

# **UHI MILLENNIUM INSTITUTE**

## **Report and Financial Statements For the year ended 31 July 2009**

A limited company registered in Scotland No. 148203. Registered Charity No. SCO22228  
Registered Office: 12B Ness Walk, Inverness, IV3 5SQ

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## **Nature, Objectives and Strategy of the Institution**

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

From August 2008 we have had the power to award degrees to the students we teach. Taught Degree Awarding Powers is a major step in establishing the University of the Highlands and Islands. We have achieved this through our commitment to academic quality and our record of producing around 1500 degree graduates by way of the Open University Validation Service and the first 191 by UHI.

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

We have achieved significant increases in student numbers over the past five years without a corresponding increase in funding. We have set ambitious growth targets looking ahead to 2015. We must continue to attract more degree students so that we can continue to offer the breadth and volume of subjects and degree programmes appropriate for a regional university with national and international ambitions. We need an increase in the SFC funded student numbers allocated to UHI in order to maintain the number of higher national students, and to increase the number of degree students. This will assist us in achieving financial sustainability.

Achieving this growth requires significant pump priming funding in line with other Scottish universities. We need facilities and estates fit for the flexible styles of learning and teaching of a modern university and we face the additional challenges of delivering these facilities across a vast geographic region.

We are proud to have achieved the status of strategic delivery body (SDB) for the new round of Structural Funds. This has allowed us to apply £16m of European funds, with £22m of match funding, to invest in specific projects in research, estates, infrastructure, and learning and teaching development, to help achieve the transformation of the Highlands and Islands economy. This funding is welcome, but we still need to build up more recurrent income for our future sustainability and strength.

UHI welcomes the Scottish Government’s economic and skill strategies. The nature of the UHI partnership, the wide area we cover, our research ambitions and our blended learning-delivery system mean we are at the very heart of the strategy for a Scotland which is “wealthier and fairer, smarter, healthier, safer and stronger and greener”. UHI is already making a major contribution to this future for the Highlands and Islands and for Scotland as a whole. We will continue to press for UHI to become a university as a matter of urgency, and this will add to our ability to deliver these objectives.

UHI has developed strategic Key Performance Indicators to measure delivery of its Strategic Plan.

A copy of the Strategic Plan for the UHI partnership is available on our website.

### **Current and Future Development and Performance**

In the year, UHI continued to deliver its strategy under four broad programmes of activity: Sustainable Growth, University Title, Networking and Shared Services.

#### Sustainable Growth

UHI continued to develop diversification of income, increasing the number of international students studying on undergraduate and post-graduate courses of specialised provision in the partnership, Aircraft Engineering, Theology and Gaelic. In the future UHI will broaden the appeal of its courses to a wider international market through focussed marketing.

UHI strengthened a partnership curriculum planning process to help ensure that curriculum is strategically focussed at UHI markets, is of university quality, and provides an excellent learning experience.

UHI increased its home student numbers from 4,742 to 4,813 full-time equivalents during the year, primarily from within the region. UHI continues to service the lifelong learning needs of the region with 62% of students part-time and 60% over 25 years of age. UHI has continued to grow its student population to address its regional mission and to ensure viable courses, and now delivers 23% of its students on a fees-only basis. The financial sustainability of this policy is under continuing review.

#### University Title

UHI continued to expand its research activities. The investment in prior years into its main research areas resulted in a higher Research Assessment Exercise rating, showing strong evidence of developing research capacity across a broad range of subjects in UHI; Celtic studies, based at Sabhal Mòr Ostaig UHI on Skye; archaeology based at Orkney College UHI and Lews Castle College UHI, and earth systems sciences representing work at the Scottish Association for Marine Science UHI at Dunstaffnage and the Environmental Research Institute at North Highland College UHI. UHI now has an RAE presence in eight disciplines and is being recognised as a centre for developing research excellence. This provides UHI with a profile that a university needs to have, and increases the financial viability of these research areas.

In the year UHI finalised investment plans and successfully approved funding in Rural Health, Lipidomics, Marine Renewables and Energy Efficiency in the Built Environment, and continued to develop research support systems to ensure the quality and sustainability of the research. These investments will continue over the three-year funding period.

In the future UHI will continue to ensure that research plans focus on quality, sustainable research in key strategic areas.

UHI continued to ensure staff development and capacity building, establishing a staff development programme to continue to embed scholarship and research across the partnership. Focussed investment in staff development will continue as UHI moves towards University Title.

In the first academic year of Taught Degree Awarding Powers UHI has further developed its quality enhancement, assurance and monitoring processes, and this work will continue with particular emphasis on monitoring the student experience and embedding learning from student feedback.

#### Networked Delivery

UHI delivers its mission of regional access to a broad HE curriculum by networking its academic delivery, sharing student learning across the partnership. UHI continued to invest in increasing the curriculum during the year, and launched a major new initiative, the LEARN programme accessible

through blended learning, to assist academic staff in enhancing the student experience of blended learning. This important programme will continue for the next two years to increase access and quality, and to help increase viability of the partnership's teaching activities.

#### Optimisation of Services and Systems

During the year UHI embarked on a partnership-wide programme to increase efficiency and effectiveness of its tertiary delivery, informed by a key benchmarking study. Detailed plans for implementation are now being finalised, aimed at delivering substantial savings and enhanced services across the partnership.

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

UHI's most significant source of income continues to be Scottish Funding Council grants for teaching and research, which rose from £25.3m to £26.5m over the year. SFC is consulting on changes to the teaching funding methodology, which are expected to be implemented for the financial year 2010-11. Currently these changes are not expected to result in significant change in UHI's teaching funding and this will be kept under close review.

As with all publicly funded organisations, UHI expect the funds flows to be curtailed as a result of government efforts to reduce public sector borrowing. As 91% of our operational income is dependant on SFC, this is expected to have an adverse effect on UHI's main funding streams. UHI argues that its unique position in helping regenerate the economy of the Highlands and Islands and its resultant geographic wider access provision create a high cost of delivery across a sparse and socio-economically vulnerable population which would be threatened by any reductions in grant income.

UHI also notes the SFC's intention to review the basis for distribution of the Horizon Fund grant, which accounts for 11% of UHI's SFC income. While supporting the use of public funding to deliver the Scottish Government's Purpose additional requirements for challenge funding would require significant management resource and would destabilise government-aligned initiatives.

UHI, as a growing institution, cannot fund its significant development needs from core funded activity and is substantially dependant on HIE and EU funding for investment projects. Projects using these funds flows, totalling £3.4m in the year, will begin to reduce in calendar year 2011 and will be substantially complete by end 2012. UHI will have an increased research base, an enhanced teaching and learning capability, and additional curriculum to offer across an improved IT infrastructure; but faces a real financial challenge obtaining a return on investment at a time when additional funded student numbers are not confirmed and research funds flows from all sources are expected to decrease. This could add to an increasing downward pressure on operational surpluses across the partnership, limiting self-investment in capacity.

UHI's use of significant EU and other funds also carries a high compliance cost and risk, particularly where the deadlines