

University of the Highlands and Islands

Report and Financial Statements For the year ended 31 July 2017

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Report of the University Court for the year ended 31 July 2017

Nature, Objectives and Strategy of the University

The University of the Highlands and Islands (UHI) is a unique university in that it provides higher and further 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 an integrated 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 further and 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 Post 16 Education (Scotland) Act 2013 identified 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. The main provisions of this Act came into force on 1 August 2014 and further education for the area has been funded through the University from that date.

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 distributed by UHI to eight assigned colleges (who are existing academic partners of UHI). The academic partners who were designated as assigned colleges from 1 August 2014 are Moray, Perth, Inverness, Lews Castle, North Highland, Shetland, Orkney and West Highland. The University Court is the accountable body for both higher and further education performance in line with a single regional outcome agreement with the Scottish Funding Council (SFC).

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 exchange. We will carry out an increasing amount of research, and work with other institutions both in the United Kingdom and overseas.

During 2016/17 we were proud to secure research Degree Awarding Powers (rDAP) and we are grateful to the Universities of Aberdeen, Edinburgh and Strathclyde for their support and mentoring over a number of years to help us achieve this status.

During the year we continued to implement our Strategic Plan for 2015-2020 which was approved in spring 2015 and reported satisfactory progress against key performance indicators to the University Court.

The plan sets out the strategic vision of the University as "The University of the Highlands and Islands is the United Kingdom's leading integrated university, encompassing further and higher education. We will be recognised for the quality of our students' experience and for their achievement. Our worldwide reputation will be built upon our innovative approach to learning and our distinctive research and curriculum, enriched by the people, natural environment, economy,

**Report of the University Court for the year ended 31 July 2017
Nature, Objectives and Strategy of the University (continued)**

culture and heritage of our region and its communities.” The mission of the University is “to have a transformational impact on the prospects of our region, its economy, its people and its communities”.

The values of the organisation are collaboration, openness, respect and excellence. A copy of the Strategic Plan setting out our aims and objectives from 2015 to 2020 for the UHI partnership is available on our website www.uhi.ac.uk

Strategic Report - Current and Future Development and Performance

School of Health, Social Care and Life Sciences

One of the most significant developments in the university over the past year has been to create the school of health, social care and life sciences. A key part of this initiative was to transfer pre-registration nurse training from the University of Stirling to the University of the Highlands and Islands. This was successfully achieved in August 2017 and involved the transfer of some 40 staff and over 300 student places in both Inverness and Stornoway.

The development of the school brings together a number of existing areas of curriculum and research within the university and aligns them with several significant new collaborative developments under a single, integrated brand.

Our approaches to strategic planning across the school’s various activities, and considering how these can be connected, ensures maximum impact for learners and for the region as whole in terms of education, training, workforce development, economic investment and income generation, and centrally to the quality and sustainability of health and social care.

These include:

- Mapping of current and future workforce requirements across Health, Social Care and Life Science sectors and linking these to further and higher education growth. Through this planning ensure that we expand graduate employment opportunities at all levels while supporting sustainable remote and rural health and social care.
- Development of new and enhanced curriculum to meet employer needs and improved regional accessibility to learners.
- Expansion of postgraduate student numbers in key areas of applied health/allied health research.
- Expansion of pre-registration nurse education numbers and development of postgraduate qualification for nurses and other health and allied health staff.
- Scoping of an innovative delivery model for in-region (North of Scotland) optometry training in partnership with industry (with the aim of delivering this from 2019/20)
- Scoping of curriculum and research in active health/rehabilitation science with NHS Highland.
- Development with NHS Education for Scotland, NHS and private sector partners of a regional Care Academy model to inform and support Social Care education and training at further and higher education levels (including support for Scottish Government aspirations in relation to Child Care).

Report of the University Court (continued)

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

- Expansion of our existing academic research capacity in Applied Health and Life Sciences (including for example Digital Health, Rural Health and Wellbeing, and Biomedical Science) through 8 new primary investigator posts and 6 postgraduate research positions.
- Development, with Inverness Region City Deal funding, of a joint UHI/NHS facility for innovation and commercialisation in healthcare, including opportunities for postdoctoral clinical studies for healthcare staff, development of industry/NHS/university research teams and specialist support for commercialisation of research outputs.
- With the Universities of Dundee and St Andrews, the development of Scotland's first graduate entry medical programme (ScotGEM) to enhance remote and rural training and supply of primary care clinicians (general practitioners).
- Collaboration with NHS Highland to create a Highlands and Islands Improvement Institute (HI³), to undertake education, research and consultancy in Quality Improvement (QI) Science in the context of health and social care. This will embed QI in our curriculum, strengthen QI application in practice and measure the impact on patient experience, outcome and service sustainability of QI initiatives.

Other Priorities

A major focus of activity during 2016/17 was to focus on steps which we could take to improve financial sustainability. A cross-partnership agreement was reached in October 2016 which has led to additions to the senior management team from across the partnership, renewed efforts to achieve more integrated and collaborative working and optimising systems and services.

Our new student association (Highlands and Islands Student Association - HISA) which represents both our further and higher education students was launched in June 2015 and continues to develop, offering our students an increasing range of services and from 1st August 2017 includes students from Perth and Inverness Colleges for the first time.

The university's priorities include:

- 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 deliver against its second Gaelic Language Plan (2014-18). The plan sets out the University's strategy for continuing to promote and develop the use of Gaelic through its practices, curriculum and communications. Proposals include producing more bilingual resources, encouraging staff to learn Gaelic as part of their development plans and holding more

Report of the University Court (continued)

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

Gaelic events. Consultation on the development our third language plan has started across the partnership.

The University successfully delivered against its joint higher and further education outcome agreement in 2016/17 as required by the Scottish Funding Council. The agreement for the Highlands and Islands incrementally shares outcomes between the two funding streams and underpins the tertiary nature of the institution.

The University's fundraising activities continued to be successful in the year with donations totalling £95,893 towards a range of projects were secured compared with £124,324 in the previous year. During the year it was agreed to wind up the separate University of the Highlands and Islands Development Trust and transfer funds to the university. The use of these funds and future philanthropic donations will be overseen by an independent committee.

The University increased its total higher education student numbers with 6,687 (2015/16- 6268) full-time equivalents (FTE) during the year, primarily from within the region, made up of 6,305 undergraduates, 215 taught postgraduate, 90 PGDE and 77 Postgraduate research FTE. UHI continues to service the lifelong learning needs of the region with 18% (2015/16 - 16%) of undergraduate higher education FTE part-time and 52% (2015/16 - 51%) of our undergraduate students over 21 years of age at the start of their course.

Further Education

The region continues to exceed student activity targets set for further education. The core activity target for further education student activity has remained static at 110,968 credits for the past two years but additional funding has been accessed through the ESIF Developing Scotland's Workforce (DSW) programme to support student activity growth. In 2016/17 the ESIF credits enabled the region to fund slightly more credits than in the previous year. Although the change in units of measurement between 2014/15 and 2015/16 masks the trend, the region's further education activity has grown year on year and partners have delivered in excess of target for the past seven years.

| | Core Target | ESIF Target | Actual | Target v Actual +/- | % +/- |
|----------------|--------------------|--------------------|----------------|--------------------------------|------------------|
| 2012-13 | 143,930 | | 149,774 | 5,844 | 4 |
| 2013-14 | 154,936 | | 157,110 | 2,174 | 1.4 |
| 2014-15 | 155,736 | | 159,491 | 3,755 | 2.4 |
| 2015-16 | 110,968 | 3,490 | 116,644 | 2,186 | 1.9 |
| 2016-17 | 110,968 | 4,400 | 116,778 | 1,410 | 1.2 |

Student activity growth funded through the European Strategic Investment Fund Developing Scotland's Workforce programme is closely aligned with the region's Skills Investment Plan priority areas and the Regional Skills Assessment of Perth and Kinross. Mainstream courses have been mapped across the region and are now fully integrated into tertiary education curriculum maps. These will now be developed into interactive tools to be used by students and prospective students in the region.

Report of the University Court (continued)

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

The Region continued to develop its strength in work-based learning in 2016/17, delivering approximately 25% of all Foundation Apprenticeship programmes in Scotland. This activity builds on the considerable strength of the academic partners in delivering Modern Apprenticeships.

Through introduction of graduate level apprenticeships UHI has used its unique strength as a tertiary organisation to provide an alternative, seamless work-based learning pathway to a degree.

Research Capacity

The key research strengths of the partnership in the Research Excellence Framework of 2014 were Gaelic, based at Sabhal Mòr Ostaig UHI on Skye; diabetes and cardiovascular science based at the Centre for Health Sciences, Inverness; history based in Dornoch; archaeology based at Orkney College UHI; mountain studies based in Perth 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. Each of these areas made a major contribution to the profile of the University which enabled us to secure research degree awarding powers in 2017.

The research priorities expressed within the University's strategic plan are:

- Supporting and developing excellence in research;
- Enhancing the research student experience;
- Ensuring sustainability of funding for research and
- Engaging the research community with external stakeholders.

Targets have been established against each of these and progress is overseen by the University Research Committee and, in the case of the research student experience, by the Research Degrees Committee.

The University believes that it is necessary to target resources and this has led to the establishment of formalised clusters of research activity across the University partnership. The clusters have been aligned to the remits of the main panels in the 2014 Research Excellence Framework Units of Assessment, in the belief that these high level specifications are unlikely to experience significant change in terms of target disciplines, and to the domains of external research funders.

Senior staff are engaging with the debate around the next Research Excellence Framework assessment in 2020/21 and this is informing the evolution of the research strategy. In terms of the criteria of the 2014 REF, which it is appreciated will change by 2020, the university is aiming to achieve at least a 25% increase in volume for the REF 2020/21 submission, associated with a GPA of at least 3.0, compared with 2.76 in the REF 2014.

The Research Committee maintains an ongoing rolling assessment of public output and impact to inform this process. This involved a formal audit of REF activity during 2017, which is being used to inform future changes in direction.

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 through our Learning and Teaching Academy. Focused investment in staff development will continue to enhance the student experience.

