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# **University of the Highlands and Islands**

## **Report and Financial Statements For the year ended 31 July 2013**

A limited company registered in Scotland No. 148203. Registered Charity No. SC022228  
Registered Office: 12B Ness Walk, Inverness, IV3 5SQ

## Contents

Operating and Financial Review	2 - 9
Corporate Governance and Internal Control	10 - 16
Statement of the Responsibilities of the University Court	17
Statement on the System of Internal Control	18
Auditor's Report to the Court of the University of the Highlands and Islands	19 - 20
Group Income and Expenditure Account	21
Group Statement of Total Recognised Gains and Losses	22
Group Balance Sheet	23
University Balance Sheet	24
Group Cash Flow Statement	25
Notes to the financial statements	26 - 46

University of the Highlands and Islands  
**Operating and Financial Review for the year ended 31 July 2013**

**Nature, Objectives and Strategy of the University**

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

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

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

In 2012/13 the university benefited from the first tranche of 1000 additional funded full time equivalent student places from the Scottish Funded Council (SFC) with a further 1500 places being offered over the next 3 years. In addition we benefited from a programme funded by European Social Fund (ESF) "Investing in Recovery" which also funded additional student places directly aimed at improving skills and employment prospects in the Highlands and Islands. We successfully recruited sufficient additional students to exceed targets set to attract maximum funding from both sources. The increased funded student numbers will enable us to continue to increase the number of degree students we are able to attract and in turn this will enable us to offer an increased breadth and volume of subjects and degree programmes appropriate for a regional university with national and international ambitions. This will assist us in achieving financial sustainability.

2012/13 is the last financial year in which we benefited from funding from the 2007-13 EU Structural Funds programme. Over the past 5 years, through the Strategic Delivery Body (SDB) status we were granted, and invested £16m of European Regional Development Funds (ERDF) and ESF funds which was matched with £22m of funding from other sources in specific projects in research, estates, infrastructure, and learning and teaching development, to help achieve the transformation of the Highlands and Islands economy. This funding was most welcome, but we continue to strive to diversify our recurrent income from non SFC sources to underpin our future sustainability and strength.

During the year we continued to implement our Strategic Plan for 2012-17 which was approved in early 2012 and reported satisfactory progress against key performance indicators to the University Court in October 2013. The plan sets out the purpose of the university as being "To have a transformational impact on the development and prospects of the region, its people and its communities." Our vision is to be the University **in, for and of** the Highlands and Islands. A copy of the Strategic Plan setting out our aims and objectives from 2012 to 2017 for the UHI partnership is available on our website [www.uhi.ac.uk](http://www.uhi.ac.uk)

## Operating and Financial Review (continued)

### Current and Future Development and Performance

In June 2012 the University was privileged to install HRH The Princess Royal as the first Chancellor thus marking a key milestone in the development of the Institution.

Following achievement of university title in February 2011, it was recognised that the university's operating model should be reviewed in the light of internal drivers to improve external focus and engagement with stakeholders and decision making processes and external drivers to respond effectively to the government's agenda for Post 16 educational reform. This would allow us to compete effectively with other higher education institutions and improve efficiency of delivery in the light of reduced public sector funding availability.

Capita Consulting were appointed in 2011 by a cross partnership working group reporting to the University Court to undertake the review and recommended a "building block" model with a large number of recommendations for change over a range of workstreams. A Transformation Implementation Group was established by the University Court in early 2012 to take forward these recommendations. The majority of recommendations have now been implemented and the Transformation Implementation Group met for the last time in October 2013. Some of the Capita recommendations have been overtaken by progress towards implementation of the Scottish Government plans for reform of Post 16 education in Scotland. Any outstanding actions have been formally allocated to appropriate groups to complete.

In setting out the plans for the regionalisation of further education in Scotland 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. These reforms, together with Scottish Government led reviews of governance in both further and higher education, is expected to result in further education funding for the Highlands and Islands being channelled through UHI to its academic partners from 2014/15. The University Court is likely to be the accountable body for both higher and further education performance in line with a single outcome agreement with the Scottish Funding Council (SFC) from that date. The changing nature of UHI's role requires a change to the governance and management structure of the university. A Governance Working Group made recommendations on these changes to the Cabinet Secretary for Education and Lifelong Learning on 1<sup>st</sup> October 2012. The University Court approved these recommendations and many of these were implemented during 2012/13 to ensure preparedness for the new responsibilities set out in the Post 16 Education (Scotland) Act 2013 which received Royal Assent in June 2013 and is expected to come into force at a date yet to be determined during 2014.

The Governance Working Group's recommendations on reconstituting the membership of University Court (Court) and, in so doing, reducing the total number of members (28) and attendees (12+) to 20 members and 6 in attendance, revising its role and responsibilities and establishing a Further Education (FE) Regional Board as a committee of the Court required a significant number of changes to the Articles of Association of the university to give the Court the powers to implement. These changes are now in the process of being finalised and await Privy Council consent prior to formally being adopted by Court. In parallel, new Court members have been recruited and a Shadow Court formed as a committee of the Court to ensure a smooth transition to the new arrangements. The formal transition to the new Court will be completed shortly after Privy Council consent is received. Similarly the FE Regional Board has been established as a committee of the Court and members recruited to enable planning of further education on a regional basis to commence.

We continue to focus on achieving research Degree Awarding Powers (rDAP) which are a prerequisite for a university in Scotland. The achievement of rDAP is a strategic priority for the university along with our priorities of:

- Increasing and diversifying our student population, continuing our focus on widening access to those otherwise excluded from higher education through geography, social background or financial means. In addition we will increase recruitment of young entrants.

## Operating and Financial Review (continued)

### Current and Future Development and Performance (continued)

- Utilising our distinctive blended learning model to provide flexible opportunities relevant to students' needs and ambitions and to meet the needs of the economy and society.
- Providing a range of core curriculum to all of the communities of our region alongside a range of courses distinctive to our research strengths and the region's environment, cultural heritage, professions and industries and which will attract students from within our region and beyond.
- Sustaining and developing high impact research and knowledge exchange activities.
- Being able to invest in strategic initiatives and take advantage of new opportunities.

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

The university successfully delivered its first higher education outcome agreement in 2012/13 as required by the Scottish Funding Council. In 2014/15 it is envisaged that there will be a joint further and higher education agreement for the Highlands and Islands which will incrementally demonstrate shared outcomes between the two funding streams and in so doing underpin the tertiary nature of the institution.

The university's fundraising activities continued to succeed in the year, against a challenging economic environment. Donations totalling some £84,000 towards a range of projects were raised.

The university increased its total student numbers with 5,275 (4,803) full-time equivalents during the year, primarily from within the region. UHI continues to service the lifelong learning needs of the region with 20% (23%) of students part-time and 55% (56%) over 21 years of age at the start of their course. UHI has been successful in securing additional funded places from 2012/13 with continued growth in funded places for the following three years and has also been successful in securing European Social Fund (ESF) funding to support funded student numbers from 2011/12 through to 2013/14 which has allowed for further growth in our undergraduate population from within our region.

#### Research Capacity

The university continues to expand its research activities. The partnership continued to maintain its investment in its Research Assessment Exercise (RAE) disciplines: Celtic studies, based at Sabhal Mòr Ostaig UHI on Skye; Archaeology based at Orkney College UHI and Earth Systems Sciences representing work at the Scottish Association for Marine Science UHI at Dunstaffnage and the Environmental Research Institute at North Highland College UHI. In addition, the university has invested significantly in the past five years in health and life sciences which, along with UHI's other research activities, will be assessed in the forthcoming Research Excellence Framework (REF) exercise. These make a major contribution to the profile required for the university to secure research degree awarding powers.

