procedures or its risk and control procedures.

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 March 2017 and of the Group's and Parent Company's profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Our Assessment of the Risks of Material Misstatement

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

Revenue Recognition

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

Defined Benefit Pension Scheme

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

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

Future funding

- **The risk:** SFT requires funding from the Scottish Government to operate. Without this funding, SFT would not be able to continue to operate and thus would not be deemed a going concern.
- **Our response**: We reviewed the funding letter provided by the Scottish Government which confirms that the Group will receive sufficient funds to operate in 2017/18. Although, at this time, no funding letter is in place for 2018/19, the Board anticipates continued support from the Scottish Government in 2018/19 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 2017/18. The expectation at the date of signing the Financial Statements is that this funding from the Scottish Government will continue into 2018/19 and beyond and thus the financial statements have been correctly prepared on a going concern basis.

Treatment of investments made by Scottish Futures Trust Investments Limited

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

Potential Impairment of Investments in SFTi

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

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

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

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

Our Application of Materiality

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

The materiality for the Parent Company Financial Statements as a whole was set at £210,000. This has been assessed with reference to a benchmark of income received from the Scottish Government (representing 2% of the reported figure).

We set a performance (testing) materiality, which we assessed as being 50% of the overall materiality. In respect of other areas, we performed audit procedures on all transactions and balances that exceeded our assessed low risk level performance materiality which was assessed as being 75% of the overall materiality. This meant that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement. All balances and transactions above 75% of overall materiality were audited whilst for higher risk items we tested all balances and transactions above 50% of overall materiality. 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 £10,500; and (iii) other misstatements below that threshold that we believe warranted reporting on qualitative grounds.

An Overview of the Scope of our Audit

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

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

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements:

- in the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes.

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

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

We have nothing to report in respect of the following:

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

Nick Bennett

Nick Bennett (Senior Statutory Auditor)
For and on behalf of Scott Moncrieff Chartered Accountants and Statutory Auditor
Exchange Place 3, Semple Street
Edinburgh, EH3 8BL

Date:

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 MARCH 2017

	Note	2017	2016
		£	£
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Other income	5	12,942,239	8,675,870
Capital grant income	6	512,215	1,483,270
Operating expenditure	7	(10,149,798)	(9,712,877)
Capital grant expenditure	8	(512,214)	(1,483,268)
Profit/(loss) on ordinary activities before taxation		2,792,442	(1,037,005)
Taxation on profit on ordinary activities	9	(183,689)	(119,026)
Net profit/(loss) for the year		2,608,753	(1,156,031)
Other comprehensive income:			
Those that are not recyclable net of tax:			
Actuarial (losses)/gains on post-employment benefit obligations	17	(1,874,000)	1,630,000
Other comprehensive income for the year after tax		(1,874,000)	1,630,000
Total comprehensive income for the year		734,753	473,969
Attributable to:			
Equity holder of the company		734,753	473,969
Distributed as follow:			
Transferred to retained earnings		734,753	473,969
Profits available for distribution		-	-

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

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 MARCH 2017

	Note	2017	2016
		£	£
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Other income	5	12,023,708	8,082,787
Capital grant income	6	512,215	1,483,270
Operating expenditure	7	(10,149,708)	(9,712,787)
Capital grant expenditure	8	(512,215)	(1,483,270)
Profit/(loss) on ordinary activities before taxation		1,874,000	(1,630,000)
Taxation on profit on ordinary activities	9	-	-
Net profit/(loss) for the year		1,874,000	(1,630,000)
Other comprehensive income:			
Those that are not recyclable net of tax:			
Actuarial (losses)/gains on post-employment benefit obligations	17	(1,874,000)	1,630,000
Other comprehensive income for the year after tax		(1,874,000)	1,630,000
Total comprehensive income for the year		-	-
Attributable to:			
Equity holder of the company		-	-
Distributed as follow:			
Transferred to retained earnings		-	-
Profits available for distribution		-	-

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

GROUP STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2017

As at 31 March 2017 and 31 March 2016	Share Capital	Retained Earnings	Total
	£	£	£
At 1 April 2016	2	6,609,386	6,609,388
Total comprehensive income for the year	-	734,753	734,753
At 31 March 2017	2	7,344,139	7,344,141

	Share Capital	Retained Earnings	Total
	£	£	£
At 1 April 2015	2	6,135,417	6,135,419
Total comprehensive income for the year	-	473,969	473,969
At 31 March 2016	2	6,609,386	6,609,388

COMPANY STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2017

As at 31 March 2017 and 31 March 2016	Share Capital	Retained Earnings	Total
	£	£	£
At 1 April 2016	2	-	2
Total comprehensive income for the year	-	-	-
At 31 March 2017	2	-	2