University of the Highlands and Islands
Report of the University Court (continued)

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

Infrastructure

The second phase of student residences in Inverness (a further 150 rooms), Elgin (40 rooms) and Dornoch (40 rooms), developed by Cityheart, were completed and available for students from September 2017. Work continues to finalise the development of further sites across a number of other locations in the Highlands and Islands for future occupancy. This initiative seeks to 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>2016/17</u> | <u>2015/16</u> |
|-----------------------|----------------|----------------|
| Heads | 9,381 | 8,636 |
| Full-time equivalents | 6,687 | 6,268 |

| <u>Scottish Funding Council fundable</u> | <u>2016/17</u> | <u>2015/16</u> |
|--|----------------|----------------|
| Full-time equivalents | 6,341 | 5,997 |

Student success/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 2016/17 PI, which is based on non-continuation of 2015/16 entrants will be published in March 2018. The most recent data available, therefore, is as follows:

| | <u>2015/16</u> | <u>2014/15</u> |
|------------------------------|----------------|----------------|
| Non-continuation | | |
| Degree students | 8.5% | 18.5% |
| Benchmark | 10.3% | 10.8% |
| Other undergraduate students | 16.5% | 20.1% |
| Benchmark | 17.1% | 17.6% |

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

The Scottish Funding Council publishes college sector performance indicators including student outcomes. 2016/17 PIs will be published in January 2018. The latest available data for the regions' full-time FE students is:

Percentage of full-time further education students successfully completing their studies:

| | <u>2015/16</u> |
|-----------------------|----------------|
| Full-time FE students | 69.4% |
| Scottish figure | 65.5% |

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:

University of the Highlands and Islands
Report of the University Court (continued)

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

| | <u>2016/17</u> | <u>2015/16</u> |
|------------------------------|----------------|----------------|
| Overall student satisfaction | 79% | 81% |
| Benchmark | 83% | 84% |

The university also participates in the annual Scottish Funding Council Student Satisfaction and Engagement Survey for FE students. The latest results are due to be published 31 October 2017. The latest data is:

| | <u>2015/16</u> |
|------------------------------|----------------|
| Overall student satisfaction | 93.5% |
| Scottish figure | 90.5% |

The Higher Education Academy co-ordinate the UK-wide annual Postgraduate Taught Experience Survey (PTES) and the biennial Postgraduate Research Experience survey (PRES). The latest available information is:

PTES:

| | <u>2016/17</u> | <u>2015/16</u> |
|----------------------|----------------|----------------|
| Overall satisfaction | 79% | 78% |
| Scottish figure | 78% | 78% |

PRES

| | <u>2016/17</u> | <u>2014/15</u> |
|----------------------|----------------|----------------|
| Overall satisfaction | 87% | 78% |
| Scottish figure | 82% | 82% |

Graduate destinations

The Higher Education Statistics Agency also publishes annual performance indicators on graduate destinations. The PI is a measure of the proportion of graduates from full-time study who are in work or further study six months after graduation based on a survey of leavers. Results for leavers in 2016/17 will be published in July 2018. The most recent data available is:

Proportion of leavers in work or further study:

| | <u>2015/16</u> | <u>2014/15</u> |
|-----------------------------|----------------|----------------|
| Degree leavers | 92.9% | 91.7% |
| Benchmark | 93.7% | 92.7% |
| Other undergraduate leavers | 96.6% | 96.1% |
| Benchmark | 96.2% | 95.4% |

The Scottish Funding Council also publishes results from the college leavers' destinations. The latest results for our FE leavers are:

Proportion of leavers in a positive destination, 3 – 6 months after qualifying:

| | <u>2015/16</u> | <u>2014/15</u> |
|-----------------|----------------|----------------|
| FE qualifiers | 94.0% | 94.4% |
| Scottish figure | 94.9% | 95.8% |

Strategic Report - Resources and Principal Risks

The University's most significant source of income continues to be Scottish Funding Council (SFC) grants for higher education teaching and research and further education, which increased from £76m in 2015/16 to £78m in 2016/17 (£41m for higher education and £37m for further education).

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 continues to plan prudently on that basis. As a new university we continue to be heavily dependent on public funding with 94% 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.

It secured a £29.2m programme of investment from the European Strategic Investment Fund, which commenced in 2015/16. Expenditure is split into 6 work-streams, three of which had funded activities during 2016/17. A programme of further education credit growth delivered 4200 extra credits in wide range of eligible subjects at SCQF levels 5 and 6 across the university partnership. A cohort of 14 research postgraduate students commenced PhD studies. One "new blood" academic post was recruited to develop postgraduate nurse education curriculum.

The University acknowledges that the plans to leave the European Union will have profound implications on future research funding and funds for new strategic initiatives and has established an adaptive element to strategic preparations to accommodate a rapidly changing environment.

The university also secured £9m of funding under the Inverness City Region Deal to create life science and health care research and commercialisation infrastructure and outputs. During 2016/17, further planning and development activities have continued. A small amount of funded activity took place, mainly covering professional advice from a lead estates advisor, and some early clinical advice on the development of commercial clinical research. Two appointments were made - a Senior Administrator and a Director of Commercialisation.

The current review by the Scottish Government into the future of development and funding agencies including Highlands and Islands Enterprise and Scottish Funding Council could create significant risk to the university, given the institution's high dependency on public sector funding from both.

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 maintain its capability and capacity.

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.

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Report of the University Court (continued)

Strategic Report - Resources and Principal Risks (continued)

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 responsibilities of the Post 16 Education (Scotland) Act 2013 created new areas of risk to the University. These continue to be mitigated by strengthened governance and management arrangements which are reviewed on a regular basis.

As part of these responsibilities, the majority of the university's assigned colleges have committed to reward their lecturing staff in line with agreement reached with the Educational Institute of Scotland under national bargaining arrangements. Colleges are differently impacted by the introduction of national bargaining depending on their individual pay models. Some of the smaller academic partners of the university face increases in base payroll costs of up to 68%. While colleges in the Highlands and Islands are working with Colleges Scotland and the Scottish Funding Council to mitigate any potential negative impact on the student experience in the short term, in the medium to long term the financial implications of this are very serious.

Strategic Report - 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.

Strategic Report - Review of Financial Activities

UHI's income increased by £6.4m in the year, mainly due to an increase in SFC further education grant income, and an increase in other income related to project funding.

Staff costs increased to £11.3m compared to £10.6m the previous year due to an increase in employer's national insurance and pension costs. Other operating expenses increased by £6m in the year, the majority of which was represented by an increase in payments to academic partners.

The outturn for the year ended 31 July 2017 was a deficit of £0.527m. This compares with a surplus of £1.667m in the previous year. Total comprehensive income for the year was a deficit of £1.269m compared to a deficit of £1.186 million in 2015/16.

As required by Generally Accepted Accounting Practice (GAAP), the University has implemented the principles of FRS 102 (28) in relation to Retirement Benefits. As a result the University is required to disclose a liability relating to current commitments of £19.531 million (2016 -£17.392 million) on its balance sheet. Overall this has resulted in net liabilities of £2.44m (2016 – net liabilities £1.171m). The actuarial loss on the pension scheme in the year of £0.697 million (2016 - loss of £2.853 million) is shown at the bottom of consolidated statement of comprehensive income & expenditure.

The main changes included in the 2016/17 financial statements compared to the previous year, are shown below.

Student Residences –the second Student Residences accommodation was opened at Inverness College in Inverness. It has rooms for up to 150 students and the value of the residences, which have been built and are run by Cityheart Limited, are shown under fixed assets in the balance sheet, with a corresponding long-term creditor also shown.

University of the Highlands and Islands
Report of the University Court (continued)

Strategic Report - Review of Financial Activities (continued)

Overall, within the Balance Sheet, there are total net liabilities of £2.44 million at 31 July 2017, compared with £1.171 million the previous year. The two main reasons for this are:

- The increase of the LGPS pension liability, which increased from £16.142 million in 2015/16 to £18.184 million in 2016/17 and the USS pension liability which increased from £1.250 million to £1.347 million.
- The different treatment of deferred capital grants under FRS102, whereby they are now included within creditors as a liability compared to being shown in reserves in previous years.

Other movements in the balance sheet include:

Fixed assets – increased from £11.6m to £33.8m, due to the new student residences building at Inverness.

An increase in cash and term deposit investments, from £15.779 million to £18.973 million, an increase of £4.194 million.

A long-term creditor is now in place in relation to the student residences buildings at Fort William and Inverness, amounting to £25.129 million.

Although the overall balance sheet presented does not paint a positive picture, with net liabilities of £2.44 million, the key fundamentals of a good business are still in place. UHI still has a healthy and growing cash and term deposit investments balance amounting to £18.973 million, as well as an increasing net current assets position, increasing from £6.377 million to £7.605 million in 2016/17. This means it can continue to fund the core activity of the UHI partnership, providing learning and teaching across FE and HE across the Highlands & Islands.

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 10 days purchases (2016 – 4 days) which is 2.7% of purchases (2016 – 1.1%).

Public Sector Climate Change Duty

In 2009/10 our baseline carbon footprint was measured at 454 tCO₂e. We continue to work towards reducing this and our most recent return on 2015/16 was 291 tCO₂e, a reduction of 36% in the six year period. During 2017/18 we will work with our academic partners on a more consistent partnership wide approach to carbon reduction.

Modern Slavery Act 2015

The University of the Highlands and Islands is committed to carrying out procurement of goods and services in an environmentally, socially, ethically and economically responsible manner and to entering into agreements and contracts with suppliers that share and adhere to this commitment.

Much of the university's procurement of goods and services is carried out through APUC (Advanced Procurement for Universities and Colleges) Ltd of which it is a member.

APUC require all suppliers to sign a supply chain code of conduct to acknowledge their compliance with the code in respect of their organisation and their supply chain. The code of conduct includes confirmation that the supplier does not use forced, involuntary or underage labour, provides suitable working conditions and terms and treats employees fairly.

