

University of the Highlands and Islands

Report and Financial Statements For the year ended 31 July 2018

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Report of the University Court for the year ended 31 July 2018

Nature, Objectives and Strategy of the University

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

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

The Post 16 Education (Scotland) Act 2013 identified the University of the Highlands and Islands as a Regional Strategic Body with responsibilities for planning, delivery, monitoring and efficiency savings in further education across the Highlands and Islands area. The main provisions of this Act came into force on 1 August 2014 and further education for the region has been funded through the University from that date.

In setting out its plans for regionalisation of further education and ensuring greater links between schools, colleges and universities, the Scottish Government recognised that UHI is in a unique position to integrate further and higher education as a tertiary institution. In accordance with the Act further education funding for the Highlands and Islands is distributed by UHI to eight assigned colleges (who are existing academic partners of UHI). The academic partners who were designated as assigned colleges from 1 August 2014 are Moray, Perth, Inverness, Lews Castle, North Highland, Shetland, Orkney and West Highland. The University Court is the accountable body for both higher and further education performance in line with a single regional outcome agreement with the Scottish Funding Council (SFC).

The partnership is transforming the economic, social and cultural life of the Highlands and Islands by delivering a university for the region with national and international ambitions. The University continues to develop general programmes for providing skills, training and education to the people of the Highlands and Islands. We also continue to develop a range of degrees that reflect the distinctive environment, history, linguistic identity and culture of the area. The knowledge economy needs a university that is active in carrying out research, and that has a programme for bringing intellectual products to the marketplace and for knowledge exchange. We continue to increase our research portfolio and work with other institutions both in the United Kingdom and overseas.

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

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

University of the Highlands and Islands

Report of the University Court for the year ended 31 July 2018 Nature, Objectives and Strategy of the University (continued)

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

Strategic Report - Current and Future Development and Performance

We were delighted to welcome our first cohort of nursing students in Stornoway and Inverness at the start of the academic year. The transfer of nursing education to the university has been a vital component in the evolution of our School of Health, Social Care and Life Sciences, helping us to generate over £30 million of inward investment across our partnership. The school has thrived over the past year, with the development of teaching and research in allied health and social care, sport and wellbeing, rural health and biomedical science. Next year we hope to welcome a cohort of midwifery students as well.

The university achieved another milestone in July when we conferred our first ever Honorary Doctorate on Eileen Mackay, a longstanding supporter of the university. Eileen grew up in Dingwall before embarking on a distinguished career in the civil service, where she held senior posts in the treasury and in the cabinet office. After retiring, Eileen dedicated her time to a range of voluntary roles, including supporting our work as an independent member of the university court. As a young university, we were delighted to award our first Honorary Doctorate to such an inspiring woman.

We received our highest ever rating in the National Student Survey in 2017/18. The results place us as the fifth best university in Scotland for student satisfaction and we performed above the Scottish average in almost all of the other measures. Every single member of our academic and support staff and our partners in the Highlands and Islands Students' Association can have a positive impact on a student's experience and we work hard to make the university better every day. To have our efforts recognised in this national survey is a testament to the dedication of our colleagues, who are committed to the support and learning of our students.

Throughout the year, we grew and developed our links with many local, national and international partners, including the Cairngorms National Park Authority, the Tokyo University of Agriculture and the Hunan Institute of Engineering in China. Connections like these are invaluable. They allow us to create new research and teaching opportunities for our students and staff; opportunities which will benefit the communities we serve.

The year also marked the opening of further new student residences in Elgin, Dornoch and Inverness. The provision of such facilities, including the recently opened Academy of Sport and Wellbeing at Perth College UHI, makes an important contribution to the experience of our students, staff and visitors.

One of the most significant activities in the university is the ongoing development of the School of Health, Social care and Life Sciences. A key part of this initiative was to transfer pre-registration nurse training from the University of Stirling to the University of the Highlands and Islands. This was successfully achieved in August 2017 and involved the transfer of some 40 staff and over 300 student places in both Inverness and Stornoway. The Scottish Government have increased our recruitment target for 2019 to 145 from 100 students in 2018. We are confident that we will meet this increase.

The School in its entirety represents almost one quarter of UHI's total teaching activity (across FE and HE) with an expanding portfolio of degrees and other awards and is also one of the university's strongest areas of research. Research staff and research postgraduate student numbers have, for example, grown almost 400% between 2014 and 2018.

Report of the University Court for the year ended 31 July 2018 Nature, Objectives and Strategy of the University (continued)

Our student association (Highlands and Islands Student Association - HISA) which represents both further and higher education students continues to develop, offering our students an increasing range of services and representation both regionally and nationally.

The university's priorities include:

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

The University developed its third Gaelic Language Plan (2018-22). The plan sets out the University's strategy for continuing to promote and develop the use of Gaelic through its practices, curriculum and communications. Proposals include producing more bilingual resources, encouraging staff to learn Gaelic as part of their development plans and holding more Gaelic events.

The University successfully delivered against its joint higher and further education outcome agreement in 2017/18 as required by the Scottish Funding Council. The agreement for the Highlands and Islands incrementally shares outcomes between the two funding streams and underpins the tertiary nature of the institution.

The University's fundraising activities continued to be successful in the year with donations totalling £305,598 towards a range of projects were secured compared with £96,450 in the previous year. The University increased its total higher education student numbers with 7,054 (2016/17- 6,687) full-time equivalents (FTE) during the year, primarily from within the region, made up of 6,586 undergraduates (including 123 Nursing BSc FTE for the first time), 248 taught postgraduate, 105 PGDE and 115 postgraduate research FTE. UHI continues to service the lifelong learning needs of the region with 17% (2016/17 - 18%) of undergraduate higher education FTE part-time and 54% (2016/17 - 52%) of our undergraduate students over 21 years of age at the start of their course.

Further Education

In 2017/18, the region once more exceeded activity targets set for further education. The student activity core target has remained static at 110,968 for three years. Further activity has been funded through ESIF Developing Scotland's Workforce (DSW) Programme, however in 2017/18 this was at a reduced level of 2,200 credits, a reduction of 2,200 credits from 2016/17. The region has delivered activity in excess of target for the last eight years. The table below gives a summary of activity against target for the last 5 years. The unit of measure changed from WSUMS to Credits in 2015/16.

**Report of the University Court for the year ended 31 July 2018
Nature, Objectives and Strategy of the University (continued)**

	Core target	ESIF target	Actual	Target v Actual	% difference
2013-14	154,936		157,110	2,174	1.4
2014-15	155,736		159,491	3,744	2.4
2015-16	110,968	3,490	116,644	2,186	1.9
2016-17	110,968	4,400	116,778	1,410	1.2
2017-18	110,968	2,200	114,969	1,801	1.6

The Scottish Funding Council's published performance indicators for Scotland's colleges in 2016/17 report the region's full-time further education student success rate as being 2.4 percentage points higher than the national benchmark. Early indicators suggest further improvement in 2017/18.

During 2017/18, the region has worked across several student-facing functions to develop further education regional policy and practice that will bring greater consistency to the student experience, reduce duplication of activity and develop a regional resilience to the partnership's work. This work is complemented by the harmonisation of quality management processes and student data management processes. In 2017/18, the region also developed a shared strategy for enhancement of student attainment that will inform the region's response to the Scottish Government's intensification agenda in subsequent years.

Research Capacity

2017/18 saw the embedding of the University's Research Degree Awarding Powers (RDAP) into the life and work of the Graduate School. In particular new regulations and procedures pertaining to research students were implemented in this session, as the first research students registered through the University commenced their studies, or transferred from the University of Aberdeen. At the end of the academic session the first student to achieve a research degree – a MSc by research – achieved their award. In addition following the award of RDAP, the University implemented arrangements for the validation/re-validation of various research areas. The student population in the Graduate School, around 160 students, was the highest ever recorded for the University.

The University continues to develop strength and depth in research across a number of disciplines. In particular, 2017/18 saw further significant expansion of activity in health research, including in relation to nursing following the acquisition of the department of nursing from the University of Stirling. The Institute of Health Research and Innovation was created in recognition of this expansion. The University also approved two other new Institutes in 2017/18, the Institute of Northern Studies and the Languages Sciences Institute, the former is an expansion of the former Centre of Nordic Studies, whilst the latter is linked with the University's ongoing interest into research into minority languages, including Scottish Gaelic.

In response to the rapidly changing external environment, the University approved a revised research and knowledge exchange strategy. This will lead to enhanced engagement with the Industrial Strategy Challenge Fund and the place based strategy being developed by UK Research and Innovation. In recognition of the importance of impact, the University re-vamped its committee structure to strengthen the connection between research and knowledge exchange. Knowledge Exchange sector groups were progressed and linked more closely to the University's research clusters and the University implemented fully the arrangements for meeting its obligations under the University Innovation Fund (UIF). Major enhancements were made to the University's arrangements for considering research ethics for projects, and a detailed analysis was undertaken of the University's provision against the Research Integrity concordat.

