

University of the Highlands and Islands

Report and Financial Statements For the year ended 31 July 2014

Contents

Operating and Financial Review	2 - 9
Corporate Governance and Internal Control	10 - 17
Statement of the Responsibilities of the University Court	18
Statement on the System of Internal Control	19
Auditor's Report to the Court of the University of the Highlands and Islands	20 - 21
Group Income and Expenditure Account	22
Group Statement of Total Recognised Gains and Losses	23
Group Balance Sheet	24
University Balance Sheet	25
Group Cash Flow Statement	26
Notes to the financial statements	27 - 48

University of the Highlands and Islands
Operating and Financial Review for the year ended 31 July 2014

Nature, Objectives and Strategy of the University

The University of the Highlands and Islands (UHI) is a unique university in that it provides higher education through a partnership of thirteen Scottish colleges, research institutes and specialist institutions across the Highlands and Islands. These partners are separate legal entities which employ their own staff and assets in the delivery.

Through the partnership we are able to deliver to our students all the benefits of a tertiary institution, and we provide for Scotland an example of how institutional partnerships can work as one system. We provide educational pathways and lifelong learning opportunities to every student. These range from well-qualified school-leavers to students who were once excluded from higher education by geography and social circumstances. We are developing research and knowledge transfer in every partner. This is helping to provide a 'knowledge economy', not just for the Inverness area but also for fragile island communities and other sparsely populated communities across the region.

The partnership is transforming the economic, social and cultural life of the Highlands and Islands by delivering a university for the region with national and international ambitions. The university will continue to develop general programmes for providing skills, training and education to the people of the Highlands and Islands. We will also continue to develop a range of degrees that reflect the distinctive environment, history, linguistic identity and culture of the area. The knowledge economy needs a university that is active in carrying out research, and that has a programme for bringing intellectual products to the marketplace and for knowledge transfer. We will carry out an increasing amount of research, and work with other institutions – especially with the universities of Aberdeen, Edinburgh and Strathclyde. We have signed an agreement with these universities through which they mentor the university to research strength as a precondition to the achievement of research Degree Awarding Powers (rDAP).

In 2012/13 the university benefited from the first tranche of 1,000 additional funded full time equivalent student places from the Scottish Funded Council (SFC) with a further 1500 places being offered over the following 3 years with 200 of these being in 2013/14. In addition we have also benefited over the past three years from a programme funded by European Social Fund (ESF) "Investing in Recovery" which also funded additional student places directly aimed at improving skills and employment prospects in the Highlands and Islands. We successfully recruited sufficient additional students to exceed targets set to attract maximum funding from both sources. The increased funded student numbers will enable us to continue to increase the number of degree students we are able to attract and in turn this will enable us to offer an increased breadth and volume of subjects and degree programmes appropriate for a regional university with national and international ambitions. This will assist us in achieving financial sustainability.

During the year we continued to implement our Strategic Plan for 2012-17 which was approved in early 2012 and reported satisfactory progress against key performance indicators to the University Court in October 2014. The plan sets out the purpose of the university as being "To have a transformational impact on the development and prospects of the region, its people and its communities." Our vision is to be the University **in, for and of** the Highlands and Islands. A copy of the Strategic Plan setting out our aims and objectives from 2012 to 2017 for the UHI partnership is available on our website www.uhi.ac.uk

Operating and Financial Review (continued)

Strategic Report - Current and Future Development and Performance

The Post 16 Education (Scotland) Act 2013 setting out structures for the regionalisation of further education in Scotland was given Royal Assent in July 2013. The main provisions of this Act came into force on 1 August 2014. It identifies the University of the Highlands and Islands as a Regional Strategic Body with responsibilities for planning, delivery, monitoring and efficiency savings in further education across the Highlands and Islands area.

In setting out its plans for regionalisation of further education and ensuring greater links between schools, colleges and universities, the Scottish Government recognised that UHI is in a unique position to integrate further and higher education as a tertiary institution. In accordance with the Act further education funding for the Highlands and Islands is being distributed through UHI to eight assigned colleges (who are existing academic partners of UHI) from the 2014/15 academic year. The academic partners who have been designated assigned colleges from 1 August 2014 are Moray, Perth, Inverness, Lews Castle, North Highland, Shetland, Orkney and West Highland. The University Court is now the accountable body for both higher and further education performance in line with a single outcome agreement with the Scottish Funding Council (SFC) from that date. The changing nature of UHI's role required a change to the governance and management structure of the university. A Governance Working Group made recommendations on these changes to the Cabinet Secretary for Education and Lifelong Learning on 1 October 2012. The University Court approved these recommendations and many of these were implemented during 2012/13 to ensure preparedness for the university's new responsibilities. During 2013/14 the remainder of these recommendations were implemented. These included the appointment of a Vice Principal Further Education and a Vice Principal Research, finalising the reconstitution of the University Court including the appointment of a Chair and the remaining new members and recruiting an independent chair and members to the UHI FE Regional Board which is the committee of Court with delegated authority to ensure effective oversight of its further education responsibilities.

The Privy Council granted approval to the revised Articles of Association of UHI on 8 July 2014 allowing the new governance arrangements to be fully implemented and the new Court to assume responsibility from that date.

We continue to focus on achieving research Degree Awarding Powers (rDAP) which are a prerequisite for a university in Scotland. Our application to the Quality Assurance Agency for Higher Education is currently being prepared with a proposed submission date of December 2014. A formal assessment panel is expected to visit the university during the spring of 2015. If successful, UHI would then have the power to grant research degrees from the start of academic year 2015/16 marking the final milestone in our journey to full university status. The achievement of rDAP is a strategic priority for the university along with the priorities of:

- Increasing and diversifying our student population, continuing our focus on widening access to those otherwise excluded from higher education through geography, social background or financial means. In addition we will increase recruitment of young entrants.
- Utilising our distinctive blended learning model to provide flexible opportunities relevant to students' needs and ambitions and to meet the needs of the economy and society.
- Providing a range of core curriculum to all of the communities of our region alongside a range of courses distinctive to our research strengths and the region's environment, cultural heritage, professions and industries and which will attract students from within our region and beyond.
- Sustaining and developing high impact research and knowledge exchange activities.
- Being able to invest in strategic initiatives and take advantage of new opportunities.

The university continues to pursue its optimisation of systems and services, and continues to focus on planning and implementing shared provision across the partnership.

Operating and Financial Review (continued)

Strategic Report - Current and Future Development and Performance (continued)

The university is currently revising its strategic plan to align its aims and objectives with its new dual sector responsibilities and refresh its higher education priorities as it moves to the next phase in its development. Following extensive consultation with both internal and external stakeholders, the new strategic plan will be published in the spring of 2015.

The university successfully delivered its second higher education outcome agreement in 2013/14 as required by the Scottish Funding Council. For 2014/15 we have negotiated a joint further and higher education agreement for the Highlands and Islands which will incrementally demonstrate shared outcomes between the two funding streams and in so doing underpin the tertiary nature of the institution.

The university's fundraising activities achieved significant success in the year despite the challenging economic environment. Donations totaling some £288,200 towards a range of projects were secured compared with £84,000 in the previous year.

The university increased its total student numbers with 5,580 (2012/13 - 5,275) full-time equivalents during the year, primarily from within the region. UHI continues to service the lifelong learning needs of the region with 17% (2012/13 - 20%) of students part-time and 53% (2012/13 - 55%) over 21 years of age at the start of their course.

Research Capacity

The university continues to develop and focus its research activities. The partnership continued to maintain its investment in its key strengths of Gaelic, based at Sabhal Mòr Ostaig UHI on Skye; Archaeology based at Orkney College UHI and Earth Systems and Environmental Sciences representing work at the Scottish Association for Marine Science UHI at Dunstaffnage and the Environmental Research Institute at North Highland College UHI. In addition to these areas, health and life sciences and history, research fields in which the university has invested significantly in recent years, have been submitted for assessment in the current Research Excellence Framework (REF) exercise. The results of this assessment will be published in December 2014 and will have a significant impact on the amount of research excellence funding which the university will be able to secure over the medium term. Each of these areas makes a major contribution to the profile required for the university to secure research degree awarding powers.

In the year the university continued to develop research support systems to ensure the quality and sustainability of its research.

In June 2014, the University Court approved the investment of £7m (£5.5m grant funded from EU, HIE and other sources) in the development of a partnership research facility at the new Inverness Campus which is scheduled to open in August 2015 along with a new flagship building for Inverness College UHI. This will replace their two existing locations at Longman and Midmills, Inverness.