In the year the university continued to invest in Rural Health, Lipidomics and Marine Renewables and continued to develop research support systems to ensure the quality and sustainability of the research. The ERDF funding period for these investments ended in December 2012. Since then they continue to be maintained through core funding.

The university has allocated part of its SDB European Social Fund (ESF) budget for 2011-2013 to investing in twelve additional PhD students to enable them to study and research in disciplines which align with ESF thematic priorities and key economic sectors for the region. This project increases the opportunity for people in the Highlands and Islands to extend their educational and professional qualifications to doctorate level.



## Operating and Financial Review (continued)

### Current and Future Development and Performance (continued)

The university continues to seek to develop a collaborative research facility on the new Inverness Campus. A business case is being finalised involving UHI and its academic partners, Highlands and Islands Enterprise (HIE) and SRUC.

#### Staff Development

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

In June 2011 the university and its academic partners agreed to make a significant investment in a senior leadership development programme. Some 40 participants have now completed the programme in two tranches and a strategic leadership programme for Principals and Directors was delivered during the year to over 20 participants.

The benefits of the programmes included an opportunity to discuss, embed and deliver a number of institution-wide aspects of the new strategic plan and the outcomes of the operating model review, to refine and hone the leadership skills necessary by senior staff during a period of significant change, to build a network which will actively engage in a series of innovation projects and also help foster innovation across the institution. This will create a cohort of role models and change agents who are working individually and collectively to increase the performance and sustainability of the institution. Feedback from participants has been excellent and follow up events are planned during the ongoing transition to UHI's new tertiary responsibilities.

#### Key Performance Indicators

##### Student numbers

The university continued to increase its student population.

<u>Total</u>	<u>2012/13</u>	<u>2011/12</u>
Heads	7,732	7,464
Full-time equivalents	5,275	4,803

In 2011, the Scottish Funding Council announced an additional 2,500 full-time equivalent funded places for the university over the four academic years from 2012/13 to 2015/16 conditional, in each case, on achieving the preceding year's total funded number.

<u>Scottish Funding Council fundable</u>	<u>2012/13</u>	<u>2011/12</u>
Heads	7,511	6,922
Full-time Equivalents	5,190	4,504

<u>Scottish Funding Council funded</u>	<u>2012/13</u>	<u>2011/12</u>
Full-time equivalents	4,505	3,223

##### Student retention

The Higher Education Statistics Agency publishes annual performance indicators for all United Kingdom universities. One of these is a measure of student non-continuation of full-time students from first to second year. The data for non-continuation for 2011/12 to 2012/13 will be published in March 2014. The most recent data available, therefore, is as follows:

	<u>2011/12</u>	<u>2010/11</u>
Non-continuation		
Degree students	12.8%	32.0%
Benchmark	12.7%	13.9%
Standard deviation	1.42	1.84

## Operating and Financial Review (continued)

### Current and Future Development and Performance (continued)

Other undergraduate students	14.3%	36.0%
Benchmark	18.4%	24.4%
Standard deviation	0.81	1.03

#### Student satisfaction

The university participated for the first time in the 2012/13 National Student Survey, conducted by Ipsos MORI on behalf of the United Kingdom funding councils. The key indicator in the survey is overall student satisfaction for which a benchmark is set for each institution, based on its student profile. The result for the University of the Highlands and Islands was as follows.

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

#### **Resources and Principal Risks**

The university's most significant source of income continues to be Scottish Funding Council (SFC) grants for teaching and research, which increased from £25.8m to £32.2m over the year.

As with all publicly funded organisations, the university expects that funds will be more difficult to secure as a result of government efforts to reduce public sector borrowing and has continued to plan prudently on that basis. We welcomed the ministerial guidance to the Scottish Funding Council for 2012/13 and 2013/14 which is supportive of higher education and recognised the need for further development of UHI including additional degree level provision. As a new university we continue to be heavily dependent on public funding with well over 90% of our income being derived from SFC and grants from the European Union (EU) and Highlands and Islands Enterprise (HIE). The university is in a unique position in helping to regenerate the economy of the Highlands and Islands and its resultant geographic wider access provision creates a high cost of delivery across a sparse and socio-economically vulnerable population.

Whilst continuing to make a strong case to the Scottish Government for increased resources to help us build a university which has both academic and financial strength we are, in parallel, pursuing plans to diversify our income base to help secure long term financial sustainability. One of the constraints on growth (particularly of a national and international student base) is lack of student residences on most of our campuses. We are seeking innovative solutions to address this issue and are currently undertaking a procurement exercise with developers which will conclude early in 2014.

The university continues to rely heavily on grant funding from HIE and the EU for investment projects as it has insufficient core funding for major developments. Over the past four years, the university benefited from EU funding through our Strategic Delivery Body (SDB) status. The focus of development with EU funding during 2012/13 and 2013/14 is to progress our Curriculum for the 21<sup>st</sup> Century programme through our Educational Development Unit, further increase our research capacity and capability, in particular increasing our number of PhD students and developing research on the new Inverness Campus. The university recognises that funding from bodies such as HIE and EU will be much more restricted in the current financial climate and alternative mechanisms for investment continue to be sought.

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

## Operating and Financial Review (continued)

### Resources and Principal Risks (continued)

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 optimise our position in the forthcoming Research Excellence Framework (REF) exercise, work collaboratively with other institutions and develop new sources of funding.

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

The new responsibilities of the Post 16 Education (Scotland) Act 2013 will require significant planning to ensure a smooth transition to allow further and higher education to be planned seamlessly on a regional basis. This risk is being partly mitigated by the governance and management changes described in this review.

### Value for Money

The University of the Highlands and Islands has continued to deliver its Value for Money Strategy, implementing actions identified from the 2010-12 zero based budgeting exercise, ongoing benchmarking to reduce costs and a number of initiatives to share services and costs across the partnership whilst improving efficiency.

### Review of Financial Activities

UHI's income increased by £5.1m in the year. This reflects an increase in SFC funding of £6.5m but a reduction in other income of £1.4m, predominantly due to a reduction in project related EU and HIE grants.

Staff costs increased slightly by £0.6m over the year. Other operating expenses increased by £3.2m in the year reflecting the increased SFC funding being distributed to the Academic Partners, offset by the reduction in project activity.

The outturn for the year ended 31<sup>st</sup> July 2013 was a surplus of £2.27m. This compares with a small surplus of £146k in the previous year. This surplus was achieved following a conscious decision by the partnership to plan for a higher surplus in 2012/13 in order to facilitate a planned lower budgeted surplus in 2013/14. This was required in order to underpin future growth in SFC funded places over the next 3 years.

As required by Generally Accepted Accounting Practice (GAAP), the university continues to implement Financial Reporting Standard 17 'Retirement Benefits' (FRS17). As a result the university is required to disclose a liability relating to current commitments of £6.689m (prior year £6.276m) on its balance sheet, increasing net assets to £2.8m (prior year £0.9m). The actuarial loss on the pension scheme in the year of £0.05m (prior year loss of £2.4m) is dealt with in the Statement of Total Recognised Gains and Losses (STRGL).