Report of the University Court for the year ended 31 July 2018 Nature, Objectives and Strategy of the University (continued)

The University progressed its preparation for the Research Excellence Framework 2021 (REF) exercise. It completed a stocktake of all research outputs in all disciplines where a submission is likely to be made, and in addition a comprehensive stocktake of staff was progressed in order to identify the likely cohort of staff which will be in scope.

Staff Development

The University continued to ensure staff development and capacity building, delivering the staff development programme to embed scholarship and research across the partnership through our Learning and Teaching Academy. Focused investment in staff development will continue to enhance the student experience.

Key Performance Indicators

Student numbers

The University continued to increase its student population.

<u>Total</u>	<u>2017-18</u>	<u>2016-17</u>
Heads	9,719	9,381
Full-time equivalents	7,054	6,687

<u>Scottish Funding Council fundable</u>	<u>2017-18</u>	<u>2016-17</u>
Full-time equivalents	6,627	6,341

Student retention/success

The Higher Education Statistics Agency publishes annual performance indicators for all United Kingdom universities. One of these is a measure of full-time student non-continuation from year of entry. Data for 2017-18 entrants will not be published until March 2019. The most recent data available is for 2016-17 entrants and shows the non-continuation rate to 2017-18:

<u>Non-continuation</u>	<u>2016-17</u>	<u>2015-16</u>
Degree students	11.0%	8.5%
Benchmark	9.4%	10.3%
Other undergraduate students	16.1%	16.5%
Benchmark	16.8%	17.1%

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

The Scottish Funding Council publishes college sector performance indicators including student outcomes. 2017-18 PIs will be published in February 2019. The latest available data for the regions' full-time FE students is:

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

	<u>2016-17</u>	<u>2015-16</u>
Full-time FE students	67.5%	69.4%
Scottish benchmark	65.3%	65.5%

**Report of the University Court for the year ended 31 July 2018
Nature, Objectives and Strategy of the University (continued)**

Student satisfaction

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

	<u>2017</u>	<u>2016</u>
Overall student satisfaction	85%	79%
Benchmark	83%	83%

The university also participates in the annual Scottish Funding Council Student Satisfaction and Engagement Survey for FE students. The 2017-18 results are due to be published 30 October 2018. The latest data is:

	<u>2016-17</u>	<u>2015-16</u>
Overall student satisfaction	94.5%	93.5%
Scottish figure	92.8%	90.5%

The Higher Education Academy co-ordinates the UK-wide Postgraduate Taught Experience Survey (PTES) and Postgraduate Research Experience survey (PRES). The university participates is currently participating in each survey biennially. The latest available information is:

PTES:

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

PRES

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

Graduate destinations

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

Proportion of leavers in work or further study:

	<u>2016/17</u>	<u>2015/16</u>
Degree leavers	93.2%	92.9%
Benchmark	94.0%	93.7%
Other undergraduate leavers	98.5%	96.6%
Benchmark	97.0%	96.2%

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

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

	<u>2016/17</u>	<u>2015/16</u>
FE qualifiers	94.8%	94.0%
Scottish figure	95.0%	94.9%

Report of the University Court for the year ended 31 July 2018 (continued)

Strategic Report - Resources and Principal Risks

The University's most significant source of income continues to be Scottish Funding Council (SFC) grants for higher education teaching and research and further education, which increased from £78m in 2016/17 to £83m in 2017/18 (£42m for higher education and £41m for further education).

As with all publicly funded organisations, the University expects that funds will be more difficult to secure as a result of government efforts to reduce public sector borrowing and continues to plan prudently on that basis. As a new university we continue to be heavily dependent on public funding with 91% of our income being derived from SFC and grants from the European Union (EU) and Highlands and Islands Enterprise (HIE). The University is in a unique position in helping to regenerate the economy of the Highlands and Islands and its resultant geographic wider access provision creates a high cost of delivery across a sparse and socio-economically vulnerable population.

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

The University continues to rely heavily on grant funding from HIE and the EU for investment projects as it has insufficient core funding for major developments.

The University acknowledges that the plans to leave the European Union will have profound implications on future research funding and funds for new strategic initiatives and has established an adaptive element to strategic preparations to accommodate a rapidly changing environment. Research is an essential part of the University's portfolio but viability is challenging in an environment when research excellence is increasingly rewarded over "new" areas, research council grants have reduced and charitable grants are much more difficult to secure. At the same time, the university needs to maintain its capability and capacity.

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

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

The responsibilities of the Post 16 Education (Scotland) Act 2013 created new areas of risk to the University. These continue to be mitigated by strengthened governance and management arrangements which are reviewed on a regular basis. During 2016/17, Audit Scotland carried out a review of the progress of each of the 3 regional strategic bodies in Scotland and the university was pleased that they concluded that "the University of Highland and Islands (UHI) Court has made good progress in delivering the anticipated benefits of regionalisation. Since it became the RSB in 2014, it has focused on changing cultures and developing effective relationships among its assigned colleges. The RSB is helping colleges to balance income and expenditure over the medium-to-long term in a more sustainable way by re-allocating learning activity and funding in the region. It is now planning more effective shared working and is working with four of its incorporated colleges to explore opportunities for greater integration."

As part of these responsibilities, the majority of the university's assigned colleges have committed to reward their lecturing staff in line with agreement reached with the Educational Institute of Scotland under national bargaining arrangements. Colleges are differently impacted by the University of the Highlands and Islands

Report of the University Court for the year ended 31 July 2018 Strategic Report - Resources and Principal Risks (continued)

introduction of national bargaining depending on their individual pay models. Some of the smaller academic partners of the university face increases in base payroll costs of up to 68%. While colleges in the Highlands and Islands are working with Colleges Scotland and the Scottish Funding Council to mitigate any potential negative impact on the student experience in the short term, in the medium to long term the financial implications of this continue to cause concern.

Strategic Report - Value for Money

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

Strategic Report - Review of Financial Activities

UHI's income increased by £9.5m in the year, mainly due to an increase in SFC further education grant income, and an increase in other income related to project funding.

Staff costs increased to £14.9m compared to £11.3m the previous year due to the transfer of nursing staff. Other operating expenses increased by £8m in the year due to the increase in payments to academic partners in relation to the increased further education grant income.

The outturn for the year ended 31 July 2018 was a deficit of £3.9m. This compares with a deficit of £0.572m in the previous year. Total comprehensive income for the year was a surplus of £7,131m compared to a deficit of £1.269m in 2016/17. The reason for the significant surplus is due to the significant actuarial gain on the pension scheme of £11.084m.

As required by Generally Accepted Accounting Practice (GAAP), the University has implemented the principles of FRS 102 (28) in relation to Retirement Benefits. As a result the University is required to disclose a liability relating to current commitments of £10.323m (2017 - £19.531m) on its balance sheet. Overall this has resulted in net assets of £4.692m (2017 - net liabilities £2.44m). The actuarial gain on the pension scheme in the year of £11.084m (2017 - loss of £0.697m) is shown within the consolidated statement of comprehensive income & expenditure.

The main changes included in the 2017/18 financial statements compared to the previous year, are shown below.

Student Residences – Student Residences were opened in Elgin, Dornoch and a second phase of 150 rooms in Inverness. The total number of rooms available to students is now 420. The value of the residences, which have been built by Cityheart Ltd and are run by Cityheart Living Ltd, are shown under fixed assets in the balance sheet, with a corresponding long-term creditor also shown.

Overall, within the Balance Sheet, there are total net assets of £4.692m at 31 July 2018, compared with net liabilities of £2.44m the previous year. This is largely due to the reduction in the pension liability, from £19.5m to £10.3m, a decrease of £9.2m.

Other movements in the balance sheet include:

Fixed assets – increased from £33.8m to £61.4m, due to the new student residences buildings at Inverness, Elgin and Dornoch.

A decrease in cash and term deposit investments, from £18.973m to £17.329m, a decrease of £1.644m.

Report of the University Court for the year ended 31 July 2018 Strategic Report - Resources and Principal Risks (continued)

A long-term creditor is now in place in relation to the student residences buildings at Fort William Inverness, Elgin and Dornoch amounting to £54.349m.

The overall balance sheet position has improved from 2016/17 due principally to the revised pension liability. The university chose to make some strategic investments from reserves during 2017/18 to improve its competitive growth position hence the reduction in net assets. The key fundamentals of a good business are still in place. UHI still has a healthy cash and term deposit investments balance amounting to £17.329m. This means it can continue to fund the core activity of the UHI partnership, providing learning and teaching in further and higher education across the Highlands & Islands.

Payments to Suppliers

The University of the Highlands and Islands complies with the CBI Prompt Payment Code and has a policy of paying its suppliers at the end of the month following the month of invoice, or on the suppliers' terms, if earlier. The effect of the University's policy is that its trade creditors at the year-end (excluding academic partner balances and transactions) represent 13 days purchases (2017 – 10 days) which is 3.46% of purchases (2017 – 2.7%).