	Share Capital	Retained Earnings	Total
	£	£	£
At 1 April 2015	2	-	2
Total comprehensive income for the year	-	-	-
At 31 March 2016	2	-	2

The accompanying notes are an integral part of these financial statements

GROUP STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Note	2017	2016
ASSETS		£	£
Non-current assets			
Investments	11	13,657,793	11,118,667
Property, plant and equipment	10	132,034	220,050
Trade and other receivables in more than 1 year	12	1,650,553	968,380
Accrued income in respect of pension liabilities	16	2,217,000	294,000
		17,657,380	12,601,097
Current assets			
Trade and other receivables in less than 1 year	12	269,592	81,801
Investments	12b	100,000	200,000
Cash and cash equivalents	13	871,178	2,032,641
Accrued income	16	95,795	-
		1,336,565	2,314,442
Current liabilities			
Trade and other payables	14	(1,138,057)	(970,436)
Deferred income	16	(88,016)	(1,084,021)
Current tax liabilities	9	(183,689)	(118,598)
		(1,409,762)	(2,173,055)
Net current (liabilities) assets		(73,197)	141,387
Deferred income	16	(44,018)	(208,731)
Pension liabilities	17	(2,217,000)	(294,000)
Loan from the Scottish Government	15	(7,979,024)	(5,630,365)
Net assets		7,344,141	6,609,388
Equity			
Called up share capital	18	2	2
Retained earnings	18	7,344,139	6,609,386
Total shareholder's funds		7,344,141	6,609,388

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

These financial statements were approved by the Board of Directors on 21 August 2017 and authorised for issue on its behalf by:

Ian Russell, Chairman

Barry White, Chief Executive

Registered Company Number: SC348382

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Note	2017	2016
ASSETS		£	£
Non-current assets			
Investments	11b	1	1
Property, plant and equipment	10	132,034	220,050
Loan to subsidiary	12a	7,979,024	5,554,737
Accrued income in respect of pension liabilities	16	2,217,000	294,000
		10,328,059	6,068,788
Current assets			
Trade and other receivables in less than 1 year	12	516,883	796,984
Cash and cash equivalents	13	525,035	1,535,225
Accrued income	16	95,795	-
		1,137,713	2,332,209
Current liabilities			
Trade and other payables	14	(1,137,712)	(1,183,878)
Deferred income	16	(88,016)	(1,084,021)
		(1,225,728)	(2,267,899)
Net current (liabilities) assets		(88,015)	64,310
Non-current liabilities			
Deferred income	16	(44,018)	(208,731)
Pension liabilities	17	(2,217,000)	(294,000)
Loan from the Scottish Government	15	(7,979,024)	(5,630,365)
Net assets		2	2
Equity			
Called up share capital	18	2	2
Retained earnings	18	-	-
Total shareholder's funds		2	2

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

These financial statements were approved by the Board of Directors on 21 August 2017 and authorised for issue on its behalf by:

Ian Russell
Chairman

Barry White
Chief Executive

Registered Company Number: SC348382

GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017	2016
		£	£
Cash flows from operating activities			
Profit/(loss) before tax from operations for the period		2,792,442	(1,037,005)
Depreciation of property, plant and equipment	10	88,016	68,819
IAS19 pension charge	17	49,000	253,000
(Increase)/decrease in trade and other receivables	12	(869,964)	368,508
Increase/(decrease) in trade and other payables	14	130,299	(360,502)
(Increase)/decrease in net accrued income/ deferred income	16	(3,179,513)	876,245
Net cash from operating activities		(989,720)	169,065
Corporation tax paid	9	(118,598)	(37,269)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	-	(112,695)
Purchase of investments	11	(1)	(2)
Purchase of Share capital in SPVs	11	(450)	(243)
Return of working capital loan	12b	200,000	90,000
Repayment of subordinated debt	11	3,196	8,939
Loan from Scottish Government	15	2,385,981	4,033,640
Provision of working capital loans and subordinated debt	11	(2,641,871)	(3,847,939)
		(53,145)	171,700
Net (decrease) /increase in cash and cash equivalents		(1,161,463)	303,496
Cash and cash equivalents at beginning of period	13	2,032,641	1,729,145
Cash and cash equivalents at end of period	13	871,178	2,032,641

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

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017	2016
		£	£
Cash flows from operating activities			
Profit/(loss) before tax from operations for the period		1,874,000	(1,630,000)
Depreciation of property, plant and equipment	10	88,016	68,819
IAS 19 pension charge	17	49,000	253,000
Decrease in trade and other receivables	12	317,423	656,766
Decrease in trade and other payables	14	(83,488)	(147,060)
(Decrease)/increase in net accrued income/deferred income	16	(3,179,513)	876,245
Net cash from operating activities		(934,562)	77,770
Cash flows from investing activities			
Purchase of property, plant and equipment	10	-	(112,695)
Loan from Scottish Government	15	2,385,981	4,033,640
Loan to subsidiary for investment in hub projects	12a	(2,461,609)	(3,958,012)
Net cash used in investing activities		(75,628)	(37,067)
Net (decrease)/increase in cash and cash equivalents		(1,010,190)	40,703
Cash and cash equivalents at beginning of period	13	1,535,225	1,494,522
Cash and cash equivalents at end of period	13	525,035	1,535,225