Report of the University Court (continued)

Strategic Report - Review of Financial Activities (continued)

As part of APUC Ltd's standard template for supplier's tendering for the award of a contract a pass/fail question: "Does the supplier meet its obligations under the Modern Slavery Act?" requires to be answered. A further (non-mandatory) question allows the tender to be scored on a graded basis as part of the award criteria: "What measures will you take to ensure slavery and human trafficking is not taking place in your supply chains?"

During 2016/17 the university introduced the same supply chain code of conduct for suppliers who are sourced directly by the university and now ask all potential suppliers to respond to the pass/fail question above

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).

Leadership

Professor Clive Mulholland led the University as Principal and Vice Chancellor throughout the year.

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.

In October 2016 Her Royal Highness presented academic awards at the Perth College UHI graduation ceremony.

Equal Opportunities and Widening Participation

The university is focused on improving access to further and higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. We continue to work on the mainstreaming of equality and diversity within the University and our planned equality outcomes for 2013-17 as required by the public sector equality duty under the Equality Act 2010. A report on progress was produced in April 2017. 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.

Report of the University Court (continued)

The University Court is committed to achieving greater diversity in its membership and have instigated a number of measures to improve gender balance and diversity when making new appointments during 2017/18.

Professional Advisors

External auditors: Ernst & Young LLP
Bankers: Clydesdale Bank plc
Solicitors: Anderson Strathern LLP, Thornton's LLP

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.

Company Secretary

The Chief Operating Officer and Secretary to the University of the Highlands and Islands, Fiona M Larg MBE, 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

University of the Highlands and Islands Corporate Governance and Internal Control for the year ended 31 July 2017

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 2006. 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 with the principles of the Scottish Code. As the Regional Strategic Body for further education in the Highlands and Islands, the University is also required to comply with the principles and guidelines set out in the Code of Good Governance for Scotland's Colleges which was published in September 2016.

The university complies as far as is possible with the Code of Good Governance for Scotland's Colleges. Areas of non-compliance with the FE Code are:

- As a university it cannot comply with the collective agreements placed on it through national collective bargaining for colleges as staff terms and conditions are different in each sector.
- The university secretary reports to the Principal and Vice Chancellor of the university rather than direct to the chair in common with other universities.
- The regional board chair is appointed by the University Court in line with our constitution and not by Scottish Ministers as in other college regions in Scotland.

The HE Code is currently being revised and will require the university to make a number of changes to its articles of association. Once the HE code has been finalised, amendments to the articles will be submitted to the Privy Council, which will *inter alia* include changes to the number and membership of the University Court to enable it to fully comply with the Higher Education Governance (Scotland) Act 2016.

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 7 times in the period from 1 August 2016 – 31 July 2017.

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.

Training and Development of Court Members

All Court members and members of the Further Education Regional Board are given induction training on joining the university and regular development sessions are held with Court members

Corporate Governance and Internal Control for the year ended 31 July 2017 (cont'd)

University of the Highlands and Islands

on topics of importance to the university and the higher education sector more widely. During 2016-17 a 24 hour strategic event was held in Perth with members of Court, academic partner chairs and principals and senior university managers. Briefing sessions are held prior to formal meeting of FERB on a variety of topics.

Under the Further Education Code of Governance all Court members and members of the Further Education Regional Board are required to attend two one-day training sessions provided by the Colleges Development Network.

Due to the high numbers of members across the Highlands and Islands required to attend this training (35 from the university and a further c150 from assigned colleges), the majority but not all members have been able to attend. There have been a number of new Court appointments and new college board member appointments during the year so a further training session has been set up in Inverness on 6th December 2017.

No disclosure checks are carried out on Court members as no students are based at the Executive Office of the university which is where the majority of meetings are held.

Effectiveness Review

The Court reviews its effectiveness on an annual basis and commissioned an externally facilitated review of the Court and all of its committees in February 2017. Action plans for improvement were prepared and are in the process of being implemented.

University Court – Membership

The following table provides a summary of Court membership for the period 01 August 2016 to 23rd October 2017. The composition of the University Court is prescribed within Article 12.1 of the University's Articles of Association. Members are appointed for a term of 3 years, which can be renewed for a further term of 3 years. In exceptional circumstances, a third term of 3 years may be permitted, giving a maximum of 9 years' membership.

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| Category of membership | Period of office | Date appointed | NAME |
|--|-----------------------------|---------------------------|---|
| Independent – appointed by Court | 3 years* | 01/08/2014 | Garry Coutts (Chair) (formerly UHI Rector) |
| Principal & Vice-Chancellor | Ex officio | 01/08/2014 | Professor Clive Mulholland |
| President of the Highlands & Islands Students' Association | Ex officio | 15/06/2015 | Luke Humberstone Resigned 30th June 2017 |
| President of the Highlands & Islands Students' Association | Ex officio | 01/07/2017 | Holly Scrimgeour |
| Rector | Ex officio | 01/08/2014 | Anton Edwards re-elected by Foundation 7th June 2017 |
| Staff member – elected by and from the staff | 3 years | 01/08/2014 | Dr David Worthington Resigned 15th July 2017 |
| Staff member – elected by and from the staff | 3 years | 15/09/2017 | Rosemary McCormack |
| Staff member - elected by and from the staff | 3 years | 01/08/2014 | Gillian Berkeley Resigned 15th July 2017 |
| Staff member - elected by and from the staff | 3 years | 15/09/2017 | Dr Gareth Davies |
| Student Governor – elected by the students | 3 Years | 01/07/2016 | Gail Scott Resigned 08/08/2016 |
| Student Governor – elected by the students | 3 Years | 16/01/2017 | Max Haddow Mendes Resigned 30/06/2017 |
| Student Governor – elected by the students | | 01/07/2017 | Callum Stephen |
| Appointed Governor - FE Academic Partner Chair, appointed by the FE Academic Partners | 3 years | 01/08/2014 | Mr Peter Campbell – Shetland College UHI Resigned 15th July 2017 |
| Appointed Governor - FE Academic Partner Chair, appointed by the FE Academic Partners | 3 years | 01/08/2017 | Neil Stewart - Inverness |
| Appointed Governor - Academic Partner Chair, appointed by the Research & Specialist Partners | 3 years | 01/08/2014 | Angus Ross – SAMS |
| Independent - Chair of UHI FE Regional Board | Ex officio | 01/08/2014 | Dr Michael Foxley |
| Independent – appointed by Court | 3 years (renewable) | 01/08/2014 | Andrew Rogers |
| Independent – appointed by Court | 3 years (renewable) | 01/08/2014 | Eileen Mackay Resigned 15th July 2017 |
| Independent – appointed by Court | 3 years (renewable) | 01/08/2014 Reappointed | James MacDonald |
| Independent – appointed by the Chief Executives of each of the Local Authorities | 3 years (renewable) | 01/08/2014 | Malcolm Burr Resigned 15th July 2017 |
| Independent – appointed by the Chief Executives of each of the Local Authorities | 3 years (renewable) | 01/09/2017 | Roddy Burns |
| Independent – appointed by Highlands and Islands Enterprise | 3 years (renewable) | 01/08/2014 | Iseabail Sine Mactaggart Resigned 17th March 2017 |
| Independent – appointed by Highlands and Islands Enterprise | 3 years (renewable) | 09/10/2017 | Alistair Dodds |
| Independent – appointed by Court | 3 years (renewable) | 01/08/2014 | William Printie |
| Independent – appointed by Court | 3 years (renewable) | 01/08/2014 | Professor Fiona McLean (Vice Chair) |
| Independent – appointed by Court | 3 years (renewable) | 01/08/2014 | Dr David Alston Resigned 15th July 2017 |
| Independent – appointed by Court | 3 years (renewable) | 18/09/2017 | Andrea Robertson |
| Member of Title Management Group | Sponsor University Governor | 01/08/2008 | Professor Kenneth Miller – University of Strathclyde Resigned 15th July 2017 |

*Initial appointment for 18 months.

University of the Highlands and Islands

Corporate Governance and Internal Control (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.

In common with most higher education institutions and other registered charities, there is no remuneration directly associated with membership of Court for ordinary members, however, the University does meet reasonable expenses incurred in connection with certain activities undertaken on behalf of the University and the Articles of Association also allow for reasonable remuneration or directors' fees to be paid to the chair of the Court and the chair of the UHI FE Regional Board for services rendered by them to the University.

During the financial year 2016/17 the University offered the Chair of Court and Chair of the FE Regional board a fixed remuneration rate of £35.87 and £35.33 per hour respectively or a daily rate of £269/£265 based on a 7.5 hour day.

| | Hours claimed for 2016/17 | Remuneration |
|-------------------|---------------------------|--------------|
| Mr Garry Coutts | 651 | £23,351 |
| Dr Michael Foxley | 731.5 | £25,844 |

The Court is committed to the Nolan Principles regarding standards to be adopted in public life. It maintains a Register of Interest of its members which is publicly available for inspection and current interests of members are published on the University's web site. In addition, the University routinely publishes court member expenses on a quarterly basis.

Sponsor Universities

Under the arrangements set in place for the 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 permitted the three sponsor universities to jointly appoint one governor to the Court of the University of the Highlands and Islands who was also be a member of the Title Management Group. The university was granted research degree awarding powers in June 2017 therefore the sponsor universities have no further involvement in the governance of the university. The Court has expressed its gratitude for the excellent support provided by all three sponsor universities during its development.

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, Title Management Group and Further Education Regional Board. The remit of each of the Court committees is set out below.

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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.