Public Sector Climate Change Duty

In 2009/10 our baseline carbon footprint was measured at 454 tCO₂e. We continue to work towards reducing this and our most recent return on 2017/18 was 296 tCO₂e, a reduction of 35% in the eight year period despite significant growth in the number of staff and operations of the university over that period. We are working with the Scottish Funding Council and our academic partners to identify a more consistent partnership wide approach to carbon reduction.

Statement on Employment of Disabled Persons

The Equality, Diversity, and Inclusiveness Policy outlines the University's commitment and approach towards promoting equal opportunities for staff with protected characteristics, including disabled people.

The University is committed to promoting opportunities for current and prospective staff with disabilities and makes every reasonable effort to provide or arrange necessary support, adaptations, equipment and staff development in order to enable staff to fulfil their potential.

Our Equality Duty commitments, under the Public Sector Equality Duty and the Equality Act 2010, are reviewed bi-annually and this provides an effective focus for helping to evaluate, develop and improve our support to disabled staff, as well as reviewing the University's broader equality and diversity objectives and outcomes.

The University also employs an Equality Outcomes Advisor who works to promote the equality of opportunities for staff and students with protected characteristics as defined by the Equality Act 2010.

Modern Slavery Act 2015

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

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

Report of the University Court for the year ended 31 July 2018 Strategic Report - Resources and Principal Risks (continued)

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

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

The university uses the same supply chain code of conduct for suppliers who are sourced directly by the university and asks all potential suppliers to respond to the pass/fail question above.

Constitution

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

Leadership

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

Chancellor

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

During the financial year Her Royal Highness undertook two engagements on behalf of the university. In September 2017 the Chancellor welcomed the first cohort of nursing students to the university in both Stornoway and Inverness. In July 2018 the Chancellor presented the university's first honorary doctorate and academic awards at the Highland Theological College graduation in Dingwall.

Equal Opportunities and Widening Participation

The university is focused on improving access to further and higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. We continue to work on the mainstreaming of equality and diversity within the University and our planned equality outcomes for 2017-2021 as required by the public sector equality duty under the Equality Act 2010. A report on progress was produced in April 2017 with the next report due in April 2019. 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

Report of the University Court for the year ended 31 July 2018 Strategic Report - Resources and Principal Risks (continued)

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.

The University Court is committed to achieving greater diversity in its membership and is pleased to report that the gender balance and diversity of Court members has improved significantly during 2017/18 and from the 9 appointments which are made directly by the Court (as opposed to being ex officio, nominated or elected) it now has five female members and four males.

Professional Advisors

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

Elections

The company has elected to:

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

Company Secretary

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

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

Garry Coutts
Chairman
Ness Walk
INVERNESS
IV3 5SQ

Corporate Governance and Internal Control for the year ended 31 July 2018

Introduction

The University Court (Court) is the governing body of the University of the Highlands and Islands, and governs in accordance with the Articles of Association of the University of the Highlands and Islands (formerly UHI Millennium Institute), as amended by resolutions dated 6 March 1997, 21 September 1998, 23 March 2001, 4 November 2003, 23 June 2005, 27 March 2007, 22 September 2009, 15 February 2011 and 8 July 2014 pursuant to Sections 4 and 381A of the Companies Act 2006. The Court is committed to exhibiting best practice in all aspects of corporate governance. The Court is also the Board of Directors of the University of the Highlands and Islands.

A revised Scottish Code of Good Higher Education Governance was published in 2017 which replaced the 2013 Scottish Code of Good Higher Education Governance. Academic year 2017-18 is considered a transition year for compliance to the 2017 Code.

In the opinion of the Governing Body, the university complies with all the principles and provisions of the 2013 Scottish Code of Good Higher Education Governance and is still working to ensure compliance with the 2017 Code. Areas of the Code where there remains non-compliance are:

- Para 26 - the requirement to treat all members of the governing body as full members. The university's current articles of association prevent any staff or student member of the governing body to be a member of a committee which considers either financial or staffing matters. As a result there are currently no staff or student governors on either the university's finance and general purposes committee or its remuneration committee. The university is in the process of changing its articles of association to comply with all aspects of both the Higher Education Governance (Scotland) Act 2016 and the 2017 Code and will comply with para 26 requirements at the earliest opportunity.
- Para 43 – the institution is expected to hold an annual stakeholder meeting in public. Due to the dispersed nature of the university, it is challenging to hold a face to face public meeting in its area which would be accessible to all stakeholders in its region. To comply with this requirement, the university's Foundation conference in October 2018 was publicised and stakeholders were invited to attend either in person or by video conference. Further consideration of how the university can best meet this obligation will be given during 2018/19.

The university is taking action to address this as described above and hopes to be fully compliant by 31 July 2019.

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

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

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

University of the Highlands and Islands

Corporate Governance and Internal Control for the year ended 31 July 2018 (continued)

Amendments to the articles are currently being considered by the Scottish Government and will then be submitted to the Privy Council for approval. These will *inter alia* include changes to the number and membership of the University Court to enable it to fully comply with the Higher Education Governance (Scotland) Act 2016.

Governance Structure

The Court is responsible for the strategic direction of the University, for the University's system of internal controls, approval of major developments and capital projects, health and safety, and human resources matters, and receives reports from senior managers on the operation of the day-to-day business of the University. The Court is required to meet at least four times per year under the 2017 Code and met four times in the period from 1 August 2017 – 31 July 2018 to discuss transact normal business and on a further three occasions to discuss the governance structure of the partnership with the chairs of the university's thirteen academic partners.

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

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

Training and Development of Court Members

All Court members and members of the Further Education Regional Board are given induction training on joining the university and ongoing development sessions are held with Court members on topics of importance to the university and the higher education sector more widely. Briefing sessions are held prior to formal meeting of the further Education Regional Board on a variety of topics.

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

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

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

Effectiveness Review

The Court reviews its effectiveness on an annual basis and commissioned an externally facilitated review of the Court and all of its committees in February 2017.

Corporate Governance and Internal Control for the year ended 31 July 2018 (continued)

University Court – Membership

The following table provides a summary of Court membership for the period 01 August 2017 to 31 July 2018. The composition of the University Court is prescribed within Article 12.1 of the University’s Articles of Association. Members are appointed for a term of 3 years, which can be renewed for a further term of 3 years. In exceptional circumstances, a third term of 3 years may be permitted, giving a maximum of 9 years’ membership.

Category of membership	Period of office	Date appointed	NAME
<i>Independent – appointed by Court</i>	<i>3 years*</i> <i>Initial appointment of 18 months.</i> <i>Appointment extended by Court 20/06/18 until 31/07/2020</i>	<i>01/08/2014</i>	<i>Mr Garry Coumts (Chair) (formerly UHI Rector)</i>
<i>Principal & Vice-Chancellor</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Professor Clive Mulholland</i>
<i>President of the Highlands & Islands Students’ Association</i>	<i>Ex officio</i>	<i>01/07/2017</i>	<i>Holly Scrimgeour - term expired 30/06/2018.</i>
<i>President of the Highlands & Islands Students’ Association</i>	<i>Ex officio</i>	<i>16/07/2018</i>	<i>Alan Simpson</i>
<i>Rector</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Mr Anton Edwards re-elected by Foundation 7th June 2017</i>
<i>Staff member – elected by and from the staff</i>	<i>3 years</i>	<i>15/09/2017</i>	<i>Dr Gareth Davies</i>
<i>Staff member - elected by and from the staff</i>	<i>3 years</i>	<i>15/09/2017</i>	<i>Rosemary McCormack</i>
<i>Student Governor – elected by the students</i>		<i>01/07/2017</i>	<i>Callum Stephen</i>
<i>Appointed Governor - FE Academic Partner Chair, appointed by the FE Academic Partners</i>	<i>3 years</i>	<i>01/08/2017</i>	<i>Mr Neil Stewart – Inverness College UHI</i>
<i>Appointed Governor - Academic Partner Chair, appointed by the Research & Specialist Partners</i>	<i>3 years</i>	<i>01/08/2014</i>	<i>Mr Angus Ross – SAMS Resigned 14/11/2017</i>
<i>Appointed Governor - Academic Partner Chair, appointed by the Research & Specialist Partners</i>	<i>3 years</i>	<i>10/04/2018</i>	<i>Mr David Sandison – NAFC</i>