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

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1. Basis of preparation and accounting policies

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

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

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

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

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

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

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

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

1. Basis of preparation and accounting policies (continued)

Financial instruments

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

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

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

Cash and cash equivalents
In the Group 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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

1. Basis of preparation and accounting policies (continued)

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

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

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

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

Share capital
Ordinary shares are classified as equity.

Property, plant and equipment
A de-minimus level for capitalisation of £5,000 (2015/16: £1,000) 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.

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. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.
Office equipment - over 3 years
Furniture and fixtures - over 5 years

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

1. Basis of preparation and accounting policies (continued)

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

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

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

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

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

2. New and amended standards adopted by the Group

No new or amended IFRSs had a material impact on the 2016/17 financial statements.

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

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

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Defined benefit scheme

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

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

5. Other income

	2017	2016
	£	£
Release of Scottish Government funding relating to Non-current assets	88,016	68,819
Scottish Government funding received to compensate for expenses incurred	9,596,052	9,094,707
Scottish Government funding received to compensate for actuarial losses/(gains) on employment benefit obligations	1,874,000	(1,630,000)
Secondment charges	-	134,251
Management fee due from SFTi	266,258	254,767
Other income	199,382	160,243
Total company other income	12,023,708	8,082,787
Interest received on working capital loans	1,170,875	811,094
Bank interest	168	182
Other income	13,746	36,574
Management fee due from SFTi (eliminated on consolidation)	(266,258)	(254,767)
Total group other income	12,942,239	8,675,870

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

6. Capital Grant Income – Group and Company

	Note	2017	2016
		£	£
SG capital grant for SFTI investments	11	1	2
SG capital enabling grant for hub projects	8	512,214	1,483,268
		512,215	1,483,270

In 2015/16, £1 (2015/16: £2) was received in grant funding to fund the investment by SFTi of £1 (2015/16: £2) in LLPs.

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

7. Operating Expenditure

		2017	2016
		£	£
Profit before taxation is stated after charging:			
Non-executive fees		31,350	31,267
Chair expenses for secretarial and administrative support		5,053	6,738
Salaries and associated costs		7,309,722	7,027,568
Agency, seconded & interim staff		621,497	710,843
Auditor's remuneration	- SFT audit fee	12,225	12,513
	- SFTi audit fee	5,000	5,000
	- taxation services	1,550	2,000
	- other services	5,400	3,900
Operating leases in respect of land and buildings		108,278	108,175
Depreciation		88,016	68,819
Corporate Professional fees		13,414	9,880
Recruitment fees		55,534	56,497
Advisory fees		629,694	325,278
Grants made		148,733	387,981
Hub PDO Fees		76,736	55,392
Other operating costs		1,037,506	900,936
Company operating expenditure		10,149,708	9,712,787
SFTi operating expenditure		90	90
Group operating expenditure		10,149,798	9,712,877

The average number of full time equivalent employees employed in the year was 71 (2015/16: 69) broken down as 8 (2015/16: 7) Leadership Team, 50 (2015/16: 49) programme delivery and 13 (2015/16: 13) business support.

	2017	2016
	£	£
Wages and salaries	5,524,771	5,060,492
National Insurance	670,901	552,501
Pension costs (including IAS 19 charge)	1,114,050	1,414,575
	7,309,722	7,027,568

Included in pension costs is £49,000 (2016: £253,000) in respect of the IAS 19 pension movement (note 17).

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

8. Capital Grant Expenditure

	2017	2016
	£	£
Group Capital enabling grant for hub projects	512,214	1,483,268
Capital grant for SFTi investments in LLPs	1	2
Company capital grant expenditure	512,215	1,483,270

9. Taxation

	2017	2016
Group	£	£
Under provision in prior year		428
Corporation tax charge @ 20%	183,689	118,598
	183,689	119,026
Corporation tax creditor at year end	183,689	118,598

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

Company

No taxable profit was generated by Scottish Futures Trust Limited and thus no corporation tax was due.