Attendance Summary (1 August 2016 – 31 July 2017) University Court and Senior Committees

| | University Court | Audit Committee | Finance & General Purposes Committee | Remuneration Committee | Further Education Regional Board | Attendance % |
|---------------------------------------|------------------|-----------------|--------------------------------------|------------------------|----------------------------------|--------------|
| Mr Garry Coutts* | 6/7 | | * | *3/3 | * | 90% |
| Professor Clive Mulholland** | 7/7 | (3/4) | 5/6 | 2/2 | | 93% |
| Luke Humberstone | 6/7 | | | | 4/5 | 83% |
| Mr Anton Edwards | 5/7 | | | | | 71% |
| Max Haddow Mendes | 0/2 | | | | 1/3 | 20% |
| Dr David Worthington | 5/7 | | | | | 71% |
| Mrs Gillian Berkeley | 5/7 | 2/4 | | | | 63% |
| Mr Peter Campbell | 6/7 | | | | | 85% |
| Mr Angus Ross | 7/7 | | 5/6 | | | 92% |
| Dr Michael Foxley Chair of FERB | 7/7 | 4/4 | | | 5/5 | 100% |
| Mr Andrew Rogers Chair of FGPC | 6/7 | | 6/6 | | | 92% |
| Mrs Eileen Mackay Chair of Rem Com | 5/7 | 4/4 | | 3/3 | | 85% |
| Mr James MacDonald | 2/7 | | 3/6 | 1/3 | | 37% |
| Mr Malcolm Burr | 2/7 | | 3/6 | | | 38% |
| Ms Iseabail Sine Mactaggart | 2/5 | | 1/5 | | | 30% |
| Mr William Printie Chair of Audit | 3/7 | 4/4 | | | | 63% |
| Professor Fiona McLean (Vice Chair) | 7/7 | | | 3/3 | | 100% |
| Dr David Alston | 3/7 | | 1/6 | 1/3 | | 31% |
| Professor Kenneth Miller | 4/7 | | | | | 57% |

* As the chair is an ex officio member of every committee of Court (other than the Audit committee) his attendance at individual meetings has not been included within the above table. The Chairs attendance at committee meetings is recorded within the minutes of each meeting. ** The Principal and Vice Chancellor is in attendance at Audit Committee meetings, but is not a member.

Corporate Governance and Internal Control (continued)

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.

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. The direct costs of operating as a Regional Strategic Body include the salary costs of the Vice-Principal (FE), the chair of the FE Regional Board, direct administration support, Student Information System administration, and incidental costs. These amount to £236,482. There is additional cost to the organisation of support and management time but these are not directly allocated to the RSB costs.

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.

University of the Highlands and Islands

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.

Foundation members elected Anton Edwards as Rector on 29 May 2014 and re-elected him for a further term of 3 years on 9th June 2017

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. Thus group was disbanded in June 2017.

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 102 (28) in relation to retirement benefits. This has resulted in a pension liability of £18.184m at the balance sheet date for the LGPS and a pension liability of £1.347m for the USS. For the LGPS, this represents the company's allocation of the deficit in the Highland Council Pension Fund at 31 July 2017. 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 2017, 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 102 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.

Statement on the System of Internal Control

The University Court is responsible for the System of Internal Control and for reviewing its effectiveness. It is the responsibility of the Director of Corporate Resources 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. 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 Audit Committee and approved by the University Court.

University of the Highlands and Islands

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
Chair of University Court

Professor Clive Mulholland
Principal and Vice-Chancellor

Statement of the Responsibilities of the University Court for the year ended 31 July 2017

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF THE UNIVERSITY OF THE HIGHLANDS AND ISLANDS

Opinion

We have audited the financial statements of University of the Highlands and Islands for the year ended 31 July 2017 which comprise the Consolidated and University Statement of Comprehensive Income and Expenditure, the Consolidated and University Statement of Changes in Reserves, the Consolidated and University Balance Sheet, the Consolidated Cash Flow, the Statement of Accounting Policies and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the University's affairs as at 31 July 2017 and of the Group's and the University's deficit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK" and with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the University Court's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the University Court has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the University's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 2-22, other than the financial statements and our auditor's report thereon. The University Court is responsible for the other information.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF THE UNIVERSITY OF THE HIGHLANDS AND ISLANDS (continued)

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Report of the University Court for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the University Court have been prepared in accordance with applicable legal requirements.

Opinion on other matters prescribed by the terms of our engagement

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been applied properly to those purposes and, if relevant, managed in accordance with relevant legislation, and any other terms and conditions attached to them; and
- funds provided by Scottish Funding Council have been applied in accordance with the requirements of the SFC Financial Memorandum with Higher Education Institutions.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the University Court.

We have nothing to report in respect of the following matters in relation to which 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF THE UNIVERSITY OF THE HIGHLANDS AND ISLANDS (continued)

Responsibilities of the University Court

As explained more fully in the Statement of the Responsibilities of the University Court set out on page 23, the University Court is responsible for the preparation of the financial statements and for being satisfied that give a true and fair view, and for such internal control as the University Court determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the University Court is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the University Court either intend to liquidate the University or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

This report is made solely to the University Court of the University of the Highlands and Islands, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and with section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the University 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 University of the Highlands and Islands and the University Court as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Stephen Reid (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh**

Notes:

1. The maintenance and integrity of the University of the Highlands and Islands web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Consolidated and University Statement of Comprehensive Income and Expenditure
Year Ended 31 July 2017

| | Notes | Year ended 31 July 2017 | | Year ended 31 July 2016 | |
|---|-------|-------------------------|---------------------|-------------------------|---------------------|
| | | Consolidated £'000 | University £'000 | Consolidated £'000 | University £'000 |
| Income | | | | | |
| Tuition fees and education contracts | 1 | 11,285 | 11,285 | 10,341 | 10,341 |
| Funding body grants | 2 | 78,231 | 78,231 | 76,175 | 76,175 |
| Research grants and contracts | 3 | 3,400 | 3,308 | 2,267 | 2,196 |
| Other income | 4 | 6,808 | 6,867 | 4,570 | 4,631 |
| Investment income | 5 | 105 | 105 | 112 | 111 |
| Total income before endowments and donations | | 99,830 | 99,797 | 93,466 | 93,455 |
| Donations and endowments | 6 | 0 | 0 | 170 | 170 |
| Total income | | 99,830 | 99,797 | 93,636 | 93,625 |
| Expenditure | | | | | |
| Staff costs | 7 | 11,303 | 11,303 | 10,620 | 10,620 |
| Other operating expenses | 9 | 87,137 | 87,103 | 80,265 | 80,255 |
| Depreciation | 10 | 1,542 | 1,542 | 599 | 599 |
| Interest and other finance costs | 8 | 420 | 420 | 484 | 484 |
| Total expenditure | | 100,402 | 100,368 | 91,968 | 91,958 |
| Surplus/deficit before other gains losses and share of operating surplus/deficit of joint ventures and associates. | | (572) | (572) | 1,667 | 1,667 |
| Gain/(loss) on disposal of fixed assets | | | | | |
| Surplus / (Deficit) before tax | | (572) | (572) | 1,667 | 1,667 |
| Taxation | | 0 | - | 0 | - |
| Surplus / (Deficit) for the year | | (572) | (572) | 1,667 | 1,667 |
| Actuarial (loss)/gain in respect of pension schemes | 28 | (697) | (697) | (2,853) | (2,853) |
| Total comprehensive income for the year | | (1,269) | (1,269) | (1,186) | (1,186) |
| Represented by: | | | | | |
| Restricted comprehensive income for the year | | (513) | (513) | 60 | 60 |
| Unrestricted comprehensive income for the year | | (756) | (756) | (1,246) | (1,246) |
| Revaluation reserve comprehensive income for the year | | 0 | 0 | 0 | 0 |
| | | (1,269) | (1,269) | (1,186) | (1,186) |
| Surplus for the year attributable to: | | | | | |
| Non controlling interest | | | | | |
| University | | (572) | (572) | 1,667 | 1,667 |
| Total Comprehensive income for the year attributable to University | | (1,269) | (1,269) | (1,186) | (1,186) |

All items of income and expenditure relate to continuing activities

Consolidated and University Statement of Changes in Reserves
Year ended 31 July 2017

| Consolidated and University | Income and expenditure account | | Total £'000 |
|---|--------------------------------|------------------------------|----------------|
| | <i>Restricted</i> £'000 | <i>Unrestricted</i> £'000 | |
| Balance at 1 August 2015 | 453 | (437) | 16 |
| Surplus/(deficit) from the income and expenditure statement | 170 | 1,497 | 1,667 |
| Other comprehensive income | - | (2,853) | (2,853) |
| Release of restricted funds spent in year | (110) | 110 | - |
| Total comprehensive income for the year | 60 | (1,247) | (1,187) |
| Balance at 1 August 2016 | 513 | (1,684) | (1,171) |
| Surplus/(deficit) from the income and expenditure statement | (17) | (555) | (572) |
| Other comprehensive income | - | (697) | (697) |
| Release of restricted funds spent in year | (496) | 496 | - |
| Total comprehensive income for the year | (513) | (756) | (1,269) |
| Balance at 31 July 2017 | 0 | (2,440) | (2,440) |

Consolidated and University Balance Sheet

| | Notes | As at 31 July 2017 | | As at 31 July 2016 | |
|---|-------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | Consolidated £'000 | University £'000 | Consolidated £'000 | University £'000 |
| Non-current assets | | | | | |
| Fixed assets | 10 | <u>33,786</u> | <u>33,786</u> | <u>11,602</u> | <u>11,602</u> |
| | | 33,786 | 33,786 | 11,602 | 11,602 |
| Current assets | | | | | |
| Trade and other receivables | 12 | 4,634 | 4,606 | 3,247 | 3,301 |
| Investments | 13 | 6,000 | 6,000 | 7,000 | 7,000 |
| Cash and cash equivalents | 19 | <u>12,973</u> | <u>12,852</u> | <u>8,779</u> | <u>8,679</u> |
| | | 23,607 | 23,458 | 19,026 | 18,980 |
| Less: Creditors: amounts falling due within one year | 14 | <u>(16,002)</u> | <u>(15,853)</u> | <u>(12,649)</u> | <u>(12,603)</u> |
| Net current (liabilities)/assets | | 7,605 | 7,605 | 6,377 | 6,377 |
| Total assets less current liabilities | | 41,391 | 41,391 | 17,979 | 17,979 |
| Creditors: amounts falling due after more than one year | 15 | <u>(24,300)</u> | <u>(24,300)</u> | <u>(1,758)</u> | <u>(1,758)</u> |
| Provisions | | | | | |
| Pension provisions | 16 | <u>(19,531)</u> | <u>(19,531)</u> | <u>(17,392)</u> | <u>(17,392)</u> |
| Total net assets | | <u>(2,440)</u> | <u>(2,440)</u> | <u>(1,171)</u> | <u>(1,171)</u> |
| Restricted Reserves | | | | | |
| Income and expenditure reserve - restricted reserve | 17 | 0 | 0 | 513 | 513 |
| Unrestricted Reserves | | | | | |
| Income and expenditure reserve - unrestricted | | <u>(2,440)</u> | <u>(2,440)</u> | <u>(1,684)</u> | <u>(1,684)</u> |
| Total Reserves | | <u>(2,440)</u> | <u>(2,440)</u> | <u>(1,171)</u> | <u>(1,171)</u> |