The university continues to allocate part of its European Social Fund (ESF) budget to investing in twelve additional PhD students to enable them to study and research in disciplines which align with ESF thematic priorities and key economic sectors for the region. This project increases the opportunity for people in the Highlands and Islands to extend their educational and professional qualifications to doctorate level.

Staff Development

The university continued to ensure staff development and capacity building, delivering the staff development programme to embed scholarship and research across the partnership. Focused investment in staff development will continue to enhance the student experience.

Operating and Financial Review (continued)

Strategic Report - Current and Future Development and Performance (continued)

Student Residences

During the year the university undertook a major exercise to procure student residences in ten locations across our region. We are working towards securing a contract with the preferred bidder from that exercise which will deliver 725 residences over the next 5 years. This will improve the student experience and the attractiveness of the university to prospective students, particularly school leavers and those from other parts of Scotland, the UK and overseas.

Key Performance Indicators

Student numbers

The university continued to increase its student population.

<u>Total</u>	<u>2013/14</u>	<u>2012/13</u>
Heads	7,867	7,732
Full-time equivalents	5,580	5,275
<u>Scottish Funding Council funded</u>	<u>2013/14</u>	<u>2012/13</u>
Full-time equivalents	4,698	4,505

Student retention

The Higher Education Statistics Agency publishes annual performance indicators for all United Kingdom universities. One of these is a measure of student non-continuation of full-time students from first to second year. The data for non-continuation for 2012/13 to 2013/14 will be published in March 2015. The most recent data available, therefore, is as follows:

<u>Non-continuation</u>	<u>2012/13</u>	<u>2011/12</u>
Degree students	8.2%	12.8%
Benchmark	9.6%	12.7%
Other undergraduate students	13%	14.3%
Benchmark	17%	18.4%

The benchmark is the sector average adjusted to reflect the profile of students and subjects offered at each institution.

Student satisfaction

The university participated in the National Student Survey, conducted by Ipsos MORI on behalf of the United Kingdom funding councils. The key indicator in the survey is overall student satisfaction for which a benchmark is set for each institution, based on its student profile. The result for the University of the Highlands and Islands was as follows.

	<u>2013/14</u>	<u>2012/13</u>
Overall student satisfaction	84%	84%
Benchmark	87%	83%

Operating and Financial Review (continued)

Strategic Report - Current and Future Development and Performance (continued)

Resources and Principal Risks

The university's most significant source of income continues to be Scottish Funding Council (SFC) grants for teaching and research, which increased from £32.2m to £33.3m over the year.

As with all publicly funded organisations, the university expects that funds will be more difficult to secure as a result of government efforts to reduce public sector borrowing and has continued to plan prudently on that basis. We welcomed the ministerial guidance to the Scottish Funding Council for 2014/15 which continues to be supportive of higher education and recognises the need for further development of UHI including additional degree level provision. As a new university we continue to be heavily dependent on public funding with well over 90% of our income being derived from SFC and grants from the European Union (EU) and Highlands and Islands Enterprise (HIE). The university is in a unique position in helping to regenerate the economy of the Highlands and Islands and its resultant geographic wider access provision creates a high cost of delivery across a sparse and socio-economically vulnerable population.

Whilst continuing to make a strong case to the Scottish Government for increased resources to help us build a university which has both academic and financial strength we continue, in parallel, to pursue plans to diversify our income base to help secure long term financial sustainability.

The university continues to rely heavily on grant funding from HIE and the EU for investment projects as it has insufficient core funding for major developments. Over recent years, the university benefited from EU funding through our Strategic Delivery Body (SDB) status. The EU Structural Funds programme for 2007-14 is now in its final stages with final funding being paid in 2014/15. The projects which will continue to be supported through the European Regional Development Fund (ERDF) and European Social Fund (ESF) programmes are the new research facility at Inverness Campus, the postgraduate research studentships and the Educational Development Unit.

We are currently working with strategic partners, particularly the Scottish Funding Council and HIE to plan for optimising EU funding from the next Structural Funds programme. The new key themes under which we hope to secure funding are "Developing Scotland's Workforce" and "Innovation".

Research is an essential part of the university's portfolio but viability is challenging in an environment when research excellence is increasingly rewarded over "new" areas, research council grants have reduced and charitable grants are much more difficult to secure. At the same time, the university needs to develop its capability and capacity to secure research degree awarding powers.

The university recognises that research activity carries significant risk to the organisation and seeks to mitigate these risks by working with our academic partners to work collaboratively with other institutions and develop new sources of funding.

The university's use of significant EU and other external funds also carries a high compliance cost and risk, particularly where the deadlines for spend are short, grant conditions and eligibility vary from funder to funder and projects are capital-intensive and complex.

The new responsibilities of the Post 16 Education (Scotland) Act 2013 bring new areas of risk to the university. These are being mitigated by strengthened governance and management arrangements.

Operating and Financial Review (continued)

Strategic Report - Current and Future Development and Performance (continued)

Value for Money

The University of the Highlands and Islands has continued to deliver its Value for Money Strategy through improved procurement processes to reduce costs, a rigorous partnership budget challenge exercise and a number of initiatives to share services and costs across the partnership whilst improving efficiency.

Review of Financial Activities

UHI's income increased by £1.7m in the year reflecting the increase in student funded places and an increase in tuition fee income.

Staff costs increased by £1.2m over the year. This increase includes the impact of the current pension service cost in excess of contributions as detailed in note 7. Other operating expenses increased by £1.9m in the year reflecting the increased SFC funding being distributed to our Academic Partners.

The outturn for the year ended 31 July 2014 was a surplus of £1.096m. This compares with a surplus of £2.27m in the previous year. The prior year surplus followed a conscious decision by the partnership to plan for a higher surplus in 2012/13 in order to facilitate a planned lower budgeted surplus in 2013/14.

As required by Generally Accepted Accounting Practice (GAAP), the university continues to implement Financial Reporting Standard 17 'Retirement Benefits' (FRS17). As a result the university is required to disclose a liability relating to current commitments of £10.405m (prior year £6.689m) on its balance sheet, decreasing net assets to £0.6m (prior year £2.8m). The actuarial loss on the pension scheme in the year of £3m (prior year actuarial gain of £0.05m) is dealt with in the Statement of Total Recognised Gains and Losses (STRGL).

Payments to Suppliers

The University of the Highlands and Islands complies with the CBI Prompt Payment Code and has a policy of paying its suppliers at the end of the month following the month of invoice, or on the suppliers' terms, if earlier. The effect of the university's policy is that its trade creditors at the year-end (excluding academic partner balances and transactions) represent 7 days purchases (2013 – 11 days) which is 1.8% of purchases (2013 – 3%).

Constitution

The University of the Highlands and Islands (previously UHI Millennium Institute) is a company limited by guarantee, incorporated on 24 December 1993 and has been established under the Further and Higher Education Act 1992. It is an exempt charity for the purposes of the Charities and Trustee Investment (Scotland) Act 2005. Under the terms of the Fundable Bodies (University of the Highlands and Islands) Order 2011, which came into effect in March 2011, the University of the Highlands and Islands was designated as an institution eligible to receive support from funds administered by the Scottish Funding Council (prior to March 2011, UHI Millennium Institute was designated as an institution eligible to receive support from funds administered by the Scottish Funding Council under the terms of the Designation of UHI Millennium Institute (Scotland) Order 2001).

Operating and Financial Review (continued)

Strategic Report - Current and Future Development and Performance (continued)

Leadership

Two new Vice Principals joined the staff complement during the year, one responsible for research and one responsible for further education, as recommended by the Governance Working Group. These posts supported the university's preparations to take on the new responsibilities of the Post 16 Education (Scotland) Act 2013.

Our previous Principal and Vice-Chancellor, James Fraser, retired on 31 December 2013. Dr Crichton Lang, the Deputy Principal, was appointed as Acting Principal from 1 January 2014 until 31 May 2014. Our new Principal and Vice Chancellor, Professor Clive Mulholland joined the university on 1 June 2014.

Chancellor

The Chancellor of the university is HRH The Princess Royal. The announcement of the appointment was made in November 2011 and Her Royal Highness was installed as Chancellor in June 2012.

During the year the Chancellor opened the new Portree Learning Centre for West Highland College UHI in September, presented honorary awards at the university's first Foundation Day in Fort William in November and opened the new Alexander Graham Bell building in Elgin for Moray College UHI in June.

Equal Opportunities and Widening Participation

The University is particularly focused on improving access to higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. In 2013 the university completed a single equality framework as required by the Equality Act 2010, which provides the over-arching ethos of promoting equality and diversity for the whole organisation. The Race, Disability and Gender Equality Duties are strong drivers to ensure that these values are mainstreamed into the policies and processes of the organisation, and the implementation of the action plans flowing from the equality duties is overseen by the Finance and General Purposes Committee. There is an established working group who undertake impact assessment of university policies, procedures and practices. The university has a programme of staff training, to cover all the strands of discrimination, which is compulsory for all staff, and subject to regular review and monitoring.