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

10. Property, plant and equipment – Group and Company

	Office equipment	Furniture & fixtures	Total
	£	£	£
Cost			
At 31 March 2016	322,004	197,166	519,170
Additions	-	-	
At 31 March 2017	322,004	197,166	519,170
Depreciation			
At 31 March 2016	190,957	108,163	299,120
Charge for the year	56,530	31,486	88,016
At 31 March 2017	247,487	139,649	387,136
Net book value			
At 31 March 2017	74,517	57,517	132,034
At 31 March 2016	131,047	89,003	220,050

11. Investments – Group

	hub Co & NHT LLP share capital	hub Co working capital	Subordinated debt (note 10a)	Total
	£	£	£	£
Cost and Net book value				
At 31 March 2016	332	200,000	10,918,335	11,118,667
Additions	451	-	2,641,871	2,642,322
Principal repaid in the year	-	-	(3,196)	(3,196)
Transferred to current assets (note 12b)	-	(100,000)	-	(100,000)
At 31 March 2017	783	100,000	13,557,010	13,657,793

Share capital
SFTi invested £1 in one housing partnership LLP during the current year together with £450 in share capital of SPVs in connection with sub debt investments.

11. Investments – Group (continued)

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

Hub Co Working Capital

Working Capital Loans – non-current assets
SFTi loaned working capital of £100,000 to hub West Scotland Limited on 27 April 2012. This working capital facility was available until 26 April 2017 but has been extended to 31 December 2018 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 6.5% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June). This item has been treated as a non-current asset at 31 March 2017.

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

Working capital loans - repaid
SFTi loaned working capital of £100,000 to hub South East Scotland Limited on 30 July 2010. This working capital facility was originally available until 30 July 2015 but was extended until 31 March 2017 when it was repaid. It was treated as a current asset at the 2016 year end.

SFTi loaned working capital of £100,000 to hub East Central Scotland Limited on 7 February 2012. This working capital facility was available until 6 February 2017 at which time it was repaid. It was treated as a current asset at the 2016 year end.

SFTi loaned working capital of £90,000 to hub North Scotland Limited on 28 January 2011. This working capital facility was repaid in February 2016. It was treated as a current asset in the year ended 31 March 2015.

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

Capital Management
The Scottish Government grants SFT funds which SFT grants on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub Cos. The Scottish Government also loans SFT funds which SFT loans on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub Cos. These investments are detailed in note 11a.

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

11a. Financial assets – Subordinated debt (Group)

During 2016/17, SFTi invested £2,641,871 as subordinated debt within the following hub projects:

- Lothian Bundle for NHS Lothian (Total capital cost: £26m) - £243,750 invested
- Largs Academy for North Ayrshire Council (Total capital cost: £44m) - £391,130 invested
- New Academy (South of the City) for Aberdeen City Council (Total capital cost: £44m) - £321,672 invested
- East Lothian Community Health Centre for NHS Lothian (Total capital cost: £65m) - £600,797 invested
- Inverurie & Forresterhill Health Centres for NHS Grampian (Total capital cost: £20m) - £167,168 invested
- Stirling Care Village for NHS Forth Valley (Total capital cost: £34m) - £354,500 invested
- West Calder High School for West Lothian Council (Total capital cost: £30m) - £286,654 invested
- Pharmaceutical Special Services for NHS Tayside (Total capital cost: £25m) - £276,200 invested

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

Investment In	Investment Type	Value	Interest Rate	Redemption Date
Hub North territory				
Aberdeen Community Health Village Ltd	Fixed coupon unsecured loans	£576,191 less £1,759 principal repaid totals £574,432	10.2%	2039
hub North Scotland (FWT) Ltd	Fixed coupon unsecured loans	£133,884 less £7,180 principal repaid totals £126,704	10.2%	2039
hub North Scotland (Alford) Ltd	Fixed coupon unsecured loans	£747,036	10.2%	2040
hub North Scotland (Wick) Ltd	Fixed coupon unsecured loans	£1,568,509	10.2%	2042
hub North Scotland (Anderson) Ltd	Fixed coupon unsecured loans	£342,962	10.2%	2043
hub North Scotland (Elgin High School) Ltd	Fixed coupon unsecured loans	£253,654	10.2%	2043
hub North Scotland (O & C) Ltd	Fixed coupon unsecured loans	£491,691	10.2%	2043
hub North Scotland (New Academy - South of the City)	Fixed coupon unsecured loans	£321,672	10.2%	2043
hub North Scotland (I & F) Ltd	Fixed coupon unsecured loans	£167,168	10.2%	2044
Hub North territory total		**£4,593,828**		

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

11a. Financial assets – Subordinated debt (Group)