The financial statements were approved by the Governing Body on 29th November 2017 and were signed on its behalf by:

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

Consolidated Cash Flow

Year ended 31 July 2017

| | Notes | 31 July 2017 | 31 July 2016 |
|--|-------|-----------------|----------------|
| | | £'000 | £'000 |
| Cash flow from operating activities | | | |
| (Deficit)/Surplus for the year | | (1,269) | (1,186) |
| Adjustment for non-cash items | | | |
| Depreciation | 10 | 1,542 | 599 |
| Decrease/(increase) in debtors | 12 | (1,387) | 28 |
| Increase/(decrease) in creditors | 14 | 25,895 | 1,563 |
| Increase/(decrease) in pension provision | 16 | 2,139 | 4,106 |
| Increase/(decrease) in other provisions | 16 | 0 | 0 |
| Adjustment for investing or financing activities | | | |
| Investment income | 5 | (105) | (112) |
| Interest payable | 8 | 420 | 484 |
| Loss/(gain) on fixed assets | | 51 | 0 |
| Net cash inflow from operating activities | | 27,287 | 5,483 |
| Cash flows from investing activities | | | |
| Investment income | 5 | 105 | 112 |
| Payments made to acquire fixed assets | 10 | (317) | (1,129) |
| Service Concession Financing | 10 | (23,460) | (1,830) |
| Transfer (from)/to short term deposits | | 1,000 | 0 |
| | | (22,672) | (2,847) |
| Cash flows from financing activities | | | |
| Interest paid | 8 | (420) | (484) |
| | | (420) | (484) |
| Increase in cash and cash equivalents in the year | | 4,194 | 2,151 |
| Cash and cash equivalents at beginning of the year | 19 | 8,779 | 6,628 |
| Cash and cash equivalents at end of the year | 19 | 12,973 | 8,779 |

University of the Highlands and Islands

Statement of Accounting Policies

for the year ended 31 July 2017

1. Basis of preparation

The University of the Highlands and Islands is a limited company incorporated in Scotland. Its registered office is 12b Ness Walk, Inverness, Scotland, IV3 5SQ. The University is also a registered Scottish charity.

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standards (FRS 102). The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention.

The University is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 has affected the reported financial position, financial performance and cash flows of the consolidated results of the University is provided in note 37.

The financial position and strategy of the University are set out in the Operating and Financial Review on pages 2 to 11. The financial statements continue to be prepared on a going concern basis as the University Court considers that the University has adequate financial resources to continue in operational existence for the foreseeable future.

The financial statements of the University were authorised for issue by the University Court on 29 November 2017. The functional currency of the University is pound sterling and the financial statements have been prepared to the rounded £000.

2. Basis of consolidation

The consolidated financial statements include the University and its subsidiary for the financial year to 31 July 2017. Intra-group transactions are eliminated on consolidation.

Although the Post 16 (Scotland) Education Act 2013 and the Assigned Colleges (University of the Highlands and Islands) Order 2014 assigned the incorporated colleges (Inverness College, Lews Castle College, Moray College, North Highland College and Perth College) to the University in its role as Regional Strategic Body, giving the University powers to appoint the majority of the board of these colleges, the University does not consider that it was in a position to exercise "dominant influence" over these colleges during the year sufficient to class them as "subsidiary undertakings" as defined by the Companies Act 2006 and FRS102. As a result the University has not consolidated the incorporated colleges' accounts into the group accounts in 2016/17. As the nature of the relationship between the University and the incorporated colleges continues to evolve while the full effects of the legislation come into force, the University will review this position on an ongoing basis.

The consolidated financial statements do not include the income and expenditure of the Students' Association or Development Trust as the University does not exert control or dominant influence over policy decisions of either organisation.

3. Income recognition

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated Statement of Income and Comprehensive Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Investment income is credited to the statement of income and expenditure on a receivable basis.

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the University where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Grant funding

Government revenue grants including funding council block grant and research grants are recognised in income over the periods in which the University recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants (including research grants) from non government sources are recognised in income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income when the University is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the funds.

Statement of Accounting Policies (continued)

for the year ended 31 July 2017

3. Income recognition (continued)

Capital grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

4. Accounting for retirement benefits

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

USS

Throughout the current and preceding periods, the USS scheme was a defined benefit only pension scheme until 31 March 2016 which was 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 institution 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 Section 28 of FRS 102 "Employee 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. Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the income and expenditure account.

LGPS

The LGPS scheme is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The fund is valued every three years by professionally qualified independent actuaries.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the University. The Group should recognise a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

5. Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

6. Service Concession Arrangements

Fixed assets held under service concession arrangements are recognised on the Balance Sheet at the present value of the minimum lease payments when the assets are brought into use with a corresponding financial liability.

Payments under the service concession arrangement are allocated between service costs, finance charges and financial liability repayments to reduce the financial liability to nil over the life of the arrangement.

7. Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

Statement of Accounting Policies (continued)

for the year ended 31 July 2017

8. Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in Surplus or Deficit.

9. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings

Freehold land where it can be separately identified and valued, is not depreciated as it is considered to have an indefinite useful life. Freehold buildings and land which cannot be separately valued are depreciated on a straight line basis over their expected useful lives over 50 years. Buildings under construction are not depreciated until they come into use.

Where buildings are acquired with the aid of specific government grants, they are capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred income 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 government grants, the related grant is credited to a deferred income 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.

Capitalised equipment is depreciated over its expected useful life as follows:

| | |
|------------------------|---------|
| Computer Equipment | 3 years |
| Research Equipment | 5 years |
| Furniture and fittings | 5 years |

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

The Celtica and Theological Collections are not depreciated, as the University is required to maintain the collections in such condition that their value is not impaired over life.

University of the Highlands and Islands

Statement of Accounting Policies (continued)

for the year ended 31 July 2017

10. Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

11. Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

- (a) the University has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

12. Taxation

The University is an exempt 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 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 costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

The University's subsidiaries are liable to Corporation Tax in the same way as any other commercial organisation.

13. Reserves

Reserves are classified as restricted or unrestricted. Restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

University of the Highlands and Islands

Notes to the Accounts for the year ended 31 July 2017

| | Notes | Year Ended 31 July 2017 | | Year Ended 31 July 2016 | |
|--|-------|-------------------------|---------------------|-------------------------|---------------------|
| | | Consolidated £'000 | University £'000 | Consolidated £'000 | University £'000 |
| 1 Tuition fees and education contracts | | | | | |
| Scotland and EU fees | | 9,700 | 9,700 | 9,012 | 9,012 |
| RUK (old fee rates) | | 0 | 0 | 0 | 0 |
| RUK (new fee rates) | | 652 | 652 | 647 | 647 |
| Non-EU fees | | 919 | 919 | 671 | 671 |
| Non-credit bearing course fees | | 0 | 0 | 0 | 0 |
| Education contracts | | 14 | 14 | 12 | 12 |
| Other contracts | | | | | |
| | | 11,285 | 11,285 | 10,341 | 10,341 |
| 2 Funding body grants | | | | | |
| Recurrent grant | | | | | |
| General Fund - Teaching | | 33,344 | 33,344 | 34,535 | 34,535 |
| General Fund - Research and Knowledge Exchange | | 3,033 | 3,033 | 2,945 | 2,945 |
| Release of deferred capital grants | | 26 | 26 | 19 | 19 |
| Specific grants | | | | | |
| Strategic funding | | 266 | 266 | 407 | 407 |
| Capital maintenance grants | | 2,439 | 2,439 | 1,473 | 1,473 |
| Grants for FE provision | | 36,890 | 36,890 | 34,607 | 34,607 |
| Ring-fenced grants funded by Scottish Government | | 2,233 | 2,233 | 2,189 | 2,189 |
| | | 78,231 | 78,231 | 76,175 | 76,175 |
| 3 Research grants and contracts | | | | | |
| Research councils | | 195 | 195 | 268 | 268 |
| Research charities | | 129 | 129 | 78 | 78 |
| Government (UK and overseas) | | 1,255 | 1,201 | 717 | 693 |
| EU | | 1,484 | 1,484 | 990 | 990 |
| Industry and commerce | | 41 | 3 | 50 | 8 |
| Other | | 297 | 297 | 163 | 159 |
| | | 3,400 | 3,308 | 2,267 | 2,196 |
| 4 Other income | | | | | |
| Other revenue grants | | 2,492 | 2,492 | 617 | 617 |
| Enterprise Agency grants | | 155 | 155 | 186 | 186 |
| Other grant income | | 147 | 147 | 58 | 58 |
| Exchange gain | | 55 | 55 | 109 | 109 |
| Other capital grants | | 647 | 647 | 1,002 | 1,002 |
| Other income | | 2,459 | 2,518 | 2,027 | 2,089 |
| Other income generating activities | | 853 | 853 | 571 | 571 |
| | | 6,808 | 6,867 | 4,570 | 4,631 |
| 5 Investment income | | | | | |
| Other investment income | | 105 | 105 | 112 | 111 |
| Net return on pension scheme | 28 | 0 | 0 | 0 | 0 |
| | | 105 | 105 | 112 | 111 |
| 6 Donations and endowments | | | | | |
| Donations with restrictions | 17 | 0 | 0 | 170 | 170 |
| | | 0 | 0 | 170 | 170 |