Professional Advisors

External auditors: Ernst & Young LLP
Bankers: Clydesdale Bank plc
Solicitors: Ledingham Chalmers

Elections

The company has elected to:

- (i) dispense with the laying of Accounts and Reports before the Company in general meeting in respect of the year ending 31 July 2003 and subsequent financial years.
- (ii) dispense with the holding of the Annual General Meeting for 2003 and subsequent years.
- (iii) dispense with the obligation to appoint Auditors annually.

Operating and Financial Review (continued)

Strategic Report - Current and Future Development and Performance (continued)

Company Secretary

The Chief Operating Officer and Secretary to the University of the Highlands and Islands, Fiona M Larg, is also the Company Secretary.

In signing this report, the University Court Members confirm that they have approved the Strategic Report in their capacity as Company Directors of the University of the Highlands and Islands.

Garry Coutts

Chairman

Ness Walk

INVERNESS

IV3 5SQ

17 December 2014

Copy documents may be requested from the above address.

Introduction

The University Court (Court) is the governing body of the University of the Highlands and Islands, and governs in accordance with the Articles of Association of the University of the Highlands and Islands (formerly UHI Millennium Institute), as amended by resolutions dated 6 March 1997, 21 September 1998, 23 March 2001, 4 November 2003, 23 June 2005, 27 March 2007, 22 September 2009, 15 February 2011 and 8 July 2014 pursuant to Sections 4 and 381A of the Companies Act 1985. The Court is committed to exhibiting best practice in all aspects of corporate governance. The Court is also the Board of Directors of the University of the Highlands and Islands. The Court conforms to the principles and guidelines set out in the Scottish Code of Good HE Governance published in July 2013. In the opinion of the Court, the university complies, or has a plan in place to comply during 2014/15, with the principles of the Scottish Code. The reconstitution of the University Court and recruitment of a new Principal and Vice Chancellor during the year meant that it was not possible to comply with the requirement under Main Principle 5 of the Code for all members of the governing body to be consulted on the performance of the Principal and Vice Chancellor and the requirement under Main Principle 16 of the Code for the University Court to review its effectiveness. Both of these principles will be complied with during 2014/15.

Governance Structure

The Court is responsible for the strategic direction of the university, for the university's system of internal controls, approval of major developments and capital projects, health and safety, and human resources matters, and receives reports from senior managers on the operation of the day-to-day business of the university. The Court is required to meet at least three times per year and met five times in the period from August 2013 – July 2014.

There is a clear division of responsibility between the roles of the Chairman and the Principal and Vice-Chancellor of the university. Under the Articles of Association the University Court delegates academic business to the Academic Council.

All Court members have access to the Chief Operating Officer and Secretary to the university, who is the Clerk to the Court and Secretary to the Company. The Chief Operating Officer and Secretary is responsible to the Court for ensuring that the Court complies with the requirements of the Scottish Funding Council, relevant legislation and sectoral norms for governance processes and procedures.

University Court – Membership

University Court – Membership - The following tables provide a summary of Court membership for the period 01 August 2013 to 31 July 2014. The size and composition of Court was reconstituted on 8 July 2014 following the passing of two Special Resolutions. This was to enable the University to take on new responsibilities associated with becoming the Further Education Regional Strategic Body for the Highlands and Islands as defined in the Post 16 Education (Scotland) Act 2013. The composition of the University Court is prescribed within Article 12.1 of the University's Articles of Association.

Corporate Governance and Internal Control (continued)

University Court – Membership (continued)

Current Members:

Category of membership	Period of office	Date appointed	NAME
Independent – appointed by Court	3 years	10/03/2014	Mr Garry Coutts (Chair) (formerly UHI Rector)
Principal & Vice-Chancellor	<i>Ex officio</i>	01/06/2014	Professor Clive Mulholland
President of the UHI Students' Association	<i>Ex officio</i>	01/07/2013	Ms Rachel Parker
Rector	<i>Ex officio</i>	06/12/2010	Mr Anton Edwards (formerly on Court as a representative of the UHI Foundation)
Staff member – elected by and from the staff	3 years	01/07/2013	Dr David Worthington
Staff member - elected by and from the staff	3 years	01/07/2013	Mrs Gillian Berkeley
Appointed Governor - FE Academic Partner Chair, appointed by the FE Academic Partners	3 years	15/05/2014	Mr Peter Campbell – Shetland College UHI
Independent - Chair of UHI FE Regional Board	<i>Ex officio</i>	28/03/2013	Dr Michael Foxley (formerly on Court as Chair of West Highland College UHI)
Independent – appointed by Court	3 years (renewable)	01/03/2004	Mr Andrew Rogers (formerly HIE representative)
Independent – appointed by Court	3 years (renewable)	01/10/2009	Ms Eileen Mackay
Independent – appointed by Court	3 years	01/07/2013	Mr James MacDonald
Independent – appointed by the Chief Executives of each of the Local Authorities	3 years	10/07/2013	Mr Malcolm Burr
Independent – appointed by Court	3 years	01/07/2013	Mr William Printie
Independent – appointed by Court	3 years	01/07/2013	Professor Fiona McLean (Vice Chair)
Independent – appointed by Court	3 years	22/10/2013	Dr David Alston
Member of Title Management Group	Sponsor University Governor	07/01/2008	Professor Kenneth Miller – University of Strathclyde

Corporate Governance and Internal Control (continued)

University Court – Membership (continued)

Former members

Category of membership	Period of office	Date terminated	NAME
Principal & Vice-Chancellor	<i>Ex officio</i>	31/12/2013	Mr James Fraser – Mr Fraser retired on 31 st December 2013
Principal & Vice-Chancellor	<i>Ex officio</i>	01/06/2014	Dr Crichton Lang – Interim position following retirement of Mr Fraser
Academic Partner Chair	3 years	25/09/2013	Murray McCheyne - Highland Theological College UHI
Independent Member	3 years	30/09/2013	Hugh Morison
Independent Member	3 years	05/12/2013	Steven Thomson
FE Academic Partner Representative & Academic Partner Chair	3 years	14/05/2014	Drew Ratter – Shetland College UHI
Independent Member	3 years	18/06/2014	Professor Norman Sharp
Academic Partner Chair	3 years	09/07/2014	Dr Jana Hutt – Moray College UHI
Academic Partner Chair	3 years	09/07/2014	Rev Dr Bruce Ritchie – Highland Theological College UHI
Academic Partner Chair	3 years	09/07/2014	Niall Smith – North Highland College UHI
Independent Member	3 years	09/07/2014	Professor Matthew Maclver (Chair)
Independent Member	3 years	09/07/2014	Professor Donald MacRae
Independent Member	3 years	09/07/2014	Professor William McKelvey
Independent Member	3 years	09/07/2014	Iain Scott
Sponsor University Representative	Not applicable	09/07/2014	Dr Alexander (Alistair) Mair
Sponsor University Representative	Not applicable	09/07/2014	Dr Donald (Bruce) Nelson

Corporate Governance and Internal Control (continued)

University Court – Membership (continued)

Attendance at the University Court is recorded at each meeting. Generally, inadequate attendance is dealt with by self-regulation in discussion with the Chair and Secretary of the Court. The Court reviews its performance by periodic external scrutiny from UHI's internal auditors and by periodic measurement against national guidelines. Attendance at some committee meetings had been poorer than normal due to the transition arrangements to the new Court. A quorum was ensured at each meeting and where this was not possible decisions were homologated by the Committee at the following meeting.

As the University Court has now been reconstituted and many members have finished their term of office, the Chairman and Principal and Vice-Chancellor wish to record their thanks for the commitment and dedication given by these members to the good governance of the University.

Sponsor Universities

Under the arrangements set in place for UHI's process towards the receipt of university title and subsequently, research degree awarding powers, a contract was signed with the universities of Aberdeen, Edinburgh and Strathclyde, the "sponsor universities" setting out their role. The university's Articles of Association permit the three sponsor universities to jointly appoint one governor to the Court of the University of the Highlands and Islands who shall be a member of the Title Management Group.

Committees of the University Court

The Court exercises its role with the support of several committees. The Court approves the remits and memberships of the committees. The decisions and recommendations of these committees are formally reported to the Court. The Committees comprise the Finance and General Purposes Committee, the Audit Committee, the Nominations Committee, the Remuneration Committee, the Honorary Awards Committee and Title Management Group. The remit of each of the Court committees is set out below..