Investment In	Investment Type	Value	Interest Rate	Redemption Date
Hub South East territory				
James Gillespie's Campus Subhub Holdings Ltd	Fixed coupon unsecured loans	£1,252,424	10.87%	2041
REH Phase 1 Subhub Holdings Ltd	An advance	£410,685	2.48% during construction and 10.75% during operation	2042
Newbattle DBFM Holdco Ltd	Fixed coupon unsecured loans	£310,265	3.35% during construction and 10.5% during operation	2043
KHS DBFM Holdco Ltd	Fixed coupon unsecured loans	£205,150	3.35% during construction and 10.5% during operation	2042
LBP DBFM Holdco Ltd	Fixed coupon unsecured loans	£243,750	3.37% during construction and 10.45% during operation	2042
ELCH DBFM Holdco Ltd	Fixed coupon unsecured loans	£600,797	2.98% during construction and 10.45% during operation	2044
WCHS DBFM Holdco Ltd	Fixed coupon unsecured loans	£286,654	3.47% during construction and 10.45% during operation	2043
Hub South East territory total		**£3,309,725**		

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

11a. Financial assets – Subordinated debt (Group) (continued)

Investment In	Investment Type	Value	Interest Rate	Redemption Date
Hub South West territory				
Hub SW NHSL Holdco Ltd	Fixed coupon unsecured loans	£325,055 less £2,134 principal repaid totals £322,921	10.5%	2040
Hub SW Greenfaulds Holdco Ltd	An advance	£271,509	2.33% during construction and 10.5% during operation	2041
Hub SW Ayr Holdco Ltd	Fixed coupon unsecured loans	£490,168	3.78% during construction and 10.65% during operation	2042
Hub SW Dalbeattie Holdco Ltd	Fixed coupon unsecured loans	£209,081	3.62% during construction and 10.85% during operation	2042
Hub SW EALC Holdco Ltd	Fixed coupon unsecured loans	£368,416	3.26% during construction and 10.5% during operation	2043
Hub SW Largs Holdco Ltd	Fixed coupon unsecured loans	£391,130	3.41% during construction and 10.15% during operation	2043
Hub South West territory total		**£2,053,225**		
Hub West territory				
Hub West Scotland Project Company (No.1) Ltd	Fixed coupon unsecured loan	£186,042 less £1,062 principal repaid totals £184,980	9.75%	2041
Hub West Scotland Project Company (No.2) Lt	Fixed coupon unsecured loan	£70,413	9.75%	2042
Hub West Scotland Project Company (No.3) Ltd	Fixed coupon unsecured loan	£213,748	9.75%	2042
Hub West Scotland Project Company (No.4) Ltd	Fixed coupon unsecured loan	£228,401	9.75%	2042
Hub West territory total		**£697,542**		

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

11a. Financial assets – Subordinated debt (Group) (continued)

Investment In	Investment Type	Value	Interest Rate	Redemption Date
Hub East Central territory				
Hub East Central (Levenmouth) Ltd	Fixed coupon unsecured loans	£1,608,000	10.2%	2041
Hub East Central Scotland (Baldragon) Lt	Fixed coupon unsecured loans	£299,790	10%	2042
Hub East Central (Forfar) Ltd	Fixed coupon unsecured loans	£364,200	10%	2041
Hub East Central (SCV) Ltd	Fixed coupon unsecured loans	£354,500	10%	2044
Hub East Central (PSS) Ltd	Fixed coupon unsecured loans	£276,200	10%	2043
Hub East Central territory total		**£2,902,690**		
Total sub-ordinated debt		**£13,557,010**		

The most significant risk to the Group is investment performance. Two projects are being monitored closely where operational performance has led senior funders to require delay in subordinated debt payment. The Board do not anticipate any losses as payements are anticipated to be received in all cases and hence with the exception of minor re-profiling, investments are performing according to their base cases and making returns as anticipated.

11b. Investments in subsidiary – Company

	Investment in Subsidiary
	£
Cost and Net book value	
At 31 March 2016 and 31 March 2017	1

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

Nature of business	To hold investments in infrastructure companies, assets and projects across Scotland		
Class of shares	Ordinary	**2017**	**2016**
Holding	100%	**£**	**£**
Aggregate capital and reserves		7,344,140	6,609,387
Profit for the year		734,753	473,969

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

12. Trade and other receivables

	Group 2017	Company 2017	Group 2016	Company 2016
	£	£	£	£
Due in more than 1 year				
Accrued interest income from sub-ordinated debt investments	1,650,553	-	968,380	-
Due in less than 1 year				
Other receivables	68,557	68,557	39,996	39,996
Prepayments and accrued interest income	201,035	39,979	41,805	35,554
Amounts due from subsidiary – SFTi	-	371,025	-	721,434
Loan due from subsidiary - SFTi	-	37,322	-	-
	269,592	516,883	81,801	796,984

12a. Loan to subsidiary

	Company 2017	Company 2016
	£	£
At beginning of the year	5,554,737	1,596,725
Increase in period	2,655,131	3,958,012
Repaid in the year	(193,522)	-
At 31 March 2017	8,016,346	5,554,737

SFT made a loan of £2,655,131 (2016: £3,958,012) to SFTi during the year. £2,641,871 (2016: £3,847,939) was used to invest in subordinated debt in the year. The loan is non-interest bearing and repayable between September 2017 and March 2044.