**Notes to the Accounts
for the year ended 31 July 2017**

| | Year Ended 31 July 2017 | | Year Ended 31 July 2016 | |
|-------------------------------------|----------------------------|---------------------|----------------------------|---------------------|
| | Consolidated £'000 | University £'000 | Consolidated £'000 | University £'000 |
| 7 Staff costs | | | | |
| Staff Costs : | £'000 | £'000 | £'000 | £'000 |
| Salaries | 8,094 | 8,094 | 7,898 | 7,898 |
| Social security costs | 852 | 852 | 700 | 700 |
| Movement on USS provision | 75 | 75 | 101 | 101 |
| Other pension costs | 2,282 | 2,282 | 1,921 | 1,921 |
| Total | 11,303 | 11,303 | 10,620 | 10,620 |
| Administration and Central Services | 6,349 | 6,349 | 6,349 | 6,349 |
| Research Grants and Contracts | 1,139 | 1,139 | 1,013 | 1,013 |
| Academic/Teaching Departments | 3,815 | 3,815 | 3,258 | 3,258 |
| | 11,303 | 11,303 | 10,620 | 10,620 |

| | £ | £ |
|------------------------------------|------------|------------|
| Emoluments of the Vice-Chancellor: | | |
| Salary | 211 | 206 |
| Benefits | 0 | 0 |
| Pension contributions | 21 | 20 |
| | 232 | 226 |

Remuneration of other higher paid staff, not including the Vice-Chancellor disclosed above, excluding employer's pension contributions:

| | No. | No. |
|----------------------|----------|----------|
| £100,000 to £109,999 | - | 2 |
| £110,000 to £119,999 | - | 1 |
| £120,000 to £129,999 | 2 | 1 |
| | 2 | 4 |

| | No. | No. |
|---|------------|------------|
| Average staff numbers by major category : | | |
| Administration and Central Services | 128 | 130 |
| Premises | 1 | 1 |
| Research Grants and Contracts | 20 | 20 |
| Academic/Teaching Departments | 21 | 24 |
| Academic Services | 51 | 33 |
| | 221 | 208 |

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

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. Staff costs includes compensation paid to key management personnel.

Key Management Personnel are the Principal and Vice-Chancellor, the Chief Operating Officer and Secretary, the Deputy Principal, the Vice-Principal (Enterprise), Vice Principal (Further Education) and the Acting Vice Principal (Research). 3 Further Vice Principals are on half-time secondment from Academic Partners and are not included in these figures.

| | Year Ended Year ended 31 July 2017 £'000 | Year Ended Year ended 31 July 2016 £'000 |
|--|---|---|
| Key management personnel compensation | 646 | 628 |

Notes to the Accounts
for the year ended 31 July 2017

7 Staff costs (continued)

Court Members

The University Court members are the trustees for charitable law purposes. Due to the nature of the University's operations and the compositions of the 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 Court may have an interest, including those identified below, are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

A Register of Interests is maintained and published on the University's website.

During the financial year 2016/17 the University offered the Chair of Court and Chair of the FE Regional board a fixed remuneration rate of £35.87 per hour or a daily rate of £269 based on a 7.5 hour day (Chair of Court) and £35.33 per hour or a daily rate of £265 based on a 7.5 hour day (Chair of FERB).

| | Hours claimed for 2016/17 | Remuneration |
|-------------------|----------------------------------|---------------------|
| Mr Garry Coutts | 651 | £23,351 |
| Dr Michael Foxley | 731.5 | £25,844 |

The total expenses paid to or on behalf of 26 court members was £15,491 (2016-£14,011 to 21 council members). This represents travel and subsistence expenses incurred in attending Court, Committee meetings and other events in their official capacity.

Notes to the Accounts
for the year ended 31 July 2017

| | Notes | Year Ended 31 July 2017 | | Year Ended 31 July 2016 | |
|--|-------|-------------------------|---------------------|-------------------------|---------------------|
| | | Consolidated £'000 | University £'000 | Consolidated £'000 | University £'000 |
| 8 Interest and other finance costs | | | | | |
| Net charge on pension scheme | 28 | 420 | 420 | 484 | 484 |
| | | 420 | 420 | 484 | 484 |
| 9 Analysis of total expenditure by activity | | | | | |
| Academic and related expenditure | | 75,481 | 75,481 | 68,197 | 68,197 |
| Administration and central services | | 3,591 | 3,588 | 4,949 | 4,942 |
| Premises (including service concession cost) | | 1,479 | 1,479 | 881 | 881 |
| Residences, catering and conferences | | 0 | 0 | 0 | 0 |
| Research grants and contracts | | 5,457 | 5,427 | 4,568 | 4,565 |
| Agency Staff | | 177 | 177 | 91 | 91 |
| Other expenses | | 951 | 951 | 1,579 | 1,579 |
| | | 87,137 | 87,103 | 80,265 | 80,254 |
| Other operating expenses include: | | | | | |
| External auditors remuneration in respect of audit services | | 48 | | 46 | |
| External auditors remuneration in respect of non-audit services | | 3 | | 2 | |
| Internal auditors remuneration in respect of internal audit services | | 33 | | 13 | |
| Operating lease rentals | | | | | |
| | | | Land and buildings | | |
| | | | Other | | |
| | | | 205 | 212 | |
| | | | 20 | 16 | |

Notes to the Accounts
for the year ended 31 July 2017

10 Fixed Assets

| | Freehold Land and Buildings £'000 | Service concession arrangement Land and Buildings (Note 11) £'000 | Leasehold Improvement £'000 | Celtica and Theological collections £'000 | Equipment £'000 | Total £'000 |
|--------------------------|--------------------------------------|--|--------------------------------|--|--------------------|----------------|
| Cost or valuation | | | | | | |
| At 1 August 2016 | 8,603 | 1,830 | 313 | 82 | 9,394 | 20,222 |
| Additions | 9 | 23,460 | - | 0 | 308 | 23,777 |
| Disposals | - | - | - | - | (80) | (80) |
| At 31 July 2017 | 8,612 | 25,290 | 313 | 82 | 9,622 | 43,919 |
| Depreciation | | | | | | |
| At 1 August 2016 | 1,155 | 0 | 147 | - | 7,318 | 8,620 |
| Charge for the year | 168 | 723 | 21 | - | 630 | 1,542 |
| Disposals | 0 | - | 0 | - | (29) | (29) |
| At 31 July 2017 | 1,323 | 723 | 168 | 0 | 7,919 | 10,133 |
| Net book value | | | | | | |
| At 31 July 2017 | 7,289 | 24,567 | 145 | 82 | 1,703 | 33,786 |
| At 1 August 2016 | 7,448 | 1,830 | 166 | 82 | 2,076 | 11,602 |

At 31 July 2017, freehold land and buildings included £0.239 (2016 - £0.239m) in respect of freehold land and is not depreciated.

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

The Celtica and Theological book collections are not depreciated, as the university is required to maintain the collections in such condition that their value is not impaired over life. Due to the nature of the books in the collection, and the limited historical value, these have not been deemed to be heritage assets.

Notes to the Accounts for the year ended 31 July 2017

11 Service Concession Arrangements

The University has two on Balance Sheet arrangements where service delivery has commenced.

Movement in Service concession arrangement assets

The asset value of the service concession included in the Balance Sheet as at 31/07/2017 is £24,566,071 (31/07/2016 £1,829,707).

Movement in Service concession arrangement liabilities

The total liabilities relating to the service concession included in the Balance Sheet as at 31/07/2017 were £25,128,855 (31/07/2016 £1,829,707).

Future commitments

The following table analyses the University's future commitments in relation to service concession arrangements.

| £'000 | Payable in 1 year | Payable in 2-5 years | Payable in 6-10 years | Payable in more than 10 years | Total |
|----------------|----------------------|-------------------------|--------------------------|-------------------------------------|--------|
| Service charge | 829 | 3,776 | 4,319 | 16,205 | 25,129 |

The notes below give more information on the University's current service concession arrangements:

a) On Balance Sheet concession arrangements

On 8 July 2016 the University entered into a 35-year contract with a third party provider for the provision and maintenance of Student Residences at Fort William, providing accommodation to 40 students.

Service commenced on 11 July 2016 and the contract will finish on 10 July 2051.

On 19 August 2016 the University entered into a 35-year contract with a third party provider for the provision and maintenance of Student Residences at Inverness Campus, providing accommodation to 150 students.

Service commenced on 22 August 2016 and the contract will finish on 21 August 2051.

The assets and liabilities relating to this scheme are recognised on the University's Balance Sheet.

The University has committed annual payments of £669,600 recorded within other operating expenses.

Notes to the Accounts
for the year ended 31 July 2017

12 Trade and other receivables

| | Year ended 31 July 2017 | | Year ended 31 July 2016 | |
|---------------------------------------|-------------------------|--------------|-------------------------|--------------|
| | Consolidated | University | Consolidated | University |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts falling due within one year: | | | | |
| Research grants receivables | 735 | 735 | 92 | 92 |
| Other trade receivables | 1,372 | 1,344 | 1,002 | 952 |
| Other receivables | 0 | 0 | 0 | 0 |
| Prepayments and accrued income | 2,527 | 2,526 | 2,153 | 2,257 |
| Amounts due from subsidiary companies | 0 | 0 | 0 | 0 |
| | <u>4,634</u> | <u>4,605</u> | <u>3,247</u> | <u>3,301</u> |

13 Current Investments

| | Year ended 31 July 2017 | | Year ended 31 July 2016 | |
|---------------------|-------------------------|--------------|-------------------------|--------------|
| | Consolidated | University | Consolidated | University |
| | £'000 | £'000 | £'000 | £'000 |
| Short term deposits | 6,000 | 6,000 | 7,000 | 7,000 |
| | <u>6,000</u> | <u>6,000</u> | <u>7,000</u> | <u>7,000</u> |

Deposits are held with banks operating in the London market and licensed by the Financial Services Authority with more than three months maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

At 31 July 2017 the weighted average interest rate of these fixed rate deposits was 0.59% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 194 days. The fair value of these deposits was not materially different from the book value.