### Payments to Suppliers

The University of the Highlands and Islands complies with the CBI Prompt Payment Code and has a policy of paying its suppliers at the end of the month following the month of invoice, or on the suppliers' terms, if earlier. The effect of the university's policy is that its trade creditors at the year-end (excluding academic partner balances and transactions) represent 11 days purchases (2013 – 15 days) which is 3.0% of purchases (2012 – 4.2%).



## Operating and Financial Review (continued)

### Constitution

The University of the Highlands and Islands (previously UHI Millennium Institute) is a company limited by guarantee, incorporated on 24<sup>th</sup> 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

Two new Vice Principals were recruited during the year, one responsible for research and one responsible for further education, as recommended by the Governance Working Group. These posts will support the university's preparations to take on the new responsibilities of the Post 16 Education (Scotland) Act 2013. The post holders have both joined the staff complement of the university since the year end.

The current Principal and Vice-Chancellor, James Fraser has intimated his intention to retire on 31 December 2013. An appointing committee has been established to identify his successor. Dr Crichton Lang, the Deputy Principal, will be appointed as Acting Principal from 1 January 2014 until the new Principal and Vice-chancellor takes up the post.

### Chancellor

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

During the year the Chancellor visited the Scottish School Forestry at Inverness College UHI, toured the Perth College UHI campus and visited its aircraft engineering facility at Scone aerodrome, and opened a new equestrian training centre at Halkirk, for North Highland College UHI.

In addition, the Chancellor hosted a reception for the University at Buckingham Palace, in May 2013.

### Equal Opportunities and Widening Participation

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

## Operating and Financial Review (continued)

### Professional Advisors

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

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### 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, is also the Company Secretary.



**Professor Matthew MacIver CBE**  
**Chairman**  
Ness Walk  
INVERNESS  
IV3 5SQ

17 December 2013

***Copy documents may be requested from the above address.***

## **Introduction**

The University Court (Court) is the governing body of the University of the Highlands and Islands, and governs in accordance with the Articles of Association of the University of the Highlands and Islands (formerly UHI Millennium Institute), as amended by resolutions dated 6 March 1997, 21 September 1998, 23 March 2001, 4 November 2003, 23 June 2005, 27 March 2007, 22 September 2009 and 15 February 2011 pursuant to Sections 4 and 381A of the Companies Act 1985. The Court is committed to exhibiting best practice in all aspects of corporate governance. The Court is also the Board of Directors of the University of the Highlands and Islands. The Court conforms to the principles and practice set out in the Committee of University Chairmen (CUC) Guide for Members of Higher Education Governing Bodies in the UK and has included in its Articles of Association the seven principles of public life. In the opinion of the Court, the university complies with all the provisions of the UK Corporate Governance Code in so far as they relate to the Higher Education sector. In July 2013 a new Scottish Code of Good HE Governance was published. In common with other Scottish higher education institutions the University has agreed to adopt this code as good practice from 2013-14 onwards.

## **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 six times in the period from August 2012 – July 2013.

There is a clear division of responsibility between the roles of the Chairman and the Principal and Vice-Chancellor of the university. Under the Memorandum and 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.

Corporate Governance and Internal Control (continued)

**University Court – Membership**

During 2012/13 the Court consisted of the following persons.

	Period of Office	Date of Appointment	Date of Cessation	Attendance at Court meetings held during their membership in 2012-13 is detailed below
<b>Ex Officio</b>				
<b>Principal &amp; Vice-Chancellor</b>				James Fraser (6/6)
<b>UHISA President</b>		01.07.12 01.07.13	30.06.13	Katrina Paton (5/6) Rachel Parker *
<b>Elected</b>				
Two members of staff from amongst the Staff Register of the university of whom one is a teaching member and one a non-teaching member	3 years	19.12.09	30.06.13	Janet Hackel (5/6)
		25.01.10	30.06.13	Fiona Skinner (4/6)
		01.07.13		David Worthington *
		01.07.13		Gillian Berkeley *
<b>Appointed</b>				
7 Chairs of Boards of Management of Academic Partners	3 years	19.06.12 01.07.11 13.07.12 19.12.09 19.12.09  01.01.12 23.05.12 01.02.13 28.03.13 19.12.12  19.12.12	19.12.12 19.12.12 19.12.12 19.12.12  19.12.12   25.09.13	Argyll: Andrew Campbell (3/3) Inverness: A Garry Sutherland (3/3) Orkney: Janice Annal (1/3) Perth: Penny Brodie (2/3) Sabhal Mor Ostaig: Aideen O'Malley (3/3) Lews Castle: Brian Chaplin (0/3) Shetland: Drew Ratter (1/6) Moray: Jana Hutt (1/3) West Highland: M Foxley (1/1) Highland Theological: Murray McCheyne (3/3) North Highland: Niall Smith (2/3) SAMS: not taken up NAFC: not taken up
<b>Independent</b>				
Members appointed by the University Court	3 years (renewable)	05.11.03 05.11.03 28.09.04 28.04.09 01.10.09 15.12.09 11.01.12 11.01.12 01.07.13 01.07.13 01.07.13 01.07.13 01.07.13	30.06.13 30.06.13 30.09.13	Lord Prosser (4/6) Jack Watson (5/6) Hugh Morison (6/6) Matthew MacIver (6/6) Eileen Mackay (6/6) Norman Sharp (6/6) William McKelvey (2/6) Iain Scott (2/6) William Printie * Fiona McLean * Malcolm Burr * James MacDonald * Steve Thomson *
2 members appointed by Highlands & Islands Enterprise	3 years (renewable)	01.03.04 23.01.11		Andrew Rogers (4/6) Donald MacRae (6/6)
3 members elected by Foundation	3 years (renewable)	07.09.04 07.04.09 06.12.10	30.06.13 30.06.13	Thomas Prag (5/6) Joe Moore (4/6) Anton Edwards (4/6)
<b>Sponsor Universities</b>				
		07.01.08 07.01.08 20.12.10		Alistair Mair (5/6) Kenneth Miller (3/6) Bruce Nelson (5/6)

\* no meetings held since date of appointment



## Corporate Governance and Internal Control (continued)

### University Court – Membership (continued)

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

As the University Court is in the process of being reconstituted and many members finish their term of office, the Chairman and Principal and Vice-Chancellor wish to record their thanks for the commitment and dedication given by these members to the good governance of the University.

### Sponsor Universities

Under the arrangements set in place for UHI's process towards the receipt of university title and subsequently, research degree awarding powers, a contract was signed with the universities of Aberdeen, Edinburgh and Strathclyde, the "sponsor universities" setting out their role. As part of these arrangements the university's Articles of Association includes the three sponsor universities as members of the company and permits the three sponsor universities to appoint one director from each to the Court of the University of the Highlands and Islands.

### 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 Health and Safety Committee, the Nominations Committee, the Remuneration Committee, the Honorary Awards Committee and Title Management Group. The Health and Safety Committee was disbanded in June 2013. An Executive Office Health and Safety Committee together with a university wide Health and Safety Practitioners Group report to the Finance and General Purposes Committee. The remit of each of the Court committees is set out below together with a list of Court members who are/were on the committees.

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

### Finance and General Purposes Committee

The Finance and General Purposes Committee is chaired by the Vice Chair of the Court. The Committee meets on a regular basis (usually once every six 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 and equality and diversity issues.