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

12a. Loan to subsidiary (continued)

This is expected to be repaid:

	2017	2016
	£	£
< 1 year	37,322	-
1-2 years	123,717	2,250
2-5 Years	555,527	559,909
>5 years	7,299,780	4,992,578
At 31 March 2017	8,016,346	5,554,737
Disclosed as		
Current assets	37,322	-
Non-current assets	7,979,024	5,554,737
	8,016,346	5,554,737

12b. Investments - Group

	2017	2016
Working Capital Loans	£	£
Cost and Net book value		
At 1 April 2016	200,000	90,000
Repaid in current year	(200,000)	(90,000)
Transferred from non-current assets (note 11)	100,000	200,000
At 31 March 2017	100,000	200,000

13. Cash and cash equivalents

	Group 2017	Company 2017	Group 2016	Company 2016
	£	£	£	£
Cash at bank	870,874	524,731	1,776,414	1,278,998
Cash on deposit held by lawyer	-	-	256,000	256,000
Cash on hand	304	304	227	227
	871,178	525,035	2,032,641	1,535,225

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

14. Trade and other payables

	Group 2017	Company 2017	Group 2016	Company 2016
	£	£	£	£
Other payables (operational expenditure)	368,937	368,937	257,303	257,303
Other taxes and social security	214,391	214,075	194,851	194,544
Other creditors and accruals	517,407	517,378	518,282	518,253
Amounts payable to subsidiary – SFTi	-	-	-	213,778
Loan from the Scottish Government (note 15)	37,322	37,322	-	-
	1,138,057	1,137,712	970,436	1,183,878

15. Loan from the Scottish Government

	Group 2017	Company 2017	Group 2016	Company 2016
	£	£	£	£
At beginning of the year	5,630,365	5,630,365	1,596,725	1,596,725
Increase in the period	2,385,981	2,385,981	4,033,640	4,033,640
As at 31 March 2017	8,016,346	8,016,346	5,630,365	5,630,365

The loan is non-interest bearing and repayable between September 2017 and March 2044.
This is expected to be repaid in:

	2017	2016
	£	£
<1 year	37,322	-
1-2 years	123,717	2,250
2-5 Years	555,527	559,909
>5 years	7,299,780	5,068,206
At 31 March 2017	8,016,346	5,630,365

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

15. Loan from the Scottish Government (continued)

	2017	2016
	£	£
Disclosed as		
Current assets	37,322	-
Non-current assets	7,979,024	5,630,365
	8,016,346	5,630,365

16. 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 exceeds 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 drawdown 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. The Accrued/deferred income balances comprise:

	2017	2016
	£	£
Non-current asset		
Accrued income in respect of the pension liability underwritten by the Scottish Government	2,217,000	294,000
Current asset		
Accrued income due from the Scottish Government relating to costs incurred	95,795	-
Current liability		
Deferred income arising as a result of receiving funding from the Scottish Government in advance of costs being incurred.	-	(1,072,702)
Deferred income arising on capital funding received which is released over the expected life of the fixed asset funded in less than one year	(88,016)	(11,319)
	(88,016)	(1,084,021)

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

	2017	2016
	£	£
Non-current liability		
Deferred income arising on capital funding received which is released over the expected life of the fixed asset funded in more than one year.	(44,018)	(208,731)

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

	2017	2016
Fixed asset deferred income	£	£
As at beginning of period	(220,050)	(176,174)
Increase in the period	-	(112,695)
Released to statement of income and retained earnings	88,016	68,819
As at period end	(132,034)	(220,050)
Split		
Current liabilities	(88,016)	(11,319)
Non-current liabilities	(44,018)	(208,731)
	(132,034)	(220,050)

In the 2015/16 financial statements, the accrued income of £294,000 due from the Scottish Government in respect of the pension liability which the Scottish Government has underwritten was netted off within deferred income. In the restated figures this has been shown in accrued income greater than one year. Thus, deferred income within current liabilities in 2015/16 has been grossed up by £294,000. This adjustment did not impact SFT’s previously stated loss or net asset position.

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

17. Retirement benefits obligation – Group and Company

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

The group financial statements include the results of the IAS 19 valuation carried out, by Hymans Robertson, as at 31 March 2017 which projects forward the results of the 2014 triennial valuation and adjusts for changes in assumptions. SFT's Contributions due to the Scheme will be funded by the drawdown of grant from the Scottish Government. The assumptions used in this analysis are determined by Lothian Pension Fund on the advice of Lothian Pension Fund Actuaries, Hymans Robertson, taking into account the requirements of accounting standards.