14 Creditors : amounts falling due within one year

| | Year ended 31 July 2017 | | Year ended 31 July 2016 | |
|--|-------------------------|---------------|-------------------------|---------------|
| | Consolidated | University | Consolidated | University |
| | £'000 | £'000 | £'000 | £'000 |
| Service concession arrangements (note 11) | 829 | 829 | 72 | 72 |
| Trade payables | 591 | 577 | 249 | 245 |
| Social security and other taxation payable | 36 | 33 | 38 | 34 |
| Accruals and deferred income | 14,545 | 14,413 | 12,290 | 12,252 |
| | <u>16,002</u> | <u>15,852</u> | <u>12,649</u> | <u>12,603</u> |

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

Deferred income

Included with accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

| | Year ended 31 July 2017 | | Year ended 31 July 2016 | |
|-------------------------------------|-------------------------|---------------|-------------------------|---------------|
| | Consolidated | University | Consolidated | University |
| | £'000 | £'000 | £'000 | £'000 |
| Accruals | 4,496 | 4,381 | 2,724 | 2,724 |
| Donations | 193 | 193 | 14 | 14 |
| Research grants received on account | 1,317 | 1,317 | 1,180 | 1,180 |
| Grant income | 1,484 | 1,484 | 1,785 | 1,785 |
| Deferred Government Capital Grants | 18 4,790 | 4,790 | 5,295 | 5,295 |
| Other income | 2,265 | 2,248 | 1,292 | 1,254 |
| | <u>14,545</u> | <u>14,413</u> | <u>12,290</u> | <u>12,252</u> |

Notes to the Accounts
for the year ended 31 July 2017

15 Creditors : amounts falling due after more than one year

| | Year ended 31 July 2017 | | Year ended 31 July 2016 | |
|---|-------------------------|---------------------|-------------------------|---------------------|
| | Consolidated £'000 | University £'000 | Consolidated £'000 | University £'000 |
| Service concession liabilities due after one year | <u>24,300</u> | <u>24,300</u> | <u>1,758</u> | <u>1,758</u> |
| | <u>24,300</u> | <u>24,300</u> | <u>1,758</u> | <u>1,758</u> |

16 Provisions for liabilities

| Consolidated | Obligation to fund deficit on USS Pension £'000 | Defined Benefit Obligations (Note 35) £'000 | Total Pensions Provisions £'000 |
|------------------------------------|--|--|--|
| At 1 August 2016 | 1,250 | 16,142 | 17,392 |
| Utilised in year | 0 | 0 | 0 |
| Additions in 2016/17 | 97 | 2,042 | 2,139 |
| Unused amounts reversed in 2016/17 | 0 | 0 | 0 |
| At 31 July 2017 | <u>1,347</u> | <u>18,184</u> | <u>19,531</u> |

| University | Obligation to fund deficit on USS Pension £'000 | Pension scheme provision under FRS102 (note 35) £'000 | Total Pensions Provisions £'000 |
|------------------------------------|--|--|--|
| At 1 August 2016 | 1,250 | 16,142 | 17,392 |
| Utilised in year | 0 | 0 | 0 |
| Additions in 2016/17 | 97 | 2,042 | 2,139 |
| Unused amounts reversed in 2016/17 | 0 | 0 | 0 |
| At 31 July 2017 | <u>1,347</u> | <u>18,184</u> | <u>19,531</u> |

USS deficit

The obligation to fund the past deficit on the Universitys' Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in assessing the value of this provision.

Notes to the Accounts for the year ended 31 July 2017

17 Restricted Reserves

Reserves with restrictions are as follows:

| Donations | 2017 Total £'000 | 2016 Total £'000 |
|--|---------------------------------|---------------------------------|
| Balances at 1 August 2016 | 496 | 513 |
| New donations | | 36 |
| Expenditure | (496) | (53) |
| Total restricted comprehensive income for the year | (496) | (17) |
| At 31 July 2017 | - | 496 |
| | 2017 Total £'000 | 2016 Total £'000 |
| Analysis of other restricted funds /donations by type of purpose: | | |
| Research support | - | 496 |
| | - | 496 |

18 Deferred Capital Grants

| Group and University | Funding Council £'000 | Other £'000 | Total £'000 |
|---|----------------------------------|------------------------|------------------------|
| At 1 August 2016 | 92 | 5,203 | 5,295 |
| Cash received and assets donated: | | | |
| Land & buildings | - | - | - |
| Equipment | 51 | 117 | 168 |
| | <u>51</u> | <u>117</u> | <u>168</u> |
| Released to income and expenditure account: | | | |
| Land and buildings | 2 | 107 | 109 |
| Equipment | 24 | 540 | 564 |
| | <u>26</u> | <u>647</u> | <u>673</u> |
| At 31 July 2017 | | | |
| Land and buildings | 17 | 3,221 | 3,238 |
| Equipment | 100 | 1,452 | 1,552 |
| | <u>117</u> | <u>4,673</u> | <u>4,790</u> |

19 Cash and cash equivalents

| | At 1st August 2016 £'000 | Cash Flows £'000 | At 31st July 2017 £'000 |
|---------------------------|---|---------------------------------|--|
| Consolidated | | | |
| Cash and cash equivalents | 8,650 | 4,173 | 12,823 |
| Student support funds | 129 | 21 | 150 |
| | <u>8,779</u> | <u>4,194</u> | <u>12,973</u> |

Notes to the Accounts for the year ended 31 July 2017

20 Capital and other commitments

Other than the capital element of the Service Concession for the Phase 2 student residences referred to in note 22, there were no capital commitments at the balance sheet date.

21 Lease obligations

Total rentals payable under operating leases:

| | 31 July 2017 | | | 31 July 2016 | |
|--|-----------------------------|------------------------------|----------------|--------------|------------|
| | Land and Buildings £'000 | Plant and Machinery £'000 | Total £'000 | | £'000 |
| Payable during the year | 205 | 20 | 212 | | 212 |
| Future minimum lease payments due: | | | | | |
| Not later than 1 year | 932 | 13 | 945 | | 113 |
| Later than 1 year and not later than 5 years | 2,943 | 27 | 2,970 | | 30 |
| Later than 5 years | 155 | - | 155 | | 0 |
| Total lease payments due | 4,030 | 40 | 4,070 | | 143 |

22 Events after the reporting period

The first phase of student residences Fort William (40 rooms), developed by Cityheart, were completed on schedule in June 2016. The second part of phase 1 of the student residences project at Inverness College UHI were completed in late August 2016 and were available for students from September 2016. These two residences are included in the financial statements. Development of a second phase across a number of other locations in the Highlands and Islands for entry in September 2017 will provide 40 rooms in Dornoch, 40 rooms in Elgin and a further 150 rooms on Inverness Campus. This initiative seeks to 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.

23 Subsidiary undertakings

The subsidiary company (registered in Scotland), wholly-owned by the University, are as follows:

| Company | Principal Activity | Status |
|---------------------------------|--|------------|
| UHI Research and Enterprise Ltd | Delivery of commercial research, knowledge exchange, consultancy and work based learning | 100% owned |

During the year the subsidiary company had income of £146,951 (2015 - £141,570). The net profit of £1,577 (2015 - £7,196) was paid under gift aid to UHI. Net assets at 31 July 2016 are £1.

Notes to the Accounts
for the year ended 31 July 2017

24 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 | Payments to Partners | Amounts due | |
|----------------------------------|----------------------|----------------------|-----------------------------|-------------------------------|
| | | | to Partners at 31 July 2017 | from Partners at 31 July 2017 |
| | £000 | £000 | £000 | £000 |
| Argyll College | 59 | 726 | - | - |
| HTC | 3 | 351 | - | - |
| Inverness College | 318 | 15,895 | 16 | 5 |
| Lewis Castle College | 74 | 4,621 | 2 | 44 |
| Moray College | 233 | 10,283 | 8 | 10 |
| North Atlantic Fisheries College | 10 | 532 | 2 | 9 |
| North Highland College | 303 | 10,379 | 131 | 19 |
| Orkney Islands Council | 42 | 2,969 | 1 | 2 |
| Perth College | 325 | 16,464 | 13 | - |
| SAMS | 40 | 2,501 | - | 14 |
| Shetland Islands Council | 94 | 2,577 | 10 | 38 |
| SMO | 9 | 912 | - | 1 |
| West Highland College | 74 | 3,922 | - | 6 |
| University of Aberdeen | 17 | 28 | - | - |
| University of Edinburgh | 71 | 12 | 37 | - |
| University of Strathclyde | - | 8 | - | - |
| | 1,672 | 72,180 | 220 | 148 |

25 Hardship Funds and Childcare Funds

| | HE Childcare £000 | HE Discretionary £000 | 2016/17 Total £000 | 2015/16 Total £000 |
|-----------------------------|----------------------|--------------------------|--------------------------|--------------------------|
| Balance brought forward | - | - | - | - |
| Allocation received in year | 7 | 407 | 414 | 447 |
| Expenditure | (3) | (350) | (353) | (350) |
| Repayable to funding body | (4) | (57) | (61) | (97) |
| Balance carried forward | 0 | 0 | 0 | 0 |

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.

26 Contingent Liabilities

The University of the Highlands and Islands receives funding from SFC for distribution to academic partners for the furtherance of Higher Education activities, and also for Further Education activities following its appointment as Further Education Regional Strategic Body. The University relies on confirmation from its academic partners, its knowledge of the number of HE and FE students in each college and and expected benchmark cost of providing HE and FE to confirm that the funding issued to academic partners is expensed on Higher Education and Further Education activities. In the event that monies transferred were not expensed on Higher Education and Further 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 and FE output and the review of the above information that no such refund will be required.

27 Securities

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

Notes to the Accounts for the year ended 31 July 2017

28 Pension Schemes

Different categories of staff were eligible to join one of three different schemes:

- Universities' Superannuation Scheme (USS)
- Local Government Pension Scheme (LGPS)
- NEST

Pension (S2P) the assets of which are held in separate trustee administered funds. No staff are currently enrolled in the NEST scheme.