In recognition of the new governance arrangements being put in place to reflect the new responsibilities of the University Court set out in the Post 16 Education (Scotland) Act 2013, the Court formally recognised the Shadow Court (which took over responsibility for university governance from the date when formal consent to revised Articles of Association was granted) and the Further Education Regional Board as committees of the Court with effect from 18 June 2013.

Revised membership of each of the committees of Court was approved by Court on 18 June 2014. The table below shows attendances relative to the number of meetings which the member was eligible to attend. It should be noted that during the year the Court was in the process of being reconstituted to align its membership to its revised responsibilities under the Post 16 Education (Scotland) Act 2013. This resulted in a Shadow Court, comprising new Court members, meeting in parallel with the main University Court for much of the year to ensure a smooth handover. These transition arrangements, however, resulted in a number of additional meetings being held, some of which had to be called at relatively short notice. This inevitably impacted on attendance during the year.

Corporate Governance and Internal Control (continued)

Current Members Attendance Summary (1 August 2013 – 31 July 2014) - University Court and Senior Committees

	University Court & Shadow Court	Audit Committee	Finance & General Purposes Committee	Remuneration Committee	Attendance %
Mr Garry Coutts	8 of 8		0 of 1	2 of 2	91%
Professor Clive Mulholland	1 of 1		1 of 1	1 of 1	100%
Rachel Parker	6 of 8				75%
Mr Anton Edwards	3 of 4				75%
Dr David Worthington	6 of 8				75%
Mrs Gillian Berkeley	5 of 8				62%
Mr Peter Campbell	1 of 1				100%
Dr Michael Foxley	8 of 8				100%
Mr Andrew Rogers	7 of 8		3 of 4		83%
Mrs Eileen Mackay	5 of 8	2 of 2	3 of 4	2 of 2	75%
Mr James MacDonald	2 of 8	3 of 4		2 of 2	50%
Mr Malcolm Burr	5 of 7		1 of 1		75%
Mr William Printie	6 of 8				75%
Professor Fiona McLean (Vice Chair)	6 of 8				75%
Dr David Alston	3 of 6			2 of 2	62%
Professor Kenneth Miller	1 of 8				12%

Audit Committee

The Audit Committee meets four times per annum and advises and reports to the Court on external and internal audit matters and keeps under review the effectiveness of the risk management, control and governance arrangements and in particular reviews the external auditor's management letter, the internal auditor's reports and management responses and the annual report of the internal auditor.

Corporate Governance and Internal Control (continued)

Finance and General Purposes Committee

The Finance and General Purposes Committee meets on a regular basis (usually once every eight weeks) to advise the Court on a range of financial and related matters, to oversee the system of financial control and administration, to recommend budgets, monitor progress against these, approves activities within its delegated authority from the Court and advises the Court on all employment, industrial relations, health and safety and equality and diversity issues.

Remuneration Committee

The Remuneration Committee is chaired by an independent member of Court. The Committee is delegated by the Court to implement the remuneration policy approved by the Court including setting the salaries of senior staff and approving any changes thereto. Although the Principal and Vice-Chancellor is a member of the Committee he is not involved in setting his own remuneration. The Committee also approves any general movements in staff salaries e.g. annual inflationary rises. In respect of the former task the Committee commissions external advice drawn both from the universities and college sector and elsewhere. In respect of the latter the Committee consider annual inflationary trends, national and local market forces and benchmarks including salary movements implemented by the university's academic partners.

Further Education Regional Board

The Further Education Regional Board is a committee of the University Court charged with the oversight of the further education responsibilities of UHI as a regional strategic body. It was established in 2013, ahead of the implementation of the Post 16 Education (Scotland) Act 2013 to ensure that planning could be undertaken, data collected and processes established prior to UHI taking on full responsibility from 1 August 2014. The board meets on a quarterly basis and reports to each meeting of the University Court.

Nominations Committee

The Nominations Committee is chaired by the Chair of the Court. The Committee meets on an "as required" basis to review the membership of the University Court, to seek new members when vacancies arise and to ensure that the committees of the Court are fully populated by members in line with their agreed remit and composition. In seeking new members of Court the Nominations Committee draws up a specification of the balance of skills and professional expertise which is deemed useful to the Court and seeks to implement the university's policies in respect of equality and diversity.

Honorary Awards Committee

The Honorary Awards Committee is chaired by the Chair of Court and meets on an "as required" basis to recommend potential recipients of university fellowships and honorary awards.

Corporate Governance and Internal Control (continued)

Foundation

Foundation, a body through which the people of the Highlands and Islands may influence and support the development of the University of the Highlands and Islands, is an important element in the constitution of the university. Foundation requires to be consulted on any proposal to amend the mission statement of the university and its approval is required for constitutional change and for changes to academic partner agreements.

Foundation met on two occasions throughout the year to receive a report from the Principal and Vice-Chancellor on the work of the university, to receive annually the audited accounts of UHI and to appoint members as required to the University Court. The alterations to the Articles of Association approved on 8 July 2014 cover changes to the role of Foundation. These are:

- only the Rector is now appointed to the University Court from Foundation (formerly 3 members were elected by Foundation).
- Foundation no longer approved the admission of a new academic partner but is consulted on this matter.

Foundation elected Anton Edwards as Rector on 29 May 2014.

Foundation may of its own accord discuss and declare an opinion on any other matter relating to the university and its resolution or opinion on any matter aforesaid shall be conveyed by the Principal and Vice-Chancellor to the next meeting of the University Court.

Title Management Group

The Title Management Group was established to support and monitor the university's research activities to ensure the successful achievement of research degree awarding powers following the achievement of title. The group comprises representatives of the three universities who are sponsoring UHI to achieve research degree awarding powers, Aberdeen, Strathclyde and Edinburgh together with the University of the Highland and Islands Principal and Vice-Chancellor and chair of the Research Committee, the Vice Principal Research.

Academic Council

The Academic Council is responsible for issues relating to research, scholarship, teaching and courses of the university, the development of academic activities and the granting and conferring of degrees and other academic awards.

The membership of Academic Council was amended to substantially reduce the number of members from 54 by the revised Articles of Association approved on 8 July 2014.

Going Concern

The company is required to adopt the accounting requirements of Financial Reporting Standard 17 'Retirement Benefits'. This has resulted in a pension liability of £10.405m at the balance sheet date. This represents the company's allocation of the deficit in the Highland Council Pension Fund at 31 July 2014 (see note 23). The volatility in the stock markets and actuarial assumptions can cause large fluctuations in the pension scheme deficit which can move the company's unrestricted funds into deficit at any time. At 31 July 2014, the company had a deficit in its unrestricted fund. This scheme deficit represents a long term liability to pay additional pension contributions in the future based on actuarial estimates and calculations. The company continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 17 accounting adjustments and the University Court is therefore of the opinion that the company is a going concern.

Corporate Governance and Internal Control (continued)

Disclosure of information to Auditors

The members of the University Court who were members at the time of approving the accounts are listed on page 11. Having made enquiries of fellow University Court members and the university's auditors, each of these Court members confirms that:

- to the best of each Court member's knowledge and belief, there is no information relevant to the preparation of their report of which the university's auditors are unaware; and
- each Court member has taken all the steps a member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the university's auditors are aware of that information.

Signed on behalf of the University

Garry Coutts
Chair of University Court

Professor Clive Mulholland
Principal and Vice-Chancellor

17 December 2014

University of the Highlands and Islands

Statement of the Responsibilities of the University Court for the year ended 31 July 2014

The Court of the University of the Highlands and Islands is responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Court of the University of the Highlands and Islands is required to present audited financial statements for each financial year. Within the terms and conditions of the Financial Memorandum agreed between the Scottish Funding Council and the University of the Highlands and Islands, the university, through its Principal and Vice-Chancellor, is required to prepare financial statements for each financial year in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions – and which give a true and fair view of the state of affairs of the university and the result for that year.

In preparing the financial statements, the university is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the university will continue in operation.

The University of the Highlands and Islands is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the university. The university must ensure that the financial statements are prepared in accordance with the relevant legislation of the company and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it to safeguard assets of the university and to prevent and detect fraud and other irregularities.

The University Court is responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Council and any other conditions that the Council may from time to time prescribe. The University Court must ensure that there are appropriate financial and management controls in place to safeguard public and other funds and ensure they are used properly. In addition, the University Court is responsible for securing economical, efficient and effective management of the university's resources and expenditure, so that the benefits that should be derived from the application of public funds by the Council are not put at risk.