### Audit Committee

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

Corporate Governance and Internal Control (continued)

Committees of the University Court (continued)

	Audit Committee	Finance and General Purposes Committee	Honorary Awards Committee	Nominations Committee	Remuneration Committee	Title Management Group	Health and Safety Committee	Shadow Court	Further Education Regional Board
Matthew MacIver – Chair		✓	✓	✓	✓				
James Fraser - Principal		✓	✓	✓	✓	✓		✓	
Gillian Berkeley								✓	
Malcolm Burr								✓	
Andrew Campbell		Until 19.12.12							
Anton Edwards				✓					
Michael Foxley								✓	✓
James MacDonald								✓	
Eileen Mackay		✓						✓	
Donald MacRae		✓							
Alistair Mair						✓			
Fiona McLean								✓	
Kenneth Miller						✓		✓	
Hugh Morison		Until 30.09.13		Until 30.09.13	Until 30.09.13		Until 18.06.13		
Bruce Nelson						✓			
Thomas Prag	Until 30.06.13								
Willie Printie								✓	
William Prosser			Until 30.06.13	Until 30.06.13					
Andy Rogers		✓						✓	
Iain Scott	From 12.09.12								
Fiona Skinner				Until 30.06.13					
Jack Watson		Until 30.06.13	Until 30.06.13		Until 30.06.13	Until 30.06.13			
David Worthington								✓	

## Corporate Governance and Internal Control (continued)

### **Audit Committee (continued)**

Membership consists of three independent Court members who are not members of the Finance and General Purposes Committee. The Chair of Audit Committee, Marlene Wood, is not a member of the University Court. ~~There are two further co-opted members on the Audit Committee, Melvyn Cornish who has extensive experience of university governance and Professor Mac Johnston who has extensive experience of academic research.~~ All three co-opted members provide a wide range of skills and expertise which is of great benefit to the committee in its deliberations. The Committee carried a Court member vacancy throughout the year.

### **Health and Safety Committee**

The Health and Safety Committee is chaired by an independent member of the Court and comprises staff members from each academic partner and senior staff from the university's executive office. The committee seeks to assure the Court that the university operates within health and safety legislation in relation to both its staff and students, promotes best practice in health and safety across the partnership and reports to the Court on an annual basis. (This committee was disbanded in June 2013 and its responsibilities allocated to the Finance and General Purposes Committee and a cross partnership practitioners' group.)

### **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.

### **Remuneration Committee**

The Remuneration Committee is chaired by the Chair of the Court. The Committee is entrusted with 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.

### **Fellowships Committee (renamed Honorary Awards Committee during year)**

The Fellowships 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. In addition to the Court members as detailed on page 13, the UHI Rector, Depute Principal, a member from Academic Council Professoriate, an Academic Partner Principal and the Student President are members of the Honorary Awards Committee. The Committee carried an Academic Partner Principal vacancy at the year end.

## Corporate Governance and Internal Control (continued)

### Foundation

The 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.

The Foundation met on three 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, to appoint members as required to the University Court and held a further extraordinary meeting in January 2013 to agree the proposed alterations to the Articles of Association of the University as required to take on the Regional Strategic Body responsibilities as set out in the Post 16 Education (Scotland) Act. The proposed alterations also cover changes to the role of Foundation going forward together with a proposal that only the Rector is appointed to the University Court.

The Foundation elected Garry Coutts as the Rector on 1<sup>st</sup> November 2010.

The 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 last year. 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.

### Executive Board

The Executive Board comprises the Principal and Vice-Chancellor (*ex officio*) and the Principal or Director of each of the university's academic partners.

Subject to the overall authority of the University Court (in respect of policy, strategy, and matters reserved to it), the personal responsibilities of the Principal and Vice-Chancellor as a Director and the autonomy of the Academic Council in academic matters, the Executive Board is authorised to consider and determine any matter concerned with the planning, development and operation of the university.

The Executive Board ensures that there is a regular input into the strategy and operation of the university from the senior management of the academic partners.

The work of the Executive Board is supported by a number of practitioners' groups drawn from across academic partners and the university's executive office. These groups are consulted and invited to advise on areas such as finance, marketing, admissions, student records and human resources.

This committee was replaced by the Higher Education Partnership Policy and Resources Committee in June 2013 as recommended by the Governance Working Group report. The membership has been augmented to include the Deputy Principal, 3 Vice Principals, 2 Deans of Faculty, Director of Finance and Director of Marketing, Communications and Planning.



## Corporate Governance and Internal Control (continued)

### Academic Council

The Academic Council comprises the Principal and Vice-Chancellor (*ex officio*), the Principal or Director of each of the university's academic partners, the Deans of the university, President of the Students' Association, 12 members of academic staff, 4 students, 4 other members of staff, 4 members of academic staff from other universities and a member from each of the sponsor universities.

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.

### Academic Partner Chairs Committee

In addition to its standing committee structure, the University Court has established an Academic Partner Chairs Committee to improve engagement between the University Court and the individual boards of management of academic partners. The Committee was set up in May 2011 and was disbanded during the year as it was superseded by groups set up to discuss Post 16 Education (Scotland) legislation.

### Going Concern


The company is required to adopt the accounting requirements of Financial Reporting Standard 17 'Retirement Benefits'. This has resulted in a pension liability of £6.689m at the balance sheet date. This represents the company's allocation of the deficit in the Highland Council Pension Fund at 31 July (see note 23). At 31 July 2013, the company had a surplus in its unrestricted fund but the volatility in the stock markets and actuarial assumptions cause large fluctuations in the pension scheme deficit which can move the company's unrestricted funds into deficit at any time. This scheme deficit represents a long term liability to pay additional pension contributions in the future based on actuarial estimates and calculations. The company continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 17 accounting adjustments and the University Court is therefore of the opinion that the company is a going concern.

### Disclosure of information to Auditors

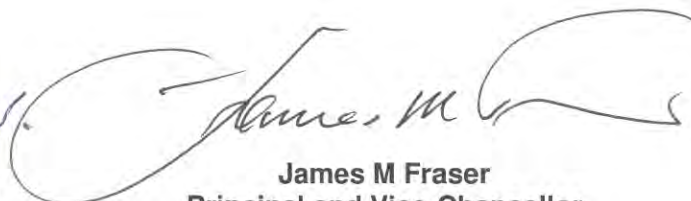
The members of the University Court who were members at the time of approving the accounts are listed on page 11. Having made enquiries of fellow University Court members and the university's auditors, each of these Court members confirms that:

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

### Signed on behalf of the University



**Professor Matthew Maclver CBE**  
Chairman



**James M Fraser**  
Principal and Vice-Chancellor

17 December 2013

University of the Highlands and Islands

**Statement of the Responsibilities of the University Court for the year ended 31 July 2013**

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.