<i>Independent - Chair of UHI FE Regional Board</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Dr Michael Foxley</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr Andrew Rogers</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>18/09/2017</i>	<i>Mrs Andrea Robertson</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr James MacDonald Resigned 27/02/2018</i>
<i>Independent – appointed by the Chief Executives of each of the Local Authorities</i>	<i>3 years (renewable)</i>	<i>01/09/2017</i>	<i>Mr Roddy Burns</i>
<i>Independent – appointed by the Highlands and Islands Enterprise</i>	<i>3 years (renewable)</i>	<i>09/10/2017</i>	<i>Mr Alistair Dodds</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr William Printie</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Professor Fiona McLean (Vice Chair)</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>09/02/2018</i>	<i>Ms Linda Kirkland</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>09/02/2018</i>	<i>Dr Poonam Malik</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>20/04/2008</i>	<i>Heidi May</i>
<i>Independent Observers</i>			
	<i>Appointment to Court pending changes to Articles of Association</i>	<i>June 2018</i>	<i>Dr Sarah Helps</i>
	<i>Appointment to Court pending changes to Articles of Association</i>	<i>June 2018</i>	<i>Ms Kirsty Macpherson</i>
<i>Co-Opted Independent Committee members</i>			
<i>FGPC</i>	<i>3 years (renewable)</i>	<i>From 19/03/2018</i>	<i>Duncan Macaulay</i>
<i>FERB</i>	<i>3 years (renewable)</i>	<i>From 5/02/2018</i>	<i>Bruce Robertson</i>
<i>Audit</i>	<i>3 years (renewable)</i>	<i>From 03/2017</i>	<i>Frank Gribben</i>
	<i>Initial appointment was for 12 months but extended to 3 years (renewable)</i>	<i>From 03/2017</i>	<i>Sinead Urquhart</i>

Corporate Governance and Internal Control for the year ended 31 July 2018 (continued)

Attendance at the University Court is recorded at each meeting. Generally, inadequate attendance is dealt with by self-regulation in discussion with the Chair and Secretary of the Court. The Court reviews its performance by periodic external scrutiny from UHI's internal auditors and by periodic measurement against national guidelines.

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

During the financial year 2017/18 the University offered the chair of Court, the chair of the Further Education Regional Board and the vice chair of Court a fixed remuneration rate of £37.47 per hour respectively or a daily rate of £281 based on a 7.5 hour day.

	2017/18		2016/17	
	Hours claimed	Remuneration	Hours claimed	Remuneration
Mr Garry Coutts	826	£34,121	651	£23,351
Dr Michael Foxley	654	£26,842	731.5	£25,844
Ms Fiona McLean	175	£6,776	-	-

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

Committees of the University Court

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

Revised membership of each of the committees of Court was approved by Court on 18 June 2014. The table below shows attendances relative to the number of meetings which the member was eligible to attend.

University of the Highlands and Islands

Corporate Governance and Internal Control for the year ended 31 July 2018

Attendance Summary (1 August 2017 – 31 July 2018)

University Court and Senior Committees

	University Court	Audit Committee	Finance & General Purposes Committee	Remuneration Committee	Further Education Regional Board	Attendance %
<i>Mr Garry Coutts*</i>	5/5		*	*	*	100%
<i>Professor Clive Mulholland**</i>	5/5	**3/4	4/5			86%
<i>Professor Fiona McLean</i>	5/5	3/3				100%
<i>Holly Scrimgeour</i>	5/5				3/5	80%
<i>Mr Anton Edwards</i>	4/5					80%
<i>Callum Stephen</i>	4/5				3/5	80%
<i>Dr Gareth Davis</i>	4/5					80%
<i>Ms Rosemary Cormack</i>	5/5					100%
<i>Mr Angus Ross (resigned from Court 14/11/17)</i>	2/2		1/1			100%
<i>Dr Michael Foxley Chair of FERB</i>	3/5				5/5	80%
<i>Mr Andrew Rogers Chair of FGPC</i>	4/5		5/5			90%
<i>Roddy Burns</i>	4/5	0/3				50%
<i>Neil Stewart</i>	4/5		3/5		5/5	80%
<i>Mr James MacDonald (resigned 27/2/18)</i>	3/3		2/3			67%
<i>Mr William Printie Chair of Audit</i>	5/5	4/4				100%
<i>Alastair Dodds (from 09/10/17)</i>	3/3					100%
<i>David Sandison</i>	2/2					100%
<i>Andrea Robertson (from 18/09/18)</i>	4/5		4/4			89%

<i>Poonam Malik (from 09/02/18)</i>	<i>2/2</i>					<i>100%</i>
<i>Linda Kirkland (from 09/02/18)</i>	<i>1/2</i>				<i>1/3</i>	<i>40%</i>
<i>Heidi May (from 20/04/18)</i>	<i>1/1</i>					<i>100%</i>
<i>Duncan Macaulay (from 19/03/18)</i>			<i>1/1</i>			<i>100%</i>
<i>Bruce Roberston (from 05/02/2018)</i>					<i>2/3</i>	<i>67%</i>
<i>Frank Gribben (from 03/17)</i>		<i>3/4</i>				<i>75%</i>
<i>Sinead Urquhart (from 03/17)</i>		<i>3/4</i>				<i>75%</i>

* As the chair is an ex officio member of every committee of Court (other than the Audit committee) his attendance at individual meetings has not been included within the above table. The Chair's attendance at committee meetings is recorded within the minutes of each meeting.

** The Principal and Vice Chancellor is in attendance at Audit Committee meetings, but is not a member.

Audit Committee

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

Finance and General Purposes Committee

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

Remuneration Committee

The Remuneration Committee is chaired by an independent member of Court. The Committee is delegated by the Court to implement the remuneration policy approved by the Court including setting the salaries of senior staff and approving any changes thereto. 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 considers annual inflationary trends, national and local market forces and benchmarks including salary movements implemented by the University's academic partners.

Further Education Regional Board

The Further Education Regional Board is a committee of the University Court charged with the oversight of the further education responsibilities of UHI as a regional strategic body. It was established in 2013, ahead of the implementation of the Post 16 Education (Scotland) Act 2013 to ensure that planning could be undertaken, data collected and processes established prior to UHI taking on full responsibility from 1 August 2014. The board meets on a quarterly basis and reports to each meeting of the University Court. The direct costs of operating as a Regional Strategic Body include the salary costs of the Vice-Principal (FE), the chair of the FE Regional Board, direct administration support, Student Information System administration, and incidental costs. These amount to £247,085. There is additional cost to the organisation of support and management time but these are not directly allocated to the RSB costs.

University of the Highlands and Islands

Corporate Governance and Internal Control for the year ended 31 July 2018 (continued)

Nominations Committee

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

Honorary Awards Committee

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

Foundation

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

Foundation met on two occasions throughout the year to receive a report from the Principal and Vice-Chancellor on the work of the University, to receive annually the audited accounts of UHI and to appoint members as required to the University Court.

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

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

Academic Council

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

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

Going Concern

The company is required to adopt the accounting requirements of Financial Reporting Standard 102 (28) in relation to retirement benefits. This has resulted in a pension liability of £8.860m at the balance sheet date for the LGPS and a pension liability of £1.464m for the USS. For the LGPS, this represents the company’s allocation of the deficit in the Highland Council Pension Fund at 31 July 2018. The volatility in the stock markets and actuarial assumptions can cause large fluctuations in the pension scheme deficit which can move the company’s unrestricted funds into deficit at any time. At 31 July 2018, the company had a surplus in its unrestricted fund. The company continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 102 accounting adjustments and the University Court is therefore of the opinion that the company is a going concern.

Corporate Governance and Internal Control (continued)

Long term sustainability

The University Court's framework for long term sustainability primarily consists of provisions set out in its Articles of Association which include restricting the activities of the university "to carry on and conduct the activities of a further and higher education institution", that "the income and property of the University shall be applied solely towards promotion of its objects" and require that true accounts shall be kept of the sums of money received and expended by the University.

The Strategic Plan for the university 2015-2020 forms part of the framework as one of three enabling strategies identified is financial sustainability and states that "the financial strength of the university and our academic partners is vital if we are to achieve our overarching vision, achieve global reach and become a distinctive, world-class institution. Financial sustainability requires us to secure a fair share of public funding for both our further and higher education, including for research. Importantly, however, it will require us to further supplement our core public funding through improved grant capture and increased philanthropic and commercial income, the latter including from self and employer-funded students. It also requires us to further enhance the economy, effectiveness and efficiency of our activities, whilst maintaining a broad range of geographically dispersed activity, including teaching, research and support functions, across our university partnership. Our approach to risk and how this is managed and applied to the breadth of our research, commercial and teaching activities across our diverse partnership underpins financial sustainability. This requires an increasingly collective and collaborative approach to the strategic management of our university partnership and activities, but one which is sensitive to the diversity within the partnership and the need to remain responsive to local and sub-regional needs. Greater financial independence and sustainability will enhance our institutional confidence and staff morale as well as allowing a longer term strategic view to be taken. This will maximise the use of resources across the university partnership. Financial sustainability will allow us to grow, make strategic investments, move to the next phase in our development and be agile and responsive to the opportunities which arise."