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

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

As at 31 March 2017, there were only active and deferred members; there were no pensioner members. The defined benefit obligation has a duration of 25.1 (2016: 25.1) years and thus, a long rate discount rate has been applied. The main assumptions used are:

	31 Mar 2017	31 Mar 2016
	% p.a.	% p.a.
Inflation / Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	4.4%	4.2%
Discount Rate	2.7%	3.6%

Mortality

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

	Males	Females
Current pensioners	22.1 years	23.7 years
Future pensioners	24.2 years	26.3 years

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

Assets (Employer)

	31 March 2017
	Assets
	£000
Equities	8,619
Bonds, Debt securities and Funds	3,040
Property	888
Cash	610
Total Market Value of Assets	**13,157**
Present Value of Scheme of Liabilities	**15,374**
Net Pension Liability	**(2,217)**

	31 March 2016
	Assets
	£000
Equities	5,798
Bonds, Debt securities and Funds	2,201
Property	803
Cash	580
Total Market Value of Assets	**9,382**
Present Value of Scheme of Liabilities	**9,676**
Net Pension Liability	**(294)**

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

Recognition in the Income Statement:

	31 March 2017		31 March 2016	
	£(000)	**% of Pay**	**£(000)**	**% of Pay**
Current service cost	(1,101)	24.1%	(1,359)	(29.7%)
Net interest income	(11)	0.2%	(58)	(1.3%)
Contributions paid in year per IAS 19 valuation	1,063	23.3%	1,164	25.4%
Total (charge)/income included in the Statement of Comprehensive Income	**(49)**	**1%**	**(253)**	**(5.5%)**

The IAS 19 pension charge (above) is included within salaries and associated costs in note 7 of the financial statements. The actual pension contribution of the company paid as part of the payroll was £1,065,050 (2016: £1,161,575). This included an additional contribution of £150,000 (2016: £250,000) made in the year. The employer's contribution rate is 20% and the employee's contribution rate ranges from 5.5% to 10.8%.

Analysis of the amount recognised in other comprehensive income

	31 March 2017	31 March 2016
	£(000)	**£(000)**
Actual return less expected return on pension scheme assets	1,917	133
Changes in financial assumptions underlying the present value of scheme liabilities	(3,791)	1,497
Actuarial (loss)/gain	(1,874)	1,630

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

Recognition of defined benefit obligations:

Year Ended	31 March 2017	31 March 2016	31 March 2015	31 March 2014
	£(000)	£(000)	£(000)	£(000)
Opening Defined Benefit Obligations	**9,676**	**9,046**	**4,088**	**2,618**
Current Service Cost	1,101	1,359	1,057	694
Interest Cost	375	328	206	140
Contributions by Members	447	453	387	319
Actuarial Losses / (Gains)	3,791	(1,497)	3,318	320
Past Service Costs/(Gains)	-	-	-	-
Estimated benefits paid	(16)	(13)	(10)	(3)
Closing Defined Benefit Obligations	**15,374**	**9,676**	**9,046**	**4,088**

Reconciliation of fair value of employer assets:

Year Ended	31 March 2017	31 March 2016	31 March 2015	31 March 2014
	£(000)	£(000)	£(000)	£(000)
Opening Fair Value of Employer Assets	**9,382**	**7,375**	**3,941**	**2,816**
Expected Return On Assets	364	270	201	147
Contributions by Members	447	453	387	319
Contribution by Employer	1,063	1,164	1,100	613
Actuarial Gains/ (Losses)	1,917	133	1,756	49
Estimated Benefits Paid	(16)	(13)	(10)	(3)
Closing Fair Value of Employer Assets	**13,157**	**9,382**	**7,375**	**3,941**
Closing (Liability)	**(2,217)**	**(294)**	**(1,671)**	**(147)**

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

Projected IAS 19 charge to be charged to the Statement of Comprehensive Income for the year ended 31 March 2018:

	31 March 2018	
	£(000)	**% of pay**
Projected Current Service Cost	(1,595)	(34.91%)
Interest on Obligation	(442)	(9.7%)
Interest on Plan Assets	373	8.2%
	(1,664)	
Estimated Employer's contribution for the year ended 31 March 2018	894	
	(770)	

Sensitivity analysis:

Sensitivities at 31 March 2017	**Approximate % increase to Employer Obligation**	**Approximate monetary amount (£000)**
0.5% decrease in Real Discount Rate	14%	2,115
0.5% increase in the Salary Increase Rate	5%	810
0.5% increase in the Pension Increase Rate	8%	1,238

18. Share capital and retained earnings – Group and Company

	Group & Company 2017	**Group & Company 2016**
	£	**£**
Share capital		
Authorised, issued and fully paid – ordinary shares of £1 each		
As at beginning of period	2	2
Issued in the period	-	-
As at period end	2	2