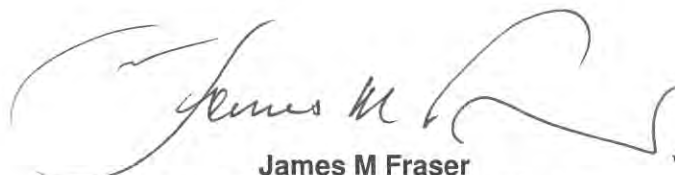
The University of the Highlands and Islands is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the university. The university must ensure that the financial statements are prepared in accordance with the relevant legislation 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**



**Professor Matthew Maclver CBE**  
Chairman



**James M Fraser**  
Principal and Vice-Chancellor

17 December 2013



**Statement on the System of Internal Control for the year ended 31 July 2013**

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

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

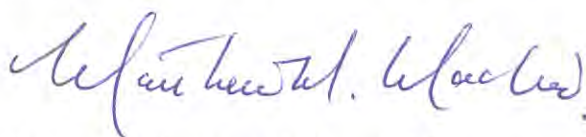
- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the University Court;
- regular reviews by the University Court of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;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

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

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

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

**Signed on behalf of the University**



**Professor Matthew Maclver CBE**  
Chairman



**James M Fraser**  
Principal and Vice-Chancellor

## University of the Highlands and Islands

### **Independent Auditor's Report to the Court of the University of the Highlands and Islands for the year ended 31 July 2013**

We have audited the financial statements of UHI for the year ended 31 July 2013 which comprise the Group Income and Expenditure Account, the Group Statement of Total Recognised Gains and Losses, Group and University Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the University Court, as a body, in accordance with our appointment under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Court those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the University Court as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the University Court and auditors**

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

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

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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



### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the University and of the Group as at 31 July 2013 and of the surplus of the Group's income over expenditure and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006,
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act) and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).

### Opinion on matters required by the Scottish Funding Council

In our opinion the financial statements:

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

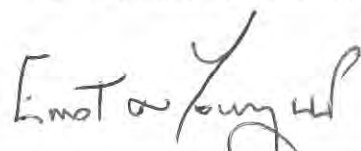
### Opinion on other matter prescribed by the Companies Act 2006

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

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

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

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



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

Date: 17/12/2013

University of the Highlands and Islands

Group Income and Expenditure Account for the year ended 31 July 2013

	Notes	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
<b>Income</b>			
Funding Council Grants	2	32,249	25,751
Tuition fees and education contracts	3	8,594	8,423
Research grants and contracts	4	2,104	2,909
Other income	5	5,277	6,109
Endowment and investment income	6	84	7
<b>Total income</b>		<b>48,308</b>	<b>43,199</b>
<b>Expenditure</b>			
Staff costs	7	8,476	7,868
Other operating expenses	9	36,825	33,567
Interest payable	10	93	22
Depreciation	13	644	1,596
<b>Total expenditure</b>		<b>46,038</b>	<b>43,053</b>
Surplus on continuing operations after depreciation of tangible fixed assets and disposal of assets and before tax	12	2,270	146
Taxation	11	-	-
<b>Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>		<b>2,270</b>	<b>146</b>

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

University of the Highlands and Islands

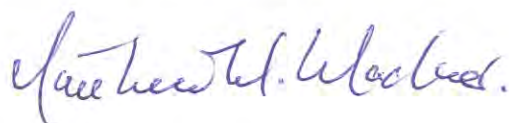
**Group Statement of Total Recognised Gains and Losses for the year ended 31 July 2013**

	Notes	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
<b>Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>	12	2,270	146
Actuarial gain/(loss) on pension scheme	23	49	(2,358)
<b>Total recognised gains/(losses) relating to the year</b>		<u><b>2,319</b></u>	<u><b>(2,212)</b></u>
<b>Reconciliation</b>			
<b>Opening reserves (including pension fund adjustments)</b>	18	<b>(2,100)</b>	<b>112</b>
Total recognised gains/(losses) for year		2,319	(2,212)
<b>Closing reserves</b>		<u><b>219</b></u>	<u><b>(2,100)</b></u>

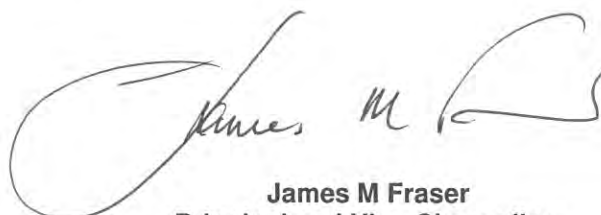
University of the Highlands and Islands  
Group Balance Sheet as at 31 July 2013

	Notes	2013 £000	2012 £000
<b>Fixed assets</b>			
Tangible assets	13	4,690	5,276
<b>Current assets</b>			
Debtors	15	2,750	3,254
Cash at bank and in hand		7,885	4,269
Student support funds account		75	124
		<u>10,710</u>	<u>7,647</u>
<b>Creditors: amounts falling due within one year</b>	16	(5,928)	(5,727)
<b>Net current assets</b>		<u>4,782</u>	<u>1,920</u>
<b>Total assets less current liabilities</b>		<b>9,472</b>	<b>7,196</b>
<b>Creditors: amounts falling due after one year</b>		-	-
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		<u>9,472</u>	<u>7,196</u>
Pension Liability	23	(6,689)	(6,276)
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<u>2,783</u>	<u>920</u>
Deferred capital grants	17	2,564	3,020
General reserve excluding pension scheme adjustments	18	6,908	4,176
Pension reserve	23	(6,689)	(6,276)
<b>Total reserves</b>		<u>219</u>	<u>(2,100)</u>
<b>TOTAL</b>		<u>2,783</u>	<u>920</u>

The financial statements on pages 21 to 46 were approved by the University Court on 17 December 2013 and were signed on its behalf by: -



Professor Matthew Maclver CBE  
Chairman



James M Fraser  
Principal and Vice-Chancellor



University of the Highlands and Islands  
**University Balance Sheet as at 31 July 2013**

	Notes	2013 £000	2012 £000
<b>Fixed assets</b>			
Tangible assets	13	4,690	5,276
Investments	14	-	-
		<u>4,690</u>	<u>5,276</u>
<b>Current assets</b>			
Debtors	15	2,754	3,254
Cash at bank and in hand		7,748	4,269
Student support funds account		75	124
		<u>10,577</u>	<u>7,647</u>
<b>Creditors: amounts falling due within one year</b>	16	(5,795)	(5,727)
<b>Net current assets</b>		<u>4,782</u>	<u>1,920</u>
<b>Total assets less current liabilities</b>		<b>9,472</b>	<b>7,196</b>
<b>Creditors: amounts falling due after one year</b>		-	-
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		<u>9,472</u>	<u>7,196</u>
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General reserve excluding pension scheme adjustments	18	6,908	4,176
Pension reserve	23	(6,689)	(6,276)
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<b>TOTAL</b>		<u>2,783</u>	<u>920</u>

The financial statements on pages 21 to 46 were approved by the University Court on 17 December 2013 and were signed on its behalf by: -



Professor Matthew Maclver CBE  
 Chairman



James M Fraser  
 Principal and Vice-Chancellor

University of the Highlands and Islands  
**Group Cash Flow Statement for the year ended 31 July 2013**

	Notes	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
<b>Cash inflow from operating activities</b>	19	3,507	15
Returns on investments and servicing of finance	6,20	84	7
Capital expenditure and financial investment	21	(24)	(69)
<b>Increase / (decrease) in cash in the year</b>		<u><u>3,567</u></u>	<u><u>(47)</u></u>
<b>Reconciliation of net cash flow to movement in net Funds</b>			
Increase / (decrease) in cash in the year		<u>3,567</u>	<u>(47)</u>
Movement in net funds in the year		3,567	(47)
Net funds at 1 August		4,393	4,440
<b>Net funds at 31 July</b>	22	<u><u>7,960</u></u>	<u><u>4,393</u></u>

University of the Highlands and Islands  
**Notes to the Financial Statements for the year ended 31 July 2013**

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

---

**1. Principal Accounting Policies**

Basis of preparation

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

Going concern

The company is required to adopt the accounting requirements of Financial Reporting Standard 17 'Retirement Benefits'. This has resulted in a pension liability of £6.689m at the balance sheet date. This represents the company's allocation of the deficit in the Highland Council Pension Fund at 31 July (see note 23). At 31 July 2013, the company had a surplus in its unrestricted fund but the volatility in the stock markets and actuarial assumptions cause large fluctuations in the pension scheme deficit which can move the company's unrestricted funds into deficit at any time. This scheme deficit represents a long term liability to pay additional pension contributions in the future based on actuarial estimates and calculations. The company continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 17 accounting adjustments and the University Court is therefore of the opinion that the company is a going concern.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking, UHI Research and Enterprise Limited, for the year ended 31 July 2013. Intra-group transactions are eliminated on consolidation.