The Court monitors the long term sustainability of the institution as follows:

- Setting a critical performance indicator on level of annual surplus achieved across the partnership, and key performance indicators on achievement of non-public sector income and philanthropic giving and monitoring against these.
- Setting a financial strategy to reduce dependency on public sector funding
- Review and challenge of 5 year financial forecasts, annual budgets and quarterly performance against budget.
- Annual assessment of the organisation as 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 pages 15 and 16. 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.

Corporate Governance and Internal Control (continued)

Statement on the System of Internal Control

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

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

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

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

There is a process for identifying, evaluating and managing the University's significant risks. The risk management policy has been approved by the University Court and the high level risk register of the University is regularly reviewed by a Risk Review Group, the Audit Committee and approved by the University Court.

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.

On the basis of the work carried out since 1 August 2017, the Head of Internal Audit concludes that where scope to improve controls was identified management actions have been agreed to address these. There is sufficient evidence of controls and procedures to provide reasonable assurance that the University has adequate and effective arrangements for risk management, control and governance.

University of the Highlands and Islands

Corporate Governance and Internal Control (continued)

On the basis of the work carried out since 1 August 2017, the Head of Internal Audit concludes that the University has in place a Value for Money Policy and Procedures which confirms the University's commitment to achieving value for money from all of its activities, regardless of the method of funding. It further defines the scope, responsibilities, concept of value for money and approaches to assessing value for money to help promote and secure value for money within the University.

There is sufficient evidence (subject to compliance with the Value for Money Policy and Procedures and the provision of appropriate assurances from Academic Partners) that there are processes and procedures to provide reasonable assurance that the University has adequate and effective arrangements to promote economy, efficiency and effectiveness (value for money).

Signed on behalf of the University

Garry Coutts
Chair of University Court

Professor Clive Mulholland
Principal and Vice-Chancellor

Statement of the Responsibilities of the University Court for the year ended 31 July 2018

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

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

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

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

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

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

Signed on behalf of the University

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

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

Opinion

We have audited the financial statements of the University of the Highlands and Islands ('University') and its subsidiary (the 'group') for the year ended 31 July 2018 which comprise the Statement of Principal Accounting Policies, Consolidated Statement of Comprehensive Income and Expenditure, Consolidated and University Statement of Changes in Reserves, Consolidated and University Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 29 , including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the University's state of affairs as at 31 July 2018 and of the group and University's income and expenditure, recognised gains and losses, and statement of cash flow for the year for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and relevant legislation; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report annual report set out on pages 1 - 23, other than the financial statements and our auditor's report thereon. The University Court is responsible for the other information.

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Scottish Funding Council's Financial Memorandum with Higher Education Institutions

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

- the information given in the Operating and Financial Review is inconsistent in any material respect with the financial statements; or
- proper accounting records have not been kept; or
- the University financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the University Court

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

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

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

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with the Acts and relevant regulations made or having effect thereunder

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

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

Use of our report

This report is made solely to the University Court of the University of the Highlands and Islands, as a body, in accordance with regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the University Court those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University of the Highlands and Islands and the University Court as a body, for our audit work, for this report, or for the opinions we have formed.

Statutory Auditor

Edinburgh

Date:

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

The maintenance and integrity of the University of the Highlands and Islands' web site is the responsibility of the University Court; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

University of the Highlands and Islands

Consolidated and University Statement of Comprehensive Income and Expenditure Year Ended 31 July 2018

	Notes	Year ended 31 July 2018		Year ended 31 July 2017	
		Consolidated	University	Consolidated	University
		£'000	£'000	£'000	£'000
Income					
Tuition fees and education contracts	1	11,489	11,489	11,285	11,285
Funding body grants	2	83,113	83,113	78,231	78,231
Research grants and contracts	3	5,771	5,713	3,400	3,308
Other income	4	9,437	9,452	6,808	6,867
Investment income	5	70	70	105	105
Total income before endowments and donations		109,881	109,837	99,829	99,796
Donations and endowments	6	306	306	96	96
Total income		110,187	110,143	99,925	99,892
Expenditure					
Staff costs	7	14,929	14,929	11,303	11,303
Other operating expenses	9	96,151	96,107	87,180	87,148
Depreciation	10	2,364	2,364	1,542	1,542
Interest and other finance costs	8	533	533	420	420
Total expenditure		113,977	113,933	100,446	100,413
Deficit before other gains/losses and share of operating surplus/deficit of joint ventures and associates.		(3,790)	(3,790)	(521)	(521)
(Loss) on disposal of fixed assets		(163)	(163)	(51)	(51)
Deficit before tax		(3,953)	(3,953)	(572)	(572)
Taxation		-	-	-	-
Deficit for the year		(3,953)	(3,953)	(572)	(572)
Actuarial gain/(loss) in respect of pension schemes	28	11,084	11,084	(697)	(697)
Total comprehensive income/(expense) for the year		7,131	7,131	(1,269)	(1,269)
Represented by:					
Restricted comprehensive income for the year		-	-	(513)	(513)
Unrestricted comprehensive income for the year		7,131	7,131	(756)	(756)
		7,131	7,131	(1,269)	(1,269)
Deficit for the year attributable to:					
University		(3,953)	(3,953)	(572)	(572)
Total Comprehensive income/(expense) for the year attributable to University		7,131	7,131	(1,269)	(1,269)

All items of income and expenditure relate to continuing activities

University of the Highlands and Islands
Consolidated and University Statement of Changes in Reserves
Year ended 31 July 2018

Consolidated and University	Income and expenditure account		Total £'000
	<i>Restricted</i> £'000	<i>Unrestricted</i> £'000	
Balance at 1 August 2016	513	(1,684)	(1,171)
Deficit from the income and expenditure statement	(17)	(555)	(572)
Other comprehensive income	-	(697)	(697)
Release of restricted funds spent in year	(496)	496	-
Total comprehensive income for the year	(513)	(756)	(1,269)
Balance at 1 August 2017	-	(2,440)	(2,440)
Deficit from the income and expenditure statement	-	(3,953)	(3,953)
Other comprehensive income	-	11,084	11,084
Release of restricted funds spent in year	-	-	-
Total comprehensive income for the year	-	7,131	7,131
Balance at 31 July 2018	-	4,691	4,691

University of the Highlands and Islands

Consolidated and University Balance Sheet

	Notes	As at 31 July 2018		As at 31 July 2017	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Non-current assets					
Fixed assets	10	<u>61,408</u>	<u>61,408</u>	<u>33,786</u>	<u>33,786</u>
		61,408	61,408	33,786	33,786
Current assets					
Trade and other receivables	12	6,946	6,937	4,634	4,606
Investments	13	6,000	6,000	6,000	6,000
Cash and cash equivalents	19	<u>11,329</u>	<u>11,303</u>	<u>12,973</u>	<u>12,852</u>
		24,275	24,240	23,607	23,458
Less: Creditors: amounts falling due within one year	14	<u>(16,319)</u>	<u>(16,284)</u>	<u>(16,002)</u>	<u>(15,853)</u>
Net current assets		7,956	7,956	7,605	7,605
Total assets less current liabilities		69,364	69,364	41,391	41,391
Creditors: amounts falling due after more than one year	15	<u>(54,349)</u>	<u>(54,349)</u>	<u>(24,300)</u>	<u>(24,300)</u>
Provisions					
Pension provisions	16	<u>(10,323)</u>	<u>(10,323)</u>	<u>(19,531)</u>	<u>(19,531)</u>
Total net assets/(liabilities)		<u>4,691</u>	<u>4,691</u>	<u>(2,440)</u>	<u>(2,440)</u>
Restricted Reserves					
Income and expenditure reserve - restricted reserve	17	-	-	-	-
Unrestricted Reserves					
Income and expenditure reserve - unrestricted		<u>4,691</u>	<u>4,691</u>	<u>(2,440)</u>	<u>(2,440)</u>
Total Reserves		<u>4,691</u>	<u>4,691</u>	<u>(2,440)</u>	<u>(2,440)</u>

The financial statements were approved by the Governing Body on 28th November 2018 and were signed on its behalf by:

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

University of the Highlands and Islands

Consolidated Cash Flow

Year ended 31 July 2018

	Notes	31 July 2018	31 July 2017
		£'000	£'000
Cash flow from operating activities			
Surplus/(Deficit) for the year		7,131	(1,269)
Adjustment for non-cash items			
Depreciation	10	2,364	1,542
Increase in debtors	12	(2,312)	(1,387)
Increase in creditors	14	30,366	25,895
(Decrease)/increase in pension provision	16	(9,208)	2,139
Increase/(decrease) in other provisions	16	-	-
Adjustment for investing or financing activities			
Investment income	5	(70)	(105)
Interest payable	8	533	420
Loss on fixed assets		163	51
Net cash inflow from operating activities		28,967	27,286
Cash flows from investing activities			
Investment income	5	70	105
Payments made to acquire fixed assets	10	(222)	(317)
Service Concession Financing	10	(29,928)	(23,460)
Transfer to short term deposits		-	1,000
		(30,080)	(22,672)
Cash flows from financing activities			
Interest paid	8	(533)	(420)
		(533)	(420)
(Decrease)/increase in cash and cash equivalents in the year		(1,645)	4,194
Cash and cash equivalents at beginning of the year	19	12,973	8,779
Cash and cash equivalents at end of the year	19	11,328	12,973

University of the Highlands and Islands

Statement of Accounting Policies

for the year ended 31 July 2018

1. Basis of preparation

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

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

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

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

2. Basis of consolidation

The consolidated financial statements include the University and its subsidiary for the financial year to 31 July 2018. Intra-group transactions are eliminated on consolidation.