(i) The Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS). With effect from 1 October 2016, the scheme changed from a defined benefit only pension scheme to a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The institution 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. As required by Section 28 of FRS102 "Employee benefits", the institution therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme. Since the institution has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the institution recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

The University is required to contribute a specified percentage of payroll costs to the pension scheme to fund the benefits payable to the University's employees. The percentage was 18% from 1 April 2016 (previously 16%).

The total charged to the profit and loss account is £538k (2016 £463k).

The latest available full actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway.

Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third 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. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

| | 2017 | 2016 |
|---------------------------|-------|-------|
| Discount rate | 2.57% | 3.60% |
| Pensionable salary growth | n/a | n/a |
| Pension increases | 2.41% | 2.20% |

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

| | |
|---------------------------|--|
| Male members' mortality | 98% of S1NA ["light"] YoB tables – No age rating |
| Female members' mortality | 99% of S1NA ["light"] YoB tables – rated down 1 year |

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

| | 2017 | 2016 |
|-----------------------------------|------|------|
| Males currently aged 65 (years) | 24.4 | 24.3 |
| Females currently aged 65 (years) | 26.6 | 26.5 |
| Males currently aged 45 (years) | 26.5 | 26.4 |
| Females currently aged 45 (years) | 29.0 | 28.8 |

| | 2017 | 2016 |
|------------------------------|---------|---------|
| Scheme assets | £60.0bn | £49.8bn |
| Total scheme liabilities | £77.5bn | £58.3bn |
| FRS 102 total scheme deficit | £17.5bn | £8.5bn |
| FRS 102 total funding level | 77% | 85% |

Notes to the Accounts for the year ended 31 July 2017

28 Pension Schemes (continued)

As at the valuation date the scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 18% 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 the valuation effective date 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 specific, limited circumstances, new entrants are now provided benefits 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.

Members contributions increased

Contributions were uplifted to 8% pa FS Section members and CRB Section members.

USS investment builder

From 1st October 2016, if an employee elects to pay additional contributions to their pension fund, the employer will match a further 1% of contributions. Contributions above 1% by the employee are not matched.

Pension increase cap

For service derived after 30 September 2011, USS will match increases 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%.

**Notes to the Accounts
for the year ended 31 July 2017**

28 Pension Schemes (continued)

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 15.9% of pensionable salaries and the trustee company, on the advice of the actuary, increased the University contribution rate salaries from 1 April 2016.

The actuary has estimated that the funding level as at 31 March 2014 under the scheme specific funding regime had fallen from 92% to 89% (a deficit of circa £5.3bn). Over the past twelve months, the funding level has deteriorated from 89%, as at 31 March 2014 to 77%. This estimate is based on the funding level at 31 March 2015, adjusted to reflect the fund's actual investment performance over the last year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). The next formal valuation is at 31st March 2017 and this will incorporate updated assumptions agreed by the trustee company.

With effect from 1 April 2016, new joiners to the scheme join the new revalued benefits section rather than the existing final salary section.

On the FRS 102(28) basis, using an AA bond discount rate of 3.4% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2014 was 89%. An estimate of the funding level measured on a buy-out basis at that date was approximately 54%.

Surpluses or deficits which arise at future valuations may impact on the University'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 as at the date of the last triennial valuation are set out below:

| Assumption | Change in Assumption | Impact on scheme |
|---|-----------------------------|--------------------------|
| Investment return | Decrease by 0.25% | Increase by £1.6 billion |
| The gap between Retail Price Index and Consumer Price Index | 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 |

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 believes that, over the long-term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risks relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the funds' liabilities. Before decided to take investment risk relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers.

At 31 March 2014, USS had over 167,000 active members and the University had 22 active members participating in the scheme.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers, enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. However, the trustee is mindful of the difficult economic climate that exists for defined benefits pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan become necessary following the next valuation to compile a formal financial management plan, which will bring together the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

Notes to the Accounts
for the year ended 31 July 2017

28 Pension Schemes (continued)

(ii) 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 2017 was £1,259k of which employers' contributions totalled £908k and employees' contributions totalled £351k.

The following information is based upon pension expense calculation as at 31 July 2017.

Valuation method

As required under the Accounting Standard, the projected unit credit method of valuation has been used.

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 2014. The post retirement mortality assumptions adopted in line with the Club Vita analysis which was carried out for the valuation. These are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund.

Improvements have been applied that are in line with the CIM 2012 assuming the rate of longevity improvements has reached a peak and will converge to a long term rate of 1.25% p.a. The assumed life expectations from age 65 are:

| Life expectancy from age 65 (years) | 31-Jul-17 | 31-Jul-16 |
|-------------------------------------|-----------|-----------|
| Retiring Today: | | |
| Males | 22.5 | 22.5 |
| Females | 24.1 | 24.1 |
| Retiring in 20 years: | | |
| Males | 24.7 | 24.7 |
| Females | 26.8 | 26.8 |

Financial Assumptions for the Scheme

| Assumptions as at | 31-Jul-17 | | 31-Jul-16 | | 31-Jul-15 | |
|-------------------|-----------|--------|-----------|--------|-----------|--------|
| | % p.a. | Real | % p.a. | Real | % p.a. | Real |
| RPI Increases | 3.40% | - | 2.90% | - | 3.50% | - |
| CPI Increases | 2.40% | -1.00% | 1.90% | -1.00% | 2.60% | -0.90% |
| Salary Increases | 4.50% | 1.00% | 3.90% | 1.00% | 4.50% | 1.00% |
| Pension Increases | 2.50% | -1.00% | 1.90% | -1.00% | 2.60% | -0.90% |
| Discount Rate | 2.70% | -0.50% | 2.40% | -0.50% | 3.60% | 0.10% |

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 2016 for the year to 31 July 2017). The expected return on assets assumption is set equal to the discount rate.

Analysis of movement in the fair value of scheme assets

| | Year to 31-Jul-17 £'000 | Year to 31-Jul-16 £'000 |
|---|-------------------------------|-------------------------------|
| Fair value of assets at the start of the year | 26,680 | 22,733 |
| Expected return on assets | 648 | 834 |
| Actuarial gain on assets | 2,880 | 2,243 |
| Actual contributions paid by University | 864 | 966 |
| Actual member contributions | 357 | 367 |
| Actual benefit payments | (571) | (463) |
| Fair value of scheme assets at the end of the year | <u>30,858</u> | <u>26,680</u> |
| Present value of liabilities at the start of the year | 42,822 | 34,904 |
| Current service cost | 1,811 | 1,586 |
| Past service costs | - | 48 |
| Interest cost on defined benefit obligation | 1,046 | 1,284 |
| Actual member contributions | 357 | 367 |
| Actual benefit payments | (571) | (463) |
| Changes in financial assumptions | 3,577 | 5,398 |
| Changes in demographic assumptions | - | - |
| Other experience adjustments | - | (302) |
| Present value of funded liabilities | <u>49,042</u> | <u>42,822</u> |
| Fair value of scheme assets at the end of the year | 30,858 | 26,680 |
| Present value of funded liabilities | <u>(49,042)</u> | <u>(42,822)</u> |
| Net liability in Balance Sheet | <u>(18,184)</u> | <u>(16,142)</u> |

University of the Highlands and Islands

Notes to the Accounts for the year ended 31 July 2017

28 Pension Schemes (continued)

Analysis of the amount charged to UHI Statement of Comprehensive Income and Expenditure

| | Year to 31-Jul-17 | Year to 31-Jul-16 |
|--|------------------------------|------------------------------|
| | £'000 | £'000 |
| Current service cost * | 1,811 | 1,586 |
| Past service costs | - | 48 |
| Interest on obligation | 1,046 | 1,284 |
| Expected return on scheme assets | 648 | (834) |
| Actuarial loss in respect of pension schemes | 697 | 2,853 |
| Total | 4,202 | 4,937 |

*The current service cost contains an allowance for administration expenses of 0.4% of payroll.

Sensitivity analysis to UHI obligations and service costs

| | Approx % increase to Employer Liability | Approx monetary amount £000 |
|--|--|-----------------------------------|
| 0.5% decrease in Real Discount Rate | 14% | 6,649 |
| 0.5% increase in Salary Increase Rate | 5% | 2,333 |
| 0.5% increase in Pension Increase Rate | 8% | 4,100 |

Reconciliation of opening and closing deficit

| | Year to 31-Jul-17 | Year to 31-Jul-16 |
|-----------------------------------|------------------------------|------------------------------|
| | £'000 | £'000 |
| Deficit at beginning of year | (16,142) | (12,171) |
| Current service cost | (1,811) | (1,634) |
| Employer contributions | 864 | 966 |
| Other finance income | (398) | (450) |
| Actuarial (loss)/gain | (697) | (2,853) |
| Deficit at end of the year | (18,184) | (16,142) |

Projected pension expense for the year to 31 July 2018

UHI share of the LGPS

| | Year to 31-Jul-18 |
|--------------------------------------|------------------------------|
| | £'000 |
| Projections for Year to 31 July 2018 | |
| Service cost * | 2,000 |
| Interest cost | 1,347 |
| Return on assets | (843) |
| Total | 2,504 |
| Employer contributions | 1,038 |

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

The above figures should be treated as estimates and may need to be adjusted to take account of:

- 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; and/or
- Any full funding valuation that may have been carried out on the Employer's behalf.

The monetary amount of the projected service cost for the period to 31 July 2018 may be adjusted to take account of actual pensionable payroll for the period.

Notes to the Accounts for the year ended 31 July 2017

29 Accounting estimates and judgements

USS Pension Scheme

FRS 102 makes the distinction between a Group Plan and a multi-employer scheme. A Group Plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as that provided by USS. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense is recognised in profit or loss. The directors are satisfied that the scheme provided by USS meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements.

Service Concession arrangements

UHI has entered into an agreement with Cityheart for the operation and management of student residences at West Highland College (UHI) at Fort William and Inverness College (UHI). The nature of this agreement requires that it is treated as a Service Concession arrangement in line with FRS102 (S34.12), and is recognised as an infrastructure asset and a related liability.