Recognition of income

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

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

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

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

Pension schemes

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

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

## Notes to the Financial Statements (continued)

### Pension Schemes (continued)

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

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

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

### Tangible fixed assets

#### *Land and Buildings*

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

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

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

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

#### *Equipment*

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

Assets are depreciated over their useful economic life as follows:

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

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

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



## Notes to the Financial Statements (continued)

### Leased assets

#### Operating Leases.

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

### Investments

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

### Foreign currency translation

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

### Taxation

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

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

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

### Provisions

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

## 2. Funding Council Grants

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
SFC recurrent grant (including fee waiver)	27,508	19,096
SFC recurrent research grant	2,352	2,599
SFC non-recurrent research grant	699	744
CIF grants	844	1,620
Release of deferred capital grants	162	664
Other SFC grants	684	1,028
	<b>32,249</b>	<b>25,751</b>

Notes to the Financial Statements (continued)

**3. Tuition Fees and Education Contracts**

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Scotland and EU Fees	6,777	6,273
Rest of UK (old fee rates)	100	158
Rest of UK (new fee rates)	313	13
Non-EU fees	1,377	1,898
Non-credit bearing course fees	-	-
Education contracts	17	73
Other contracts	10	8
	<b><u>8,594</u></b>	<b><u>8,423</u></b>

**4. Research Grants and Contracts**

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Research Councils and charities	340	324
Industry and commerce	437	114
Governmental	372	577
EU	556	1,321
Other	399	573
	<b><u>2,104</u></b>	<b><u>2,909</u></b>

**5. Other Income**

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Other income generating activities	455	532
EU grant income	3,139	3,154
Enterprise agency grants	693	1,005
Other grant income	5	64
Other income	659	676
Deferred capital grant release	326	678
	<b><u>5,277</u></b>	<b><u>6,109</u></b>

**6. Endowment and Investment Income**

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Other interest receivable	84	7
	<b><u>84</u></b>	<b><u>7</u></b>

Notes to the Financial Statements (continued)

**7. Staff Costs**

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

	Year ended 31 July 2013 Number	Year ended 31 July 2012 Number
Administration and central services	117	109
Premises	1	1
Research grants and contracts	21	21
Academic/teaching departments	21	22
Academic services	36	35
	<u>196</u>	<u>188</u>

	Year ended 31 July 2013	Year ended 31 July 2012
Analysed as:		
Staff on permanent contracts	164	153
Staff on short-term and temporary contracts	32	35
	<u>196</u>	<u>188</u>

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

<b>Staff costs for the above persons:</b>	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Wages and salaries	6,615	6,318
Social security costs	546	513
Other pension costs - contributions	946	878
- current service cost in excess of contributions	369	159
	<u>8,476</u>	<u>7,868</u>
Administration and central services	4,577	4,358
Premises	43	38
Research grants and contracts	948	892
Academic/teaching departments	2,908	2,580
	<u>8,476</u>	<u>7,868</u>

## Notes to the Financial Statements (continued)

### 8. Senior Post-holders' Emoluments

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

	Year ended 31 July 2013 Number	Year ended 31 July 2012 Number
£ 70,001 to £ 80,000	2	3
£ 80,001 to £ 90,000	2	-
£ 90,001 to £100,000	-	1
£100,101 to £110,000	1	-
£110,001 to £120,000	-	-
£140,001 to £150,000	-	-
£150,001 to £160,000	-	-
£160,001 to £170,000	-	-
£170,001 to £180,000	-	-
£180,001 to £190,000	1	1
	<u>6</u>	<u>5</u>

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

	Year Ended 31 July 2013 £000	Year Ended 31 July 2012 £000
Salary	187	185
Benefits in kind	5	5
	<u>192</u>	<u>190</u>
Pension contributions	<u>29</u>	<u>37</u>

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

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

### 9. Other Operating Expenses

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Academic departments	25,142	21,913
Academic services	1,548	1,326
Administration and central services	3,308	2,694
Premises	819	784
Research grants and contracts	4,987	5,907
Agency staff	88	111
Other	933	832
	<u>36,825</u>	<u>33,567</u>

Notes to the Financial Statements (continued)

**9. Other Operating Expenses (continued)**

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

<b>Other operating expenses include:</b>	<b>Year ended 31 July 2013 £000</b>	<b>Year ended 31 July 2012 £000</b>
External auditors remuneration in respect of external audit services	34	30
External auditors remuneration in respect of other services	11	14
Internal auditors remuneration in respect of internal audit services	16	15
Hire of plant and machinery – operating leases	16	15
Hire of other assets – operating leases	293	369

**10. Pension Scheme Net Expected Return on Assets**

	<b>Year ended 31 July 2013 £000</b>	<b>Year ended 31 July 2012 £000</b>
Expected return on pension scheme assets	721	838
Interest on pension liabilities	(814)	(860)
Net return	<u>(93)</u>	<u>(22)</u>

**11. Taxation**

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

The University is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax 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.

**12. Surplus on Continuing Operations for the Year**

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

	<b>Year ended 31 July 2013 £000</b>	<b>Year ended 31 July 2012 £000</b>
Group and University's surplus for the year	2,270	146
	<u>2,270</u>	<u>146</u>



Notes to the Financial Statements (continued)

13. Tangible Fixed Assets

Group and University

	Land & Buildings	Leasehold Improvements	Celtica & Theological Collections	Video-conference Equipment	Computer Equipment	Research Equipment	Office Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>								
As at 1 August 2012	4,658	469	82	4,392	5,853	1,431	279	17,164
Additions	-	-	-	-	24	32	-	56
Disposals	-	-	-	(1,555)	(3,575)	-	(63)	(5,193)
As at 31 July 2013	4,658	469	82	2,837	2,302	1,463	216	12,027
<b>Depreciation</b>								
As at 1 August 2012	739	101	-	4,292	5,641	883	232	11,888
Charge for year	93	31	-	99	193	199	24	639
Depreciation on Disposals	-	-	-	(1,555)	(3,575)	-	(60)	(5,190)
As at 31 July 2013	832	132	-	2,836	2,259	1,082	196	7,337
<b>Net Book Value</b>								
As at 31 July 2013	3,826	337	82	1	43	381	20	4,690
As at 1 August 2012	3,919	368	82	100	212	548	47	5,276
Financed by: capital grant	1,789	315	82	1	1	361	13	2,562
Other	2,037	22	-	-	42	20	7	2,128
<b>Net Book Value At 31 July 2012</b>	<b>3,826</b>	<b>337</b>	<b>82</b>	<b>1</b>	<b>43</b>	<b>381</b>	<b>20</b>	<b>4,690</b>

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

Notes to the Financial Statements (continued)

**14. Fixed Asset Investments**

University	Subsidiary Companies £
At 1 August 2012	-
Additions	1
At 31 July 2013	<u>1</u>