Although the Post 16 (Scotland) Education Act 2013 and the Assigned Colleges (University of the Highlands and Islands) Order 2014 assigned the incorporated colleges (Inverness College, Lews Castle College, Moray College, North Highland College and Perth College) to the University in its role as Regional Strategic Body, giving the University powers to appoint the majority of the board of these colleges, the University does not consider that it was in a position to exercise "dominant influence" over these colleges during the year sufficient to class them as "subsidiary undertakings" as defined by the Companies Act 2006 and FRS102. As a result the University has not consolidated the incorporated colleges' accounts into the group accounts in 2017/18. As the nature of the relationship between the University and the incorporated colleges continues to evolve while the full effects of the legislation come into force, the University will review this position on an ongoing basis.

The consolidated financial statements do not include the income and expenditure of the Students' Association or Development Trust (wound up November 2016) as the University does/did not exert control or dominant influence over policy decisions of either organisation.

3. Income recognition

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

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

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

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

Grant funding

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

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

Donations and endowments

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

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

Statement of Accounting Policies (continued)

for the year ended 31 July 2018

3. Income recognition (continued)

Capital grants

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

4. Accounting for retirement benefits

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

USS

Throughout the current and preceding periods, the USS scheme was a defined benefit only pension scheme until 31 March 2016 which was contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by Section 28 of FRS 102 "Employee Benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the income and expenditure account.

LGPS

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

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

5. Employment benefits

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

6. Service Concession Arrangements

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

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

7. Operating leases

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

Statement of Accounting Policies (continued)

for the year ended 31 July 2018

8. Foreign currency

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

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

9. Fixed assets

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

Land and buildings

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

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

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

Equipment

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

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

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

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

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

Statement of Accounting Policies (continued)

for the year ended 31 July 2018

10. Cash and cash equivalents

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

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

11. Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

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

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

12. Taxation

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

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

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

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

13. Reserves

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

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2018

1 Tuition fees and education contracts	Notes	Year Ended 31 July 2018		Year Ended 31 July 2017	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Scotland and EU fees		9,957	9,957	9,700	9,700
RUK (new fee rates)		716	716	652	652
Non-EU fees		766	766	919	919
Non-credit bearing course fees		-	-	-	-
Education contracts		50	50	14	14
Other contracts					
		11,489	11,489	11,285	11,285

2 Funding body grants	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Consolidated	University	Consolidated	University
Recurrent grant				
General Fund - Teaching	35,308	35,308	33,343	33,343
General Fund - Research and Knowledge Exchange	3,174	3,174	3,033	3,033
Release of deferred capital grants	41	41	26	26
Specific grants				
Strategic funding	68	68	266	266
Capital maintenance grants	1,329	1,329	2,439	2,439
Grants for FE provision	40,752	40,752	36,890	36,890
Ring-fenced grants funded by Scottish Government	2,442	2,442	2,233	2,233
	83,113	83,113	78,231	78,231

3 Research grants and contracts	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Consolidated	University	Consolidated	University
Research councils	81	81	195	195
Research charities	348	348	129	129
Government (UK and overseas)	1,775	1,771	1,255	1,201
EU	2,726	2,726	1,484	1,484
Industry and commerce	34	34	41	3
Other	807	753	297	297
	5,771	5,713	3,400	3,308

4 Other income	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Consolidated	University	Consolidated	University
Other revenue grants	1,997	1,997	2,492	2,492
Enterprise Agency grants	59	59	155	155
Other grant income	1,012	1,012	147	147
Exchange gain	12	12	55	55
Other capital grants	724	724	647	647
Other income	3,897	3,912	2,459	2,518
Other income generating activities	1,737	1,737	853	853
	9,437	9,452	6,808	6,867

5 Investment income	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Consolidated	University	Consolidated	University
Other investment income	70	70	105	105
Net return on pension scheme	-	-	-	-
	70	70	105	105

6 Donations and endowments	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Consolidated	University	Consolidated	University
Donations with restrictions	306	306	96	96
	306	306	96	96

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2018

	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
7 Staff costs				
Staff Costs :	£'000	£'000	£'000	£'000
Salaries	10,549	10,549	8,094	8,094
Social security costs	1,108	1,108	852	852
Movement on USS provision	90	90	75	75
Other pension costs	3,182	3,182	2,282	2,282
Total	14,929	14,929	11,303	11,303
Administration and Central Services	7,205	7,205	6,349	6,349
Research Grants and Contracts	1,928	1,928	1,139	1,139
Academic/Teaching Departments	5,796	5,796	3,815	3,815
Total	14,929	14,929	11,303	11,303

	Year ended 31 July 2018	Year ended 31 July 2017
Emoluments of the Vice-Chancellor:	£	£
Salary	214	211
Benefits	-	-
Pension contributions	22	21
	236	232

The remuneration of the Principal equates to 6.32 x the median annualised full time equivalent salary of all other employees.

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

	No.	No.
£100,000 to £109,999	1	-
£110,000 to £119,999	-	-
£120,000 to £129,999	2	2
	3	2

Average staff numbers by major category :	No.	No.
Administration and Central Services	130	128
Premises	1	1
Research Grants and Contracts	35	20
Academic/Teaching Departments	50	21
Academic Services	56	51
	272	221

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

Key management personnel

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

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

	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Key management personnel compensation	744	646

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2018

7 Staff costs (continued)

Court Members

The University Court members are the trustees for charitable law purposes. Due to the nature of the University's operations and the compositions of the Court, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Court may have an interest. All transactions involving organisations in which a member of Court may have an interest, including those identified below, are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

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

During the financial year 2017/18 the University offered the Chair and Vice-Chair of Court and Chair of the FE Regional board a fixed remuneration rate of £37.47 per hour or a daily rate of £281 based on a 7.5 hour day.

	2017/18		2016/17	
	Hours claimed	Remuneration	Hours claimed	Remuneration
Mr Garry Coutts	826	£34,121	651	£23,351
Dr Michael Foxley	654	£26,842	731.5	£25,844
Prof Fiona MacLean	175	£6,776	-	-

The total expenses paid to or on behalf of 17 court members was £12,640 (2017 - £15,491 to 26 council members). This represents travel and subsistence expenses incurred in attending Court, Committee meetings and other events in their official capacity.

University of the Highlands and Islands

Notes to the Accounts

for the year ended 31 July 2018

Notes	Year Ended 31 July 2018		Year Ended 31 July 2017		
	Consolidated £'000	University £'000	Consolidated £'000	University £'000	
8 Interest and other finance costs					
Net charge on pension scheme	28	533	533	420	420
		533	533	420	420

	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
9 Analysis of total expenditure by activity				
Academic and related expenditure	76,798	76,798	75,481	75,481
Administration and central services	6,598	6,597	3,591	3,588
Premises (including service concession cost)	4,230	4,230	1,479	1,479
Residences, catering and conferences	-	-	-	-
Research grants and contracts	6,986	6,952	5,457	5,427
Agency Staff	2	2	177	177
Other expenses	715	707	900	900
	95,330	95,286	87,085	87,052

Other operating expenses include:

External auditors remuneration in respect of audit services	39	48
External auditors remuneration in respect of non-audit services	4	3
Internal auditors remuneration in respect of internal audit services	35	33

Operating lease rentals:

Land and buildings	971	205
Other	24	20

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2018

10 Fixed Assets

	Freehold Land and Buildings £'000	Service concession arrangement Land and Buildings (Note 11) £'000	Leasehold Improvement £'000	Celtica and Theological collections £'000	Equipment £'000	Total £'000
Cost or valuation						
At 1 August 2017	8,612	25,290	313	82	9,622	43,919
Additions	-	29,928	-	-	222	30,150
Disposals	-	-	-	-	(285)	(285)
At 31 July 2018	8,612	55,218	313	82	9,559	73,784
Depreciation						
At 1 August 2017	1,323	723	168	-	7,919	10,133
Charge for the year	168	1,577	21	-	598	2,364
Disposals	-	-	0	-	(121)	(121)
At 31 July 2018	1,491	2,300	189	-	8,396	12,376
Net book value						
At 31 July 2018	7,121	52,918	124	82	1,163	61,408
At 1 August 2017	7,289	24,567	145	82	1,703	33,786

At 31 July 2018, freehold land and buildings included £0.239 (2017 - £0.239m) in respect of freehold land and is not depreciated.