Signed on behalf of the University

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

17 December 2014

The University Court is responsible for the System of Internal Control and for reviewing its effectiveness. It is the responsibility of the Director of Finance to ensure that an effective system of internal financial control is maintained and operated by the University of the Highlands and Islands. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the University Court;
- regular reviews by the University Court of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- the adoption of formal project management disciplines where appropriate.

The University of the Highlands and Islands has an internal audit process, which operates in accordance with the requirements of the Scottish Funding Council. The work of the internal audit function is informed by an analysis of the risks to which the university is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the University Court on the recommendation of the Audit Committee. At least annually, the Internal Auditor provides the University Court with a report on internal audit activity in the university. The report includes the Internal Auditor's independent opinion on the adequacy and effectiveness of the university's system of Risk Management, Control and Governance.

There is a process for identifying, evaluating and managing the university's significant risks. This has been formalised in line with the internal control guidance for Directors contained in the UK Corporate Governance Code, June 2010, in so far as it applies to the higher education sector, and has taken due regard to the Turnbull Committee guidance on internal control as amended by the British Universities Finance Directors Group in its 2006 guidance. The risk management policy has been approved by the University Court and the high level risk register of the university is regularly reviewed by a Risk Review Group, the Finance and General Purposes Committee and approved by the University Court.

UHI's review of the effectiveness of the system of internal control is informed by a number of factors: (i) the work of the internal auditors; (ii) the Audit Committee which oversees the work of internal audit and external auditors; (iii) the executive managers within the university who have responsibility for the development and maintenance of the internal control framework; and (iv) the work of the university's external auditors.

Signed on behalf of the University

**Garry Coutts
Chairman**

**Professor Clive Mulholland
Principal and Vice-Chancellor**

17 December 2014

University of the Highlands and Islands

Independent Auditor's Report to the Court of the University of the Highlands and Islands for the year ended 31 July 2014

We have audited the financial statements of UHI for the year ended 31 July 2014 which comprise the Group Income and Expenditure Account, the Group Statement of Total Recognised Gains and Losses, Group and University Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the University Court, as a body, in accordance with our appointment under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Court 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 University Court as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University Court and auditors

As explained more fully in the University Court Responsibilities Statement set out on page 17, the Court are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

Our responsibility is to audit 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Court; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent Auditor's Report to the Court of the University of the Highlands and Islands (continued)

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the University and of the Group as at 31 July 2014 and of the surplus of the Group's income over expenditure and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006,
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act) and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).

Opinion on matters required by the Scottish Funding Council

In our opinion the financial statements:

- have been prepared in accordance with the requirements of the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions and the Institution's Articles of Association;
- funds from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the Institution have, in all material respects, been applied only for the purposes for which they have been received; and
- income has in all material respects, been applied in accordance with the Institution's Articles of Association and, where appropriate, with the financial memorandum with the Scottish Funding Council.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the University Court's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

Peter Mearns (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Inverness
Date:

University of the Highlands and Islands

Group Income and Expenditure Account for the year ended 31 July 2014

	Notes	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Income			
Funding Council Grants	2	33,281	32,249
Tuition fees and education contracts	3	9,571	8,594
Research grants and contracts	4	2,169	2,104
Other income	5	4,927	5,277
Endowment and investment income	6	83	84
Total income		50,031	48,308
Expenditure			
Staff costs	7	9,683	8,476
Other operating expenses	9	38,773	36,825
Interest payable	10	110	93
Depreciation	13	369	644
Total expenditure		48,935	46,038
Surplus on continuing operations after depreciation of tangible fixed assets and disposal of assets and before tax	12	1,096	2,270
Taxation	11	-	-
Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve		1,096	2,270

The income and expenditure account is in respect of continuing activities.

University of the Highlands and Islands

Group Statement of Total Recognised Gains and Losses for the year ended 31 July 2014

	Notes	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve	12	1,096	2,270
Actuarial (loss)/gain on pension scheme	23	(2,997)	49
Total recognised (losses)/gains relating to the year		<u>(1,901)</u>	<u>2,319</u>
Reconciliation			
Opening reserves (including pension fund adjustments)	18	219	(2,100)
Total recognised (losses)/gains for the year		(1,901)	2,319
Closing reserves		<u>(1,682)</u>	<u>219</u>

**University of the Highlands and Islands
Group Balance Sheet as at 31 July 2014**

	Notes	2014 £000	2013 £000
Fixed assets			
Tangible assets	13	4,435	4,690
Current assets			
Debtors	15	2,595	2,750
Cash at bank and in hand		10,613	7,885
Student support funds account		150	75
		<u>13,358</u>	<u>10,710</u>
Creditors: amounts falling due within one year	16	(6,760)	(5,928)
Net current assets		<u>6,598</u>	<u>4,782</u>
Total assets less current liabilities		11,033	9,472
Creditors: amounts falling due after one year		-	-
NET ASSETS EXCLUDING PENSION LIABILITY		<u>11,033</u>	<u>9,472</u>
Pension Liability	23	(10,405)	(6,689)
NET ASSETS INCLUDING PENSION LIABILITY		<u>628</u>	<u>2,783</u>
Deferred capital grants	17	2,310	2,564
General reserve excluding pension scheme adjustments	18	8,723	6,908
Pension reserve	23	(10,405)	(6,689)
Total reserves		<u>(1,682)</u>	<u>219</u>
TOTAL		<u>628</u>	<u>2,783</u>

The financial statements on pages 21 to 48 were approved by the University Court on 17 December 2014 and were signed on its behalf by: -

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

University of the Highlands and Islands
University Balance Sheet as at 31 July 2014

	Notes	2014 £000	2013 £000
Fixed assets			
Tangible assets	13	4,435	4,690
Investments	14	-	-
		<u>4,435</u>	<u>4,690</u>
Current assets			
Debtors	15	2,675	2,754
Cash at bank and in hand		10,379	7,748
Student support funds account		150	75
		<u>13,204</u>	<u>10,577</u>
Creditors: amounts falling due within one year	16	(6,606)	(5,795)
Net current assets		<u>6,598</u>	<u>4,782</u>
Total assets less current liabilities		11,033	9,472
Creditors: amounts falling due after one year		-	-
NET ASSETS EXCLUDING PENSION LIABILITY		<u>11,033</u>	<u>9,472</u>
Pension Liability	23	(10,405)	(6,689)
NET ASSETS INCLUDING PENSION LIABILITY		<u>628</u>	<u>2,783</u>
Deferred capital grants	17	2,310	2,564
General reserve excluding pension scheme adjustments	18	8,723	6,908
Pension reserve	23	(10,405)	(6,689)
Total reserves		<u>(1,682)</u>	<u>219</u>
TOTAL		<u>628</u>	<u>2,783</u>

The financial statements on pages 21 to 48 were approved by the University Court on 17 December 2014 and were signed on its behalf by: -

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

University of the Highlands and Islands
Group Cash Flow Statement for the year ended 31 July 2014

	Notes	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Cash inflow from operating activities	19	2,834	3,507
Returns on investments and servicing of finance	6, 20	83	84
Capital expenditure and financial investment	21	(114)	(24)
Increase in cash in the year		<u>2,803</u>	<u>3,567</u>
Reconciliation of net cash flow to movement in net Funds			
Increase in cash in the year		<u>2,803</u>	<u>3,567</u>
Movement in net funds in the year		2,803	3,567
Net funds at 1 August		7,960	4,393
Net funds at 31 July	22	<u>10,763</u>	<u>7,960</u>

University of the Highlands and Islands
Notes to the Financial Statements for the year ended 31 July 2014

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

1. Principal Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable Accounting Standards.

Going concern

The company is required to adopt the accounting requirements of Financial Reporting Standard 17 'Retirement Benefits'. This has resulted in a pension liability of £10.405m at the balance sheet date. This represents the company's allocation of the deficit in the Highland Council Pension Fund at 31 July 2014 (see note 23). The volatility in the stock markets and actuarial assumptions can cause large fluctuations in the pension scheme deficit which can move the company's unrestricted funds into deficit at any time. At 31 July 2014, the company had a deficit in its unrestricted fund. This scheme deficit represents a long term liability to pay additional pension contributions in the future based on actuarial estimates and calculations. The company continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 17 accounting adjustments and the University Court is therefore of the opinion that the company is a going concern.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking, UHI Research and Enterprise Limited, for the year ended 31 July 2014. Intra-group transactions are eliminated on consolidation. The University has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own profit and loss account.

Recognition of income

Income from grants, contracts and other services rendered, including research grants and contracts, is included to the extent of the completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Recurrent grants from the Funding Council are recognised in the period in which they are recoverable.

Non-recurrent grants from the Funding Council, or other bodies, received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from tuition fees is recognised in the period for which it is received and includes all fees chargeable to students.