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

**15. Debtors: Amounts Falling Due Within One Year**

Group and University	Group Year ended 31 July 2013 £000	Group Year ended 31 July 2012 £000	University Year ended 31 July 2013 £000	University Year ended 31 July 2012 £000
Trade debtors	567	327	567	327
Amounts due from subsidiary	-	-	4	-
Amounts due from Academic Partners and Sponsoring Universities	45	82	45	82
Prepayments and accrued income	2,138	2,845	2,138	2,845
	<u>2,750</u>	<u>3,254</u>	<u>2,754</u>	<u>3,254</u>

**16. Creditors: Amounts Falling Due Within One Year**

Group and University	Group Year ended 31 July 2013 £000	Group Year ended 31 July 2012 £000	University Year ended 31 July 2013 £000	University Year ended 31 July 2012 £000
Payments received in advance	3,594	2,384	3,594	2,384
Trade creditors	317	445	317	445
Other taxation and social security	27	349	6	349
Accruals	1,914	2,422	1,802	2,422
Bursaries and Other Student Support Funds	76	127	76	127
	<u>5,928</u>	<u>5,727</u>	<u>5,795</u>	<u>5,727</u>

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

Notes to the Financial Statements (continued)

**17. Deferred Capital Grants**

Group and University

	Funding Council £000	Other £000	Total £000
<b>At 1 August 2012</b>	<b>268</b>	<b>2,752</b>	<b>3,020</b>
Cash received and assets donated:			
Land & buildings	-	(2)	(2)
Equipment	3	31	34
Released to income and expenditure account:			
Land and buildings	(2)	(69)	(71)
Equipment	(159)	(258)	(417)
	<u><b>110</b></u>	<u><b>2,454</b></u>	<u><b>2,564</b></u>
<b>At 31 July 2013</b>			
Land and buildings	(2)	2,105	2,103
Equipment	112	349	461
	<u><b>110</b></u>	<u><b>2,454</b></u>	<u><b>2,564</b></u>

**18. Movement on Reserves**

Group and University

	General Reserve £000	Pension Reserve £000	Total £000
<b>Income and Expenditure Account Reserve</b>			
<b>At 1 August 2012</b>	<b>4,176</b>	<b>(6,276)</b>	<b>(2,100)</b>
Surplus on continuing operations for the year to 31 July 2013	2,270	-	2,270
Pension scheme loss for the year ended 31 July 2013	462	(462)	-
Actuarial gain on pension scheme		49	49
<b>At 31 July 2013</b>	<u><b>6,908</b></u>	<u><b>(6,689)</b></u>	<u><b>219</b></u>

Notes to the Financial Statements (continued)

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

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Surplus on continuing operations after depreciation of assets at valuation	2,270	146
Depreciation (note 13)	639	1,596
Loss on disposal of assets	3	-
FRS 17 pension adjustment	462	181
Deferred capital grants released to income (note 17)	(484)	(1,342)
Decrease / (increase) in debtors	500	(805)
Increase in creditors	201	246
Interest receivable (note 6)	(84)	(7)
<b>Net cash inflow from operating activities</b>	<b><u>3,507</u></b>	<b><u>15</u></b>

**20. Returns on Investments and Servicing of Finance**

	Year Ended 31 July 2013 £000	Year Ended 31 July 2012 £000
Other interest received	84	7
<b>Net cash inflow from returns on investment and servicing of finance</b>	<b><u>84</u></b>	<b><u>7</u></b>

**21. Capital Expenditure and Financial Investment**

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Purchase of tangible fixed assets	(56)	(75)
Deferred capital grants received	32	6
<b>Net cash outflow from capital expenditure and financial investment</b>	<b><u>(24)</u></b>	<b><u>(69)</u></b>

**22. Analysis of Changes in Net Funds**

	At 1 August 2012 £000	Cashflows £000	Other changes £000	At 31 July 2013 £000
Cash at bank and in hand	4,393	3,567	-	7,960
<b>Total</b>	<b><u>4,393</u></b>	<b><u>3,567</u></b>	<b><u>-</u></b>	<b><u>7,960</u></b>

## Notes to the Financial Statements (continued)

### 23. Pension and Similar Obligations

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

#### 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 2013 was £1.155m of which employers' contributions totalled £790k and employees' contributions totalled £365k.

The following information is based upon pension expense calculation as at 31 July 2013.

#### Valuation Method

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

#### Demographic/Statistical Assumptions for the Scheme

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

Life expectancy from age 65 (years)	31 July 2013	31 July 2012
Retiring Today:		
Males	21.3	21.3
Females	23.5	23.5
Retiring in 20 years:		
Males	22.6	22.6
Females	25.1	25.1

#### Financial Assumptions for the Scheme

Assumptions as at	31 July 2013		31 July 2012		31 July 2011	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.6%	-	2.6%	-	3.5%	-
CPI Increases	2.8%	-0.8%	1.8%	-0.8%	2.7%	-0.8%
Salary Increases	5.1%*	1.5%	3.6%	1.0%	4.5%	1.0%
Pension Increases	2.8%	-0.8%	1.8%	-0.8%	2.7%	-0.8%
Discount Rate	4.6%	1.0%	3.9%	1.3%	5.3%	1.7%

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

These assumptions are set with reference to market conditions at 31 July 2013. The actuary has assessed that the using the yield on the iBoxx Sterling Corporates AA over 15 years index is inconsistent with the FRS17 guidance due to the shorter duration of these bonds in relation to the LGPS pension liabilities and has revised his approach accordingly by considering the single average gilt yield plus the mean "credit spread" applying to AA corporate bonds within the iBoxx over 15 years index. The Retail Price Index (RPI) increase assumption is set based on the Bank of England implied inflation curve and is set to equal the average rate appropriate for the cashflows of a typical LGPS employer. The Pension Increase assumption is in line with the Consumer Price Index (CPI), which is calculated as RPI less 0.8%.



Notes to the Financial Statements (continued)

**23. Pension and Similar Obligations (continued)**

Expected Return on Assets for the Scheme

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period (i.e. as at 1 August 2012 for the year to 31 July 2013). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The following expected returns have been adopted:

Asset class	Expected return at:		
	1 August 2013 % p.a.	1 August 2012 % p.a.	1 August 2011 % p.a.
Equities	6.5%	5.6%	7.0%
Gilts		2.8%	4.0%
Other Bonds	4.0%	3.9%	5.3%
Property	4.6%	3.8%	5.0%
Cash	3.4%	3.0%	3.0%
<b>Expected return on assets</b>	<b>5.8%</b>	<b>5.0%</b>	<b>6.5%</b>

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

	31 July 2013 £000	31 July 2012 £000	31 July 2011 £000	31 July 2010 £000	31 July 2009 £000
Defined benefit obligation	(24,145)	(20,212)	(15,298)	(12,132)	(10,308)
Scheme assets	17,456	13,936	11,561	9,530	7,607
<b>Deficit</b>	<b>(6,689)</b>	<b>(6,276)</b>	<b>(3,737)</b>	<b>(2,602)</b>	<b>(2,701)</b>
Experience adjustment on scheme assets	1,831	350	253	184	(827)
Percent of assets	10.5%	2.5%	2.2%	1.9%	-10.9%
Experience adjustment on scheme liabilities	(31)	(1,090)	-	-	(996)
Percent of liabilities	-0.1%	-5.4%	-	-	-9.7%
<b>Cumulative actuarial gains and losses</b>	<b>(5,409)</b>	<b>(5,458)</b>	<b>(3,100)</b>	<b>(2,084)</b>	<b>(1,736)</b>