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

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

University of the Highlands and Islands

Notes to the Accounts

for the year ended 31 July 2018

11 Service Concession Arrangements

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

Movement in Service concession arrangement assets

The asset value of the service concession included in the Balance Sheet as at 31/07/2018 is £52,918,000 (31/07/2017 £24,567,000).

Movement in Service concession arrangement liabilities

The total liabilities relating to the service concession included in the Balance Sheet as at 31/07/2018 were £54,726,870 (31/07/2017 £25,128,855).

	Year ended 31 July 2018	Year ended 31 July 2017
	£'000	£'000
Opening balance	25,129	1,830
Additions	29,928	23,459
Payments	(330)	(160)
	<u>54,727</u>	<u>25,129</u>

Future commitments

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

	Payable in 1 year	Payable in 2-5 years	Payable in 6-10 years	Payable in more than 10 years	Total
Service charge £'000	<u>378</u>	<u>2,013</u>	<u>3,685</u>	<u>48,651</u>	<u>54,727</u>

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

a) On Balance Sheet concession arrangements

In July 2016 the University entered into a 35-year contract with a third party provider for the provision and maintenance of Student Residences at Fort William, providing accommodation to 40 students. Service commenced in July 2016 and the contract will finish in July 2051.

In August 2016 the University entered into a 35-year contract with a third party provider for the provision and maintenance of Student Residences at Inverness Campus, providing accommodation to 150 students. Service commenced in August 2016 and the contract will finish in August 2051.

In August 2017 the university entered into 35 year contracts with third party providers for the provision and maintenance of Student residences at Inverness Campus (phase 2), Dornoch and Elgin, providing accommodation for 230 students. Service commenced in August 2017 and the contracts will finish in August 2052

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

The University has committed annual payments of £1,474,000 recorded within other operating expenses.

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2018

12 Trade and other receivables

	Year ended 31 July 2018		Year ended 31 July 2017	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Research grants receivables	1,067	1,067	735	735
Other trade receivables	2,570	2,579	1,372	1,344
Other receivables	-	-	-	-
Prepayments and accrued income	3,309	3,290	2,527	2,524
Amounts due from subsidiary companies	0	1	0	2
	<u>6,946</u>	<u>6,937</u>	<u>4,634</u>	<u>4,605</u>

13 Current Investments

	Year ended 31 July 2018		Year ended 31 July 2017	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Short term deposits	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>

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

At 31 July 2018 the weighted average interest rate of these fixed rate deposits was 0.69% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 164 days. The fair value of these deposits was not materially different from the book value.

14 Creditors : amounts falling due within one year

	Year ended 31 July 2018		Year ended 31 July 2017	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Service concession arrangements (note 11)	378	378	829	829
Trade payables	982	982	591	577
Social security and other taxation payable	50	49	36	34
Accruals and deferred income	14,908	14,874	14,545	14,413
	<u>16,319</u>	<u>16,284</u>	<u>16,002</u>	<u>15,853</u>

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

Deferred income

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

	Year ended 31 July 2018		Year ended 31 July 2017	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Accruals	5,506	5,506	4,496	4,381
Donations	-	-	193	193
Research grants received on account	1,000	1,000	1,317	1,317
Grant income	1,944	1,944	1,484	1,484
Deferred Government Capital Grants	18 4,133	4,133	4,790	4,790
Other income	2,325	2,291	2,265	2,248
	<u>14,908</u>	<u>14,874</u>	<u>14,545</u>	<u>14,413</u>

University of the Highlands and Islands
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for the year ended 31 July 2018

15 Creditors : amounts falling due after more than one year

	Year ended 31 July 2018		Year ended 31 July 2017	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Service concession liabilities due after one year	<u>54,348</u>	<u>54,348</u>	<u>24,300</u>	<u>24,300</u>
	54,348	54,348	24,300	24,300

16 Provisions for liabilities

Consolidated	Obligation to fund deficit on USS Pension £'000	Defined Benefit Obligations (Note 28) £'000	Total Pensions Provisions £'000
At 1 August 2017	1,347	18,184	19,531
Utilised in year	-	-	-
Additions in 2017/18	116	1,760	1,876
Unused amounts reversed in 2017/18	-	(11,084)	(11,084)
At 31 July 2018	1,463	8,860	10,323

University	Obligation to fund deficit on USS Pension £'000	Pension scheme provision under FRS102 (note 28) £'000	Total Pensions Provisions £'000
At 1 August 2017	1,347	18,184	19,531
Utilised in year	-	-	-
Additions in 2017/18	116	1,760	1,876
Unused amounts reversed in 2017/18	-	(11,084)	(11,084)
At 31 July 2018	1,463	8,860	10,323

USS deficit

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

In accordance with the requirements of the SORP, the University currently recognises a provision for its obligation to fund past deficits arising within the Universities' Superannuation Scheme (USS). The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. Details of this provision, which has been discounted at a rate of 2.16% as at 31st July 2018 are included in note 16 to the financial statements.

The 2017 actuarial valuation of USS has been undertaken, but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges.

In the judgment of the University, as the 2017 valuation has not formally completed, and there remain various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contribution required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

However there is a significant risk that they year end provision as calculated will not reflect the position following the outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. The university expects to have greater clarity in this respect during the next financial year. Based on the inputs to the model, the following sensitivity analysis outlines the potential impact of the existing liability of £1.463 million (assuming the same discount rate of 2.16%):

The impact of a 1% increase	£2.046 million
The impact of an increase to 6%	£3.437 million
The impact of an increase to 17 years recovery	£1.862 million
The impact of an increase to 20 years recovery	£2.283 million

In October 2018, the High Court ruled that employers must ensure equivalent payments to female employees as to their male counterparts under Guaranteed Minimum Pensions, which have been historically calculated differently. The potential financial impact of this is not yet known.

University of the Highlands and Islands

Notes to the Accounts

for the year ended 31 July 2018

17 Restricted Reserves

Reserves with restrictions are as follows:

	Consolidated and University	
	2018 Total £'000	2017 Total £'000
Donations		
Balances at 1 August 2017	-	496
New donations	306	-
Expenditure	(306)	(496)
Total restricted comprehensive income for the year	-	(496)
At 31 July 2018	-	-
	2018 Total £'000	2017 Total £'000
Analysis of other restricted funds /donations by type of purpose:		
Research support	249	-
	57	-
	306	-

18 Deferred Capital Grants

Group and University	Funding Council	Other	Total
	£'000	£'000	£'000
At 1 August 2017	117	4,673	4,790
Cash received and assets donated:			
Land & buildings	-	-	-
Equipment	-	108	108
	-	108	108
Released to income and expenditure account:			
Land and buildings	2	107	109
Equipment	33	624	657
	35	731	766
At 31 July 2018			
Land and buildings	15	3,114	3,129
Equipment	67	937	1,004
	82	4,051	4,133

19 Cash and cash equivalents

	At 1st August 2017 £'000	Cash Flows £'000	At 31st July 2018 £'000
Consolidated			
Cash and cash equivalents	12,823	(1,632)	11,191
Student support funds	150	(12)	138
	12,973	(1,644)	11,329
University	£'000	£'000	£'000
Cash and cash equivalents	12,702	(1,537)	11,165
Student support funds	150	(12)	138
	12,852	(1,549)	11,303

University of the Highlands and Islands
Notes to the Accounts
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20 Capital and other commitments

There were no capital commitments at the balance sheet date.

21 Lease obligations

Total rentals payable under operating leases:

	Group and University			31 July 2017 £'000
	31 July 2018 Land and Buildings £'000	31 July 2018 Plant and Machinery £'000	Total £'000	
Payable during the year	971	24	995	212
Future minimum lease payments due:				
Not later than 1 year	912	29	941	945
Later than 1 year and not later than 5 years	2,164	58	2,222	2,970
Later than 5 years	31	-	31	155
Total lease payments due	3,107	87	3,194	4,070

22 Events after the reporting period

The University is currently in negotiation to finance and purchase the Centre for Health Science in Inverness, and to build a new research facility within the Inverness campus funded by City Deal and ERDF grants.

23 Subsidiary undertakings

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

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

During the year the subsidiary company had income of £120,983 (2017 - £146,951). The net profit of £1,083 (2017 - £1,577) was paid under gift aid to UHI. Net assets at 31 July 2018 are £1.