Pension schemes

The two principal pension schemes for staff are the Local Government Pension Scheme (LGPS) and the Universities' Superannuation Scheme (USS).

The LGPS is a defined benefit scheme and has been fully disclosed under FRS17 regulations in the accounts and notes.

Notes to the Financial Statements (continued)

Pension Schemes (continued)

On the advice of an independent qualified actuary, contribution payments are made to the plan to ensure that the plan's assets are sufficient to cover future liabilities. Pension plan assets are measured using market values.

Pension plan liabilities are measured using the projected unit method and discounted by the yield available on long-dated, high quality corporate bonds. Any increase in the present value of the liabilities of the defined benefit pension plan expected to arise from employee service in the period is charged against operating surplus. The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities arising from the passage of time are included in income and expenditure. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The USS Scheme is a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The university is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, and therefore, as required by FRS17 "Retirement Benefits" accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Tangible fixed assets

Land and Buildings

Land, where it can be separately identified and valued, is not depreciated.

Buildings and land which cannot be separately valued are depreciated over their useful economic life on a straight-line basis over 50 years.

Where buildings are acquired with the aid of specific grants, they are capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related building.

Leasehold improvements costing more than £5,000 are capitalised and depreciated over the term of the lease. Where they have been acquired with the aid of specific grants, the related grant is credited to a deferred capital grant account and released to the income and expenditure account over its expected useful economic life.

Equipment

Equipment costing less than £5,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

Assets are depreciated over their useful economic life as follows:

Computer equipment costing more than £5,000	-	33.3% per annum
Research equipment costing more than £5,000	-	20% per annum
Furniture and fittings costing more than £5,000	-	20% per annum

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Celtica and Theological Collections are not depreciated, as the university is required to maintain the collection in such condition that its value is not impaired over life.

Notes to the Financial Statements (continued)

Leased assets

Operating Leases.

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Investments

Unlisted investments are stated at cost less any provision for impairment of their value.

Foreign currency translation

Foreign currency transactions are translated at the exchange rate ruling on the date the transactions occurred. Where income is received on behalf of European project partners and passed on with no translation to sterling, both income and expenditure are translated using the original exchange rate. At the balance sheet date, monetary assets and liabilities are translated using the closing exchange rate.

Taxation

The University is a charity within the meaning of the Charities and Trustee Investment (Scotland) Act 2005 and as such is a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010 and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (charity no. SC022228).

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Taxes Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

The university receives no similar exemption in respect of Value Added Tax (VAT). Irrecoverable VAT on inputs is included in the cost of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

Provisions

Provisions are recognised when the university has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2. Funding Council Grants

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
SFC recurrent grant (including fee waiver)	28,928	27,508
SFC recurrent research grant	2,661	2,352
SFC non-recurrent research grant	432	699
CIF grants	972	844
Release of deferred capital grants	47	162
Other SFC grants	241	684
	33,281	32,249

Notes to the Financial Statements (continued)

3. Tuition Fees and Education Contracts

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Scotland and EU Fees	7,858	6,777
Rest of UK (old fee rates)	47	100
Rest of UK (new fee rates)	482	313
Non-EU fees	1,165	1,377
Non-credit bearing course fees	1	-
Education contracts	-	17
Other contracts	18	10
	9,571	8,594

4. Research Grants and Contracts

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Research Councils and charities	475	340
Industry and commerce	298	437
Governmental	613	372
EU	429	556
Other	354	399
	2,169	2,104

5. Other Income

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Other income generating activities	490	455
EU grant income	2,992	3,139
Enterprise agency grants	265	693
Other grant income	6	5
Other income	966	659
Deferred capital grant release	208	326
	4,927	5,277

6. Endowment and Investment Income

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Other interest receivable	83	84
	83	84

Notes to the Financial Statements (continued)

7. Staff Costs

The average monthly number of persons (including senior post-holders) employed by the university during the year, expressed as full-time equivalents, was:

	Year ended 31 July 2014 Number	Year ended 31 July 2013 Number
Administration and central services	131	117
Premises	1	1
Research grants and contracts	21	21
Academic/teaching departments	21	21
Academic services	38	36
	212	196
	Year ended 31 July 2014	Year ended 31 July 2013
Analysed as:		
Staff on permanent contracts	190	164
Staff on short-term and temporary contracts	22	32
	212	196

Most teaching staff are employed and paid by the university's academic partners and are therefore not included in the numbers above.

Staff costs for the above persons:

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Wages and salaries	7,404	6,615
Social security costs	600	546
Other pension costs - contributions	1,069	946
- current service cost in excess of contributions	610	369
	9,683	8,476
Administration and central services	5,409	4,577
Premises	46	43
Research grants and contracts	944	948
Academic/teaching departments	3,284	2,908
	9,683	8,476

Notes to the Financial Statements (continued)

8. Senior Post-holders' Emoluments

The number of staff, including senior post-holders and the Principal and Vice-Chancellor, who received emoluments in the following ranges, excluding employers pension and employers national insurance contributions was:

	Year ended 31 July 2014 Number	Year ended 31 July 2013 Number
£ 70,001 to £ 80,000	6	2
£ 80,001 to £ 90,000	2	2
£ 90,001 to £100,000	1	-
£100,101 to £110,000	-	1
£110,001 to £120,000	1	-
£120,001 to £130,000	1	-
£150,001 to £160,000	-	-
£160,001 to £170,000	-	-
£170,001 to £180,000	-	-
£180,001 to £190,000	-	1
	<u>11</u>	<u>6</u>

The emoluments payable to the Principal and Vice-Chancellor (who is also the highest paid senior post-holder) were:

	New Principal £000	Acting Principal £000	Retiring Principal £000	Year Ended 31 July 2014 £000	Year Ended 31 July 2013 £000
Salary	30	58	83	171	187
Benefits in kind	-	-	2	2	5
	<u>30</u>	<u>58</u>	<u>85</u>	<u>173</u>	<u>192</u>
Pension contributions	<u>3</u>	<u>9</u>	<u>13</u>	<u>25</u>	<u>29</u>

The periods of office for the retiring, acting and new Principals were as follows:

Retiring Principal – 1 August 2013 to 31 December 2013

Acting Principal – 1 January 2014 to 31 May 2014

New Principal – From 1 June 2014

The pension contributions in respect of the Principal and Vice-Chancellor are in respect of employer's contributions to the Defined Benefit Pension Scheme(s) and are paid at the same rate as for other employees.

The members of the university, other than the Principal and Vice-Chancellor did not receive any payment from the university other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

Notes to the Financial Statements (continued)

9. Other Operating Expenses

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Academic departments	27,532	25,142
Academic services	1,732	1,548
Administration and central services	3,710	3,308
Premises	803	819
Research grants and contracts	4,330	4,987
Agency staff	61	88
Other	605	933
	38,773	36,825

Distribution of grants to the academic partners for the delivery of higher education services throughout the Highlands and Islands are reflected in the appropriate categories noted above.

Other operating expenses include:

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
External auditors remuneration in respect of external audit services	33	34
External auditors remuneration in respect of other services	2	11
Internal auditors remuneration in respect of internal audit services	16	16
Hire of plant and machinery – operating leases	15	16
Hire of other assets – operating leases	312	293
Foreign exchange gain/(loss)	48	(3)

10. Pension Scheme Net Expected Return on Assets

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Expected return on pension scheme assets	1,023	721
Interest on pension liabilities	(1,133)	(814)
Net return	(110)	(93)

11. Taxation

The University is a charity within the meaning of the Charities and Trustee Investment (Scotland) Act 2005 and as such is a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010 and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (charity no. SCO22228).

The University is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Taxes Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

Notes to the Financial Statements (continued)

12. Surplus on Continuing Operations for the Year

The surplus on continuing operations for the year is made up as follows:

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Group and University's surplus for the year	1,096	2,270
	<u>1,096</u>	<u>2,270</u>

Notes to the Financial Statements (continued)

13. Tangible Fixed Assets

Group and University

	Land & Buildings	Leasehold Improvements	Celtica & Theological Collections	Video-conference Equipment	Computer Equipment	Research Equipment	Office Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost								
As at 1 August 2013	4,658	469	82	2,837	2,302	1,463	216	12,027
Additions	-	-	-	-	114	-	-	114
Disposals	-	-	-	-	-	-	-	-
As at 31 July 2014	4,658	469	82	2,837	2,416	1,463	216	12,141
Depreciation								
As at 1 August 2013	832	132	-	2,836	2,259	1,082	196	7,337
Charge for year	93	31	-	1	53	180	11	369
Depreciation on Disposals	-	-	-	-	-	-	-	-
As at 31 July 2014	925	163	-	2,837	2,312	1,262	207	7,706
Net Book Value								
As at 31 July 2014	3,733	306	82	-	104	201	9	4,435
As at 1 August 2013	3,826	337	82	1	43	381	20	4,690
Financed by: capital grant	1,747	286	82	-	-	189	4	2,308
Other	1,986	20	-	-	104	12	5	2,127
Net Book Value At 31 July 2014	3,733	306	82	-	104	201	9	4,435

The majority of assets across the partnership are owned by the university's academic partners and are therefore not included in the numbers above.