**UHI net pension assets as at**

	Year Ended 31 July 2013 £000	Year Ended 31 July 2012 £000	Year Ended 31 July 2011 £000
Fair value of scheme assets	17,456	13,936	11,561
Present value of funded obligation	(24,145)	(20,212)	(15,298)
<b>Deficit</b>	<b>(6,689)</b>	<b>(6,276)</b>	<b>(3,737)</b>
<b>Net liability in Balance Sheet</b>	<b>(6,689)</b>	<b>(6,276)</b>	<b>(3,737)</b>

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

**Analysis of the amount charged to UHI income and expenditure account**

	<b>Year Ended 31 July 2013 £000</b>	<b>Year Ended 31 July 2012 £000</b>
--	---	---

Current service cost	1,159	892
Interest on obligation	814	860
Expected return on scheme assets	(721)	(838)
<b>Total</b>	<b>1,252</b>	<b>914</b>
Actual return on scheme assets	<b>2,552</b>	<b>427</b>

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

Actual return less expected return on pension scheme assets	1,831	(412)
Experience gains and losses	(31)	(328)
Change in assumptions underlying the present value of the scheme liabilities	(1,751)	(1,618)
<b>Actuarial gain/(loss) recognised in STRGL</b>	<b>49</b>	<b>(2,358)</b>

**Sensitivity analysis to UHI obligations and service costs**

	<b>Approx % increase to Employer Liability</b>	<b>Approx monetary amount £000</b>
0.5% decrease in Real Discount Rate	12%	2,963
1 year increase in member life expectancy	3%	724
0.5% increase in Salary Increase Rate	4%	1,027
0.5% increase in Pension Increase Rate	8%	1,888

**Asset and benefit obligation reconciliation for the year to 31 July 2013  
UHI share of the LGPS**

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>Year Ended 31 July 2013 £000</b>	<b>Year Ended 31 July 2012 £000</b>
Opening defined benefit obligation	20,212	15,298
Service cost	1,159	892
Interest cost	814	860
Actuarial losses	1,782	2,708
Estimated benefits paid (net of transfers in)	(187)	111
Contributions by scheme participants	365	343
<b>Closing defined benefit obligation</b>	<b>24,145</b>	<b>20,212</b>

Notes to the Financial Statements (continued)

**23. Pension and Similar Obligations (continued)**

<b>Reconciliation of opening and closing balances of the fair value of scheme assets</b>	<b>Year Ended 31 July 2013 £000</b>	<b>Year Ended 31 July 2012 £000</b>
Opening fair value of scheme assets	13,936	11,561
Expected return on scheme assets	721	838
Actuarial gains	1,831	350
Contributions by employer including unfunded benefits	790	733
Contributions by scheme participants	365	343
Estimated benefits paid (net of transfers in)	(187)	111
Fair value of scheme assets at end of the year	<u>17,456</u>	<u>13,936</u>

**Reconciliation of opening and closing deficit**

	<b>Year Ended 31 July 2013 £000</b>	<b>Year Ended 31 July 2012 £000</b>
Deficit at beginning of year	(6,276)	(3,737)
Current service cost	(1,159)	(892)
Employer contributions	790	733
Other finance income	(93)	(22)
Settlements/curtailments	-	-
Actuarial gain/(loss)	49	(2,358)
Deficit at end of the year	<u>(6,689)</u>	<u>(6,276)</u>

**Projected pension expense for the year to 31 July 2014  
UHI share of the LGPS**

**Projections for Year to 31 July 2014**

	<b>Year to 31 July 2014 £000</b>
Service cost	1,407
Interest cost	1,147
Return on assets	(1,042)
Total	<u>1,512</u>
Employer contributions	<b>828</b>

Note that these figures exclude:

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

These projections are based on the assumptions as at 31 July 2013.

## Notes to the Financial Statements (continued)

### 23. Pension and Similar Obligations (continued)

#### Universities Superannuation Scheme

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

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

The latest triennial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2013 are also included in this note.

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

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

Standard mortality tables were used as follows:

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

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

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

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



## Notes to the Financial Statements (continued)

### 23. Pension and Similar Obligations (continued)

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

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

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

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

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

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

#### *Normal pension age*

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

#### *Flexible Retirement*

Flexible retirement options were introduced.

#### *Member contributions increased*

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

#### *Cost sharing*

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

#### *Pension increase cap*

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

## Notes to the Financial Statements (continued)

### 23. Pension and Similar Obligations (continued)

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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

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

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 trustees believe 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 significant exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that, putting the issue of the USS fund's size and scale to one side for the moment, it would be theoretically 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, it is necessary and appropriate for the trustee to take on a degree of investment risk 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 fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer-term view of its investments. Some short-term volatility in returns can be tolerated and need not feed through immediately to the contribution rate. However, the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014.

## Notes to the Financial Statements (continued)

### 23. Pension and Similar Obligations (continued)

The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together – in and integrated form – the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

At 31 March 2013, USS had over 148,000 active members and the university had 22 active members participating in the scheme.

The total pension cost of the university was £152,578 (2012 £144,262). This includes £0 (2012 £0) outstanding contributions at the balance sheet date. The contribution rate payable by the university was 16% of pensionable salaries.

### 24. Financial Commitments

Annual rentals under operating lease commitments are as follows:

Group and University

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
<b>Land and Buildings</b>		
Expiring within one year	-	3
Expiring within two and five years inclusive	81	97
Expiring in over five years	141	155
	<u>222</u>	<u>255</u>

### 25. Capital and Other Commitments

There were no capital or other commitments that had been authorised or contracted for at 31 July 2013 that have not been provided for.

## Notes to the Financial Statements (continued)

### 26. Related Party Transactions

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

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

Partner	Invoiced to Partners £000	Payments to Partners £000	Amounts due to Partners at 31 July 2013 £000	Amounts due from Partners at 31 July 2013 £000
Argyll College	9	278	1	-
Highland Theological College	2	272	-	-
Inverness College	108	5,061	1	-
Lews Castle College	27	2,306	13	-
Moray College	99	4,086	3	3
NAFC	7	205	-	-
North Highland College	52	3,348	26	8
Orkney College	21	1,123	-	-
Perth College	142	7,022	4	14
SAMS	7	2,043	-	-
Shetland College	21	611	-	1
Sabhal Mor Ostaig	16	904	-	1
West Highland College	12	403	-	7
Aberdeen University	20	110	6	1
Edinburgh University	24	108	1	10
Strathclyde University	-	46	-	-
	<b>567</b>	<b>27,926</b>	<b>55</b>	<b>45</b>

Provisions totalling £35,000 (2012 - £55,635) have been made in respect of these balances, which are shown above gross of any provision.

UHI Research and Enterprise Limited owes £110,002 to North Highland College at 31 July 2013. This balance comprises a gift aid payment of £100,755 and payment for services of £9,247.

### 27. Hardship Funds and Childcare Funds

	Hardship £000	Childcare £000
Balance brought forward	-	-
Funds received in year	357	5
Expenditure	(343)	(1)
Repayable to funding body	14	4
Balance carried forward	-	-



## Notes to the Financial Statements (continued)

### **27. Hardship Funds and Childcare Funds (continued)**

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

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### **28. Contingent Liability**

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

### **29. Securities**

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

### **30. Post Balance Sheet Events**

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

### **31. Losses and Special Payments**

There were no losses or special payments during the year.