Notes to the Accounts

for the year ended 31 July 2018

24 Related Party Transactions

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

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

Partner	Invoiced to Partners	Payments to Partners	Amounts due	
			to Partners at 31 July 2018	from Partners at 31 July 2018
			£000	£000
Argyll College	108	946	1	21
HTC	4	439	2	-
Inverness College	563	17,411	-	116
Lews Castle College	104	4,626	2	20
Moray College	418	10,393	23	80
North Atlantic Fisheries College	11	537	32	1
North Highland College	390	10,956	8	234
Orkney Islands Council	81	3,351	-	12
Perth College	471	18,411	1	85
SAMS	26	2,616	-	-
Shetland Islands Council	67	2,716	18	16
SMO	9	1,094	1	(1)
West Highland College	94	4,293	61	26
	2,346	77,789	149	610

25 Hardship Funds and Childcare Funds

	HE Childcare £000	HE Discretionary £000	2017/18 Total £000	2016/17 Total £000
Balance brought forward	-	-	-	-
Allocation received in year	7	378	385	414
Expenditure	(3)	(297)	(300)	(353)
Repayable to funding body	(4)	(81)	(85)	(61)
Balance carried forward	0	0	0	0

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

26 Contingent Liabilities

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

27 Securities

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

University of the Highlands and Islands

Notes to the Accounts

for the year ended 31 July 2018

28 Pension Schemes

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

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

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

(i) The Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS). The scheme is a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits.

The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS102 "Employee benefits", the institution therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme. Since the institution has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the institution recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

The University is required to contribute a specified percentage of payroll costs to the pension scheme to fund the benefits payable to the University's employees. The percentage for the year was 18%.

The total charged to the profit and loss account is £862k (2017 £538k).

The latest available complete actuarial valuation of the Retirement Income Builder Section of the scheme is at 31 March 2014 ("the valuation date") which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway but not yet completed.

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

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. These figures will be revised once the 2017 Scheme Valuation is complete.

In accordance with the requirements of the SORP, the University currently recognises a provision for its obligation to fund past deficits arising within the Universities' Superannuation Scheme (USS). The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. Details of this provision, which has been discounted at a rate of 2.16% as at 31st July 2018 are included in note 16 to the financial statements.

The 2017 actuarial valuation of USS has been undertaken, but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges.

In the judgment of the University, as the 2017 valuation has not formally completed, and there remain various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contribution required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

However there is a significant risk that they year end provision as calculated will not reflect the position following the outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. The university expects to have greater clarity in this respect during the next financial year. Based on the inputs to the model, the following sensitivity analysis outlines the potential impact of the existing liability of £1.463 million (assuming the same discount rate of 2.16%):

The impact of a 1% increase	£2.046 million
The impact of an increase to 6%	£3.437 million
The impact of an increase to 17 years recovery	£1.862 million
The impact of an increase to 20 years recovery	£2.283 million

In October 2018, the High Court ruled that employers must ensure equivalent payments to female employees as to their male counterparts under Guaranteed Minimum Pensions, which have been historically calculated differently. The potential financial impact of this is not yet known.

Defined benefit liability numbers for the scheme have been produced using the following assumptions as at 31 March 2017 and 2018:

	2018	2017
Discount rate	2.64%	2.57%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.02%	2.41%

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28 Pension Schemes (continued)

The main demographic assumption used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the Scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2018	2017
Mortality base table	<u>Pre-retirement</u> 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.	98% of SAPS S1NA "light" YOB unadjusted for males
	<u>Post-retirement</u> 96.5% of SAPS S1NMA "light" for males and 101.3% of RfV00 for females.	99% of SAPS S1NA "light" YOB with a -1 year adjustment for females.
Future improvements to mortality	CMI_2016 with a smoothing parameter of 85 and a long term improvement rate of 1.8% pa for males and 1.6% pa for females	CMI_2014 with a long term rate of 1.5% pa

The current life expectancies on retirement at age 65 are:

	2018	2017
Males currently aged 65 (years)	24.5	24.4
Females currently aged 65 (years)	26.0	26.6
Males currently aged 45 (years)	26.5	26.5
Females currently aged 45 (years)	27.8	29.0

	2018	2017
Scheme assets	£63.6bn	£60.0bn
Total scheme liabilities	£72.0bn	£77.5bn
FRS 102 total scheme deficit	£8.4bn	£17.5bn
FRS 102 total funding level	88%	77%

As at the valuation date the scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 18% of Salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation. Since the valuation effective date there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants

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

Normal Pension Age

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

Flexible Retirement

Flexible retirement options were introduced.

Members contributions increased

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

USS investment builder

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

Pension increase cap

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

University of the Highlands and Islands

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28 Pension Schemes (continued)

(ii) Local Government Pension Scheme

The Highland Councils LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2018 was £1,327k of which employers' contributions totalled £954k and employees' contributions totalled £373k.

The following information is based upon pension expense calculation as at 31 July 2018.

Valuation method

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

Demographic/Statistical Assumptions for the Scheme

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2016 model with an allowance for smoothing of recent mortality experience and long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Mortality

	Males	Females
Current pensioners	21.9 years	24.3 years
Future pensioners*	23.3 years	26.1 years

*Figures assume members aged 45 as at the last formal valuation date.

Historic Mortality

Period ended	Prospective Pensioners	Pensioners
31-Jul-17	CMI 2012 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25%pa	CMI 2012 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25%pa

The mortality assumptions used to value the Obligations in the Closing Position are different to those used in the Obligations in the Opening Position.

Financial Assumptions for the Scheme

Assumptions as at	31-Jul-18		31-Jul-17		31-Jul-16	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.40%	-	3.40%	-	2.90%	-
CPI Increases	2.40%	-	2.40%	-1.00%	1.90%	-1.00%
Salary Increases	3.40%	1.00%	4.50%	1.00%	3.90%	1.00%
Pension Increases	2.40%	-1.00%	2.50%	-1.00%	1.90%	-1.00%
Discount Rate	2.80%	-0.50%	2.70%	-0.50%	2.40%	-0.50%

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 2017 for the year to 31 July 2018). The expected return on assets assumption is set equal to the discount rate.

Analysis of movement in the fair value of scheme assets

	Year to 31-Jul-18 £'000	Year to 31-Jul-17 £'000
Fair value of assets at the start of the year	30,858	26,680
Expected return on assets	843	648
Actuarial gain on assets	666	2,880
Actual contributions paid by University	954	864
Actual member contributions	378	357
Actual benefit payments	(567)	(571)
Fair value of scheme assets at the end of the year	<u>33,132</u>	<u>30,858</u>
Present value of liabilities at the start of the year	49,042	42,822
Current service cost	2,207	1,811
Past service costs	-	-
Interest cost on defined benefit obligation	1,350	1,046
Actual member contributions	378	357
Actual benefit payments	(567)	(571)
Changes in financial assumptions	(4,677)	3,577
Changes in demographic assumptions	(36)	-
Other experience adjustments	(5,705)	-
Present value of funded liabilities	<u>41,992</u>	<u>49,042</u>
Fair value of scheme assets at the end of the year	33,132	30,858
Present value of funded liabilities	<u>(41,992)</u>	<u>(49,042)</u>
Net liability in Balance Sheet	<u>(8,860)</u>	<u>(18,184)</u>

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28 Pension Schemes (continued)

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

	Year to 31-Jul-18	Year to 31-Jul-17
	£'000	£'000
Current service cost *	2,207	1,811
Past service costs	-	-
Interest on obligation	1,350	1,046
Expected return on scheme assets	(843)	648
Actuarial loss in respect of pension schemes	(11,084)	697
Total	(8,370)	4,202

*The current service cost contains an allowance for administration expenses of 0.6% of payroll.

Sensitivity analysis to UHI obligations and service costs

	Approx % increase to Employer Liability	Approx monetary amount £000
0.5% decrease in Real Discount Rate	12%	5,104
0.5% increase in Salary Increase Rate	3%	1,240
0.5% increase in Pension Increase Rate	9%	3,764

Reconciliation of opening and closing deficit

	Year to 31-Jul-18	Year to 31-Jul-17
	£'000	£'000
Deficit at beginning of year	(18,184)	(16,142)
Current service cost	(2,207)	(1,811)
Employer contributions	954	864
Other finance income	(507)	(398)
Actuarial (loss)/gain	11,084	(697)
Deficit at end of the year	(8,860)	(18,184)

Projected pension expense for the year to 31 July 2019

UHI share of the LGPS

	Year to 31-Jul-19
	£'000
Projections for Year to 31 July 2019	
Service cost *	2,134
Interest cost	1,202
Return on assets	(941)
Total	2,395
Employer contributions	1,157

* The current service costs includes an allowance for administration expenses of 0.6% of payroll.

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

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

The monetary amount of the projected service cost for the period to 31 July 2019 may be adjusted to take account of actual pensionable payroll for the period.

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29 Accounting estimates and judgements

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the balance sheet date and the amounts reported for income and expenses during the year. These estimates will, by definition, seldom equal the related actual results particularly given changes in economic conditions and the level of uncertainty regarding their duration and severity.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions in accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The most important estimates and judgements are set out below.

USS Pension Scheme

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

Service Concession arrangements

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

Impairment

The university is required to carry out impairment testing on any assets that show indications of impairment. This testing involves exercising management judgements about future cashflows and other events which are by their nature uncertain.

Turnover recognition

Judgement must be exercised to ensure that turnover is recognised in accordance with contractual terms, including in relation to the level of expected returns.