Notes to the Financial Statements (continued)

14. Fixed Asset Investments

University	Subsidiary Companies £
At 1 August 2013	1
Additions	-
At 31 July 2014	<u>1</u>

The University owns 100% of the issued ordinary share capital of UHI Research and Enterprise Limited, a company incorporated in Scotland. The company's principal activity is commercial research and consultancy. In the year the subsidiary had income of £171,746 (2013 - £113,913). The net profit of £38,775 (2013 - £100,755) was paid under gift aid to UHI (2013 - North Highland College). Net assets at 31 July 2014 are £1.

15. Debtors: Amounts Falling Due Within One Year

Group and University

	Group Year ended 31 July 2014 £000	University Year ended 31 July 2014 £000	Group Year ended 31 July 2013 £000	University Year ended 31 July 2013 £000
Trade debtors	323	219	567	567
Amounts due from subsidiary	-	185	-	4
Amounts due from Academic Partners and Sponsoring Universities	58	58	45	45
Prepayments and accrued income	2,214	2,213	2,138	2,138
	<u>2,595</u>	<u>2,675</u>	<u>2,750</u>	<u>2,754</u>

16. Creditors: Amounts Falling Due Within One Year

Group and University

	Group Year ended 31 July 2014 £000	University Year ended 31 July 2014 £000	Group Year ended 31 July 2013 £000	University Year ended 31 July 2013 £000
Payments received in advance	4,293	4,293	3,594	3,594
Trade creditors	369	369	317	317
Other taxation and social security	48	36	27	6
Accruals	1,899	1,757	1,914	1,802
Bursaries and Other Student Support Funds	151	151	76	76
	<u>6,760</u>	<u>6,606</u>	<u>5,928</u>	<u>5,795</u>

The BACS facility and credit card limits are secured by the Clydesdale Bank which holds a ranking agreement for £1.2m plus 12 months interest and charges.

Notes to the Financial Statements (continued)

17. Deferred Capital Grants

Group and University

	Funding Council £000	Other £000	Total £000
At 1 August 2013	119	2,446	2,565
Cash received and assets donated:			
Land & buildings	-	-	-
Equipment	-	-	-
Released to income and expenditure account:			
Land and buildings	(2)	(71)	(73)
Equipment	(45)	(137)	(182)
	<u>(72)</u>	<u>(2,238)</u>	<u>(2,310)</u>
At 31 July 2014			
Land and buildings	23	2,009	2,032
Equipment	49	229	278
	<u>72</u>	<u>2,238</u>	<u>2,310</u>

18. Movement on Reserves

Group and University

	General Reserve £000	Pension Reserve £000	Total £000
Income and Expenditure Account Reserve			
At 1 August 2013	6,908	(6,689)	219
Surplus on continuing operations for the year to 31 July 2014	1,096	-	1,096
Pension scheme loss for the year ended 31 July 2014	3,716	(3,716)	-
Actuarial loss on pension scheme	(2,997)	-	(2,997)
At 31 July 2014	<u>8,723</u>	<u>(10,405)</u>	<u>(1,682)</u>

Notes to the Financial Statements (continued)

19. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Surplus on continuing operations after depreciation of assets at valuation	1,096	2,270
Depreciation (note 13)	369	639
Loss on disposal of assets	-	3
FRS 17 pension adjustment	720	462
Deferred capital grants released to income (note 17)	(254)	(484)
(Increase) / decrease in debtors	(24)	500
Increase in creditors	1,010	201
Interest receivable (note 6)	(83)	(84)
Net cash inflow from operating activities	<u>2,834</u>	<u>3,507</u>

20. Returns on Investments and Servicing of Finance

	Year Ended 31 July 2014 £000	Year Ended 31 July 2013 £000
Other interest received	83	84
Net cash inflow from returns on investment and servicing of finance	<u>83</u>	<u>84</u>

21. Capital Expenditure and Financial Investment

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Purchase of tangible fixed assets	(114)	(56)
Deferred capital grants received	-	32
Net cash outflow from capital expenditure and financial investment	<u>(114)</u>	<u>(24)</u>

22. Analysis of Changes in Net Funds

	At 1 August 2013 £000	Cashflows £000	Other changes £000	At 31 July 2014 £000
Cash at bank and in hand	7,960	2,803	-	10,763
Total	<u>7,960</u>	<u>2,803</u>	<u>-</u>	<u>10,763</u>

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations

The university's employees belong to two principal pension schemes, the Local Government Pension Scheme (LGPS) and the Universities Superannuation Scheme (USS). The LGPS is administered by the Highland Council Pension Fund (HCPF). The university also operates a NEST scheme.

Local Government Pension Scheme

The Highland Councils LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2014 was £1.284m of which employers' contributions totalled £891k and employees' contributions totalled £393k.

The following information is based upon pension expense calculation as at 31 July 2014.

Valuation Method

As required under FRS 17, the projected unit credit method of valuation has been used to calculate the service cost.

Demographic/Statistical Assumptions for the Scheme

A set of demographic assumptions has been adopted which is consistent with those used for the formal funding valuation as at 31 March 2011. The post retirement mortality tables adopted were the 110% S1PA tables allowing for CMI projections with a long term rate of 1% per annum. The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 July 2014	31 July 2013
Retiring Today:		
Males	21.3	21.3
Females	23.6	23.5
Retiring in 20 years:		
Males	22.6	22.6
Females	25.1	25.1

Financial Assumptions for the Scheme

Assumptions as at	31 July 2014		31 July 2013		31 July 2012	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.6%	-	3.6%	-	2.6%	-
CPI Increases	2.8%	-0.8%	2.8%	-0.8%	1.8%	-0.8%
Salary Increases	5.0%*	1.4%	5.1%*	1.5%	3.6%	1.0%
Pension Increases	2.7%	-0.9%	2.8%	-0.8%	1.8%	-0.8%
Discount Rate	4.0%	0.4%	4.6%	1.0%	3.9%	1.3%

*Salary increases are assumed to be 1.0% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

These assumptions are set with reference to market conditions at 31 July 2014. The actuary has assessed that using the yield on the iBoxx Sterling Corporates AA over 15 years index is inconsistent with the FRS17 guidance due to the shorter duration of these bonds in relation to the LGPS pension liabilities and has revised his approach accordingly by considering the single average gilt yield plus the mean "credit spread" applying to AA corporate bonds within the iBoxx over 15 years index. The Retail Price Index (RPI) increase assumption is set based on the Bank of England implied inflation curve and is set to equal the average rate appropriate for the cashflows of a typical LGPS employer. The Pension Increase assumption is in line with the Consumer Price Index (CPI), which is calculated as RPI less 0.8%.

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Expected Return on Assets for the Scheme

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period (i.e. as at 1 August 2013 for the year to 31 July 2014). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The following expected returns have been adopted:

Asset class	Expected return at:		
	1 August 2014 % p.a.	1 August 2013 % p.a.	1 August 2012 % p.a.
Equities	6.7%	6.5%	5.6%
Gilts	-	-	2.8%
Other Bonds	3.8%	4.0%	3.9%
Property	4.7%	4.6%	3.8%
Cash	3.6%	3.4%	3.0%
Expected return on assets	5.9%	5.8%	5.0%

UHI share of the amounts for the current and previous four years:

	31 July 2014 £000	31 July 2013 £000	31 July 2012 £000	31 July 2011 £000	31 July 2010 £000
Defined benefit obligation	(29,499)	(24,145)	(20,212)	(15,298)	(12,132)
Scheme assets	19,094	17,456	13,936	11,561	9,530
Deficit	(10,405)	(6,689)	(6,276)	(3,737)	(2,602)
Experience adjustment on scheme assets	236	1,831	350	253	184
Percent of assets	1.2%	10.5%	2.5%	2.2%	1.9%
Experience adjustment on scheme liabilities	(8)	(31)	(1,090)	-	-
Percent of liabilities	-0.02%	-0.1%	-5.4%	-	-
Cumulative actuarial gains and losses	(8,405)	(5,409)	(5,458)	(3,100)	(2,084)

UHI net pension assets as at

	Year Ended 31 July 2014 £000	Year Ended 31 July 2013 £000	Year Ended 31 July 2012 £000
Fair value of scheme assets	19,094	17,456	13,936
Present value of funded obligation	(29,499)	(24,145)	(20,212)
Deficit	(10,405)	(6,689)	(6,276)
Net liability in Balance Sheet	(10,405)	(6,689)	(6,276)

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Analysis of the amount charged to UHI income and expenditure account	Year Ended 31 July 2014 £000	Year Ended 31 July 2013 £000
Current service cost *	1,530	1,159
Interest on obligation	1,133	814
Expected return on scheme assets	(1,023)	(721)
Total	<u>1,640</u>	<u>1,252</u>
Actual return on scheme assets	<u>1,258</u>	<u>2,552</u>

*The current service cost contains an allowance for administration expenses of 0.4% of payroll. This is a change in approach from previous accounting periods.