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

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

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

19. Related party transactions

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

	2017	2016
	£	£
Scottish Government Funding received		
Revenue government funding cash received	8,502,785	8,107,233
Capital grant income	512,215	1,483,270
	9,015,000	9,590,503

	2017	2016
	£	£
Statement of Comprehensive Income		
Capital grant income funding income – released in period	88,016	68,819
Revenue government funding recognised	11,470,052	7,464,707
Capital grant income	512,215	1,483,270

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

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

19. Related party transactions (continued)

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

	2017	2016
	£	£
Statement of Financial Position		
Accrued income in respect of the pension liability	2,217,000	294,000
Deferred income – funding received in advance of costs incurred	(36,239)	(1,292,752)
Loan from the Scottish Government	8,016,346	5,630,365

Noble Grossart Limited

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

	2017	2016
	£	£
Income Statement		
Expense for secretarial and administrative support	4,292	6,738
Statement of Financial Position		
Balance included in other creditors and accruals	-	6,738

Remuneration in respect of the directors was as follows:

	2017	2016
	£	£
Executive directors' emoluments		
Emoluments	368,327	361,511
Pension costs	69,525	68,162
	437,852	429,673
Non-executive directors' fees	31,200	31,200

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

19. 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 10a.
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:

	2017	2016
	£	£
Statement of Financial Position		
Current assets – Investments (working capital loans)	-	100,000
Financial assets – subordinated debt	3,309,725	2,178,524
Trade and other receivables – accrued interest income	583,314	352,250
Trade and other receivables – hub director fees	1,894	1,845
Income statement		
Other income – hub director fees	3,156	6,075
Other income – Interest income	234,815	173,208
Capital grant expenditure	122,413	37,968

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 10a.
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:

	2017	2016
	£	£
Statement of Financial Position		
Financial assets – subordinated debt	4,593,828	4,104,988
Trade and other receivables – accrued interest income	933,159	470,019
Income statement		
Other income – Interest income	508,180	379,910
Capital grant expenditure	-	8,824

19. 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 10a.
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:

	2017	2016
	£	£
Statement of Financial Position		
Financial assets – working capital loans	-	100,000
Financial assets – subordinated debt	2,902,690	2,271,990
Trade and other receivables – accrued interest income	-	1,688
Income statement		
Other income – interest income	247,535	166,164
Capital grant expenditure	-	44,938

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 10a.
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:

	2017	2016
	£	£
Statement of Financial Position		
Financial assets – working capital loans	100,000	100,000
Financial assets – subordinated debt	697,542	698,604
Trade and other receivables – accrued interest income	111,110	43,914
Trade and other payables	-	7,410
Income statement		
Other income – interest income	79,309	19,041
Capital grant expenditure	389,801	414,302

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

19. 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 10a.

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:

	2017	2016
	£	£
Statement of Financial Position		
Financial assets – working capital loans	100,000	100,000
Financial assets- subordinated debt	2,053,225	1,664,229
Trade and other receivables – accrued interest income	182,132	104,914
Trade and other payable	-	-
Income statement		
Other income – hub director fees	10,590	30,500
Other income – interest income	101,036	54,771
Capital grant expenditure	-	977,236

LAR Housing Trust

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

	2017	2016
	£	£
Statement of Financial Position	-	-
Income statement – secondment of staff	-	74,455

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

19. 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. Details of material transactions with Hub Community Foundation are noted below:

	2017	2016
	£	£
Statement of Financial Position	-	-
Income statement	-	-

20. Commitments under operating leases – Group and Company

At 31 March 2017, the Company had outstanding total commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2017	2016
	£	£
Office Premises (rent and service charges)		
Due less than one year	110,400	110,400
Due in more than one year and less than five years	257,600	331,200
Due in more than five years	-	36,800
	368,000	478,400

21. Financial Instruments

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

Interest rate risk

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

Credit Risk

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

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

21. Financial Instruments (continued)

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

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

22. Ultimate Controlling Party

The Company is wholly-owned by the Scottish Ministers.

23. 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.

OFFICERS AND PROFESSIONAL ADVISORS

Directors

Ian Russell (Chairman) – appointed 1 January 2017
Sir Angus Grossart (Chairman) – resigned 31 December 2016
Graeme Bissett (Non-executive Director)
James Fletcher (Non-executive Director)
Fiona Mackenzie (Non-executive Director)
Carolyn Dwyer (Non-executive Director)
Ann Faulds (Non-executive Director) – appointed 1 April 2017
Graham Watson (Non-executive Director) – appointed 1 April 2017
Barry White (Chief Executive)
Peter Reekie (Deputy Chief Executive and Director of Investments)

Chief Executive

Barry White

Registered Office & Principal Place of Business

11-15 Thistle Street
Edinburgh
EH2 1DF

Registered Company Number

SC348382

Auditor

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

Bankers

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

Website

www.scottishfuturestrust.org.uk