Amount recognised in the UHI statement of total recognised gains and losses (STRGL)

Actual return less expected return on pension scheme assets	236	1,831
Experience gains and losses	8	(31)
Change in assumptions underlying the present value of the scheme liabilities	(3,240)	(1,751)
Actuarial (loss)/gain recognised in STRGL	<u>(2,996)</u>	<u>49</u>

Sensitivity analysis to UHI obligations and service costs

	Approx % increase to Employer Liability	Approx monetary amount £000
0.5% decrease in Real Discount Rate	12%	3,659
1 year increase in member life expectancy	3%	885
0.5% increase in Salary Increase Rate	4%	1,297
0.5% increase in Pension Increase Rate	8%	2,282

Asset and benefit obligation reconciliation for the year to 31 July 2014 UHI share of the LGPS

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	Year Ended 31 July 2014 £000	Year Ended 31 July 2013 £000
Opening defined benefit obligation	24,145	20,212
Service cost	1,530	1,159
Interest cost	1,133	814
Actuarial losses	3,232	1,782
Estimated benefits paid (net of transfers in)	(946)	(187)
Contributions by scheme participants	405	365
Closing defined benefit obligation	<u>29,499</u>	<u>24,145</u>

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Reconciliation of opening and closing balances of the fair value of scheme assets	Year Ended 31 July 2014 £000	Year Ended 31 July 2013 £000
Opening fair value of scheme assets	17,456	13,936
Expected return on scheme assets	1,023	721
Actuarial gains	236	1,831
Contributions by employer including unfunded benefits	920	790
Contributions by scheme participants	405	365
Estimated benefits paid (net of transfers in)	(946)	(187)
Fair value of scheme assets at end of the year	<u>19,094</u>	<u>17,456</u>

Reconciliation of opening and closing deficit	Year Ended 31 July 2013 £000	Year Ended 31 July 2013 £000
Deficit at beginning of year	(6,689)	(6,276)
Current service cost	(1,530)	(1,159)
Employer contributions	920	790
Other finance income	(110)	(93)
Settlements/curtailments	-	-
Actuarial (loss)/gain	(2,997)	49
Deficit at end of the year	<u>(10,405)</u>	<u>(6,689)</u>

Projected pension expense for the year to 31 July 2015 UHI share of the LGPS

Projections for Year to 31 July 2015	Year to 31 July 2015 £000
Service cost *	1,834
Interest cost	1,205
Return on assets	(1,136)
Total	<u>1,903</u>
Employer contributions	893

* The current service costs includes an allowance for administration expenses of 0.4% of payroll.

Note that these figures exclude:

- Any material events such as curtailments, settlements or the discontinuance of the Employer's participation in the fund
- Any change to accounting practices
- Any change to the Scheme benefit or member contribution rates
- Any full funding valuation that may have been carried out on the Employer's behalf

These projections are based on the assumptions as at 31 July 2014.

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2014 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality	S1NA ["light"] YoB tables – no age rating
Female members' mortality	S1NA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts), the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using an AA bond discounted rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 would be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial valuation will take place as at 31 March 2014, and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure however, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% at 31 March 2011 to 85% at March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the scheme's liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary estimates that the funding level at 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilt basis at the date was approximately 61%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis at the date of the last triennial valuation are set out below.

Assumption	Change in assumption	Impact on shortfall
Investment return (Valuation rate of interest)	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increase was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

As at the 2011 valuation the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following UK Government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since valuation effective date of 2011 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants

Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age

The normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement

Flexible retirement options were introduced.

Member contributions increased

Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Sections members respectively.

Cost sharing

If the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap

For service derived after 30 September 2011, USS will match increase in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee's role is to set risk and return parameters which reflect the strength of the sponsoring employers and the nature of the scheme's liabilities. These parameters, taken together with the anticipated returns form the basis of the trustee's funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long term view of scheme funding, backed as it is by a robust Higher Education (HE) sector.

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns from the fund as a whole. This investment approach is innovative and responsible, and targeted at achieving returns required to meet the scheme's liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree.

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

At 31 March 2014, USS had over 162,000 active members and the university had 22 active members participating in the scheme.

The total pension cost of the university was £178,617 (2013 £152,578). This includes £0 (2013 £0) outstanding contributions at the balance sheet date. The contribution rate payable by the university was 16% of pensionable salaries.

24. Financial Commitments

Annual rentals under operating lease commitments are as follows:

Group and University

	Year ended 31 July 2014 £000	Year ended 31 July 2013 £000
Land and Buildings		
Expiring within one year	20	-
Expiring within two and five years inclusive	61	81
Expiring in over five years	141	141
	<u>222</u>	<u>222</u>

25. Capital and Other Commitments

In June 2014, the University Court approved the investment of £7m (£5.5m grant funded from EU, HIE and other sources) in the development of a partnership research facility at the new Inverness Campus which is scheduled to open in August 2015.

Notes to the Financial Statements (continued)

26. Related Party Transactions

Due to the nature of the university's operations and the composition of the University Court (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Court may have an interest. All transactions involving organisations in which a member of the Court may have an interest are conducted at arm's length and in accordance with the university's financial regulations and usual procurement procedures. The ultimate controlling party is the University Court.

The university has 13 constituent partners at the end of the year in order to deliver a range of higher education services throughout the Highlands and Islands. The transactions with all of these partners and the 3 sponsoring universities during the financial year are outlined below:

Partner	Invoiced to Partners £000	Payments to Partners £000	Amounts due to Partners at 31 July 2014 £000	Amounts due from Partners at 31 July 2014 £000
Argyll College	13	381	-	1
Highland Theological College	3	363	-	-
Inverness College	164	5,558	4	38
Lews Castle College	36	2,382	40	-
Moray College	105	4,089	6	1
NAFC	7	344	-	1
North Highland College	68	3,118	2	2
Orkney College	27	1,235	3	10
Perth College	214	9,284	20	2
SAMS	127	2,411	2	-
Shetland College	15	668	1	-
Sabhal Mor Ostaig	10	763	27	1
West Highland College	26	488	4	2
Aberdeen University	67	104	31	-
Edinburgh University	7	76	19	-
Strathclyde University	-	8	-	-
	889	31,272	159	58

Provisions totalling £35,000 (2013 - £35,000) have been made in respect of these balances, which are shown above gross of any provision.

UHI Research and Enterprise Limited owes £38,775 to UHI (2013 £110,002 to North Highland College) at 31 July 2014. This balance comprises a gift aid payment of £38,775 (2013 £110,002).

27. Hardship Funds and Childcare Funds

	Hardship £000	Childcare £000
Balance brought forward	-	-
Funds received in year	343	5
Expenditure	(256)	(3)
Repayable to funding body	(87)	(2)
Balance carried forward	-	-

Notes to the Financial Statements (continued)

27. Hardship Funds and Childcare Funds (continued)

Funding Council grants are available solely for students; UHI acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

28. Contingent Liability

The University of the Highlands and Islands receives funding from SFC for distribution to academic partners for the furtherance of Higher Education activities. The university relies on confirmation from its academic partners, its knowledge of the number of HE students in each college and expected benchmark cost of providing HE to confirm that the funding issued to academic partners is expensed on Higher Education activities. In the event that monies transferred were not expensed on Higher Education activities then the academic partners would be liable to return this funding to the university and the university would in turn be liable to refund these monies to SFC. The university is confident from reports on the quality of its academic partners' HE output and the review of the above information that no such refund will be required.

29. Securities

The Millennium Commission has been granted a standard security over the property at Ness Walk.

30. Post Balance Sheet Events

There were no events after the date of the balance sheet requiring disclosure.

31. Losses and Special Payments

There were no losses or special payments during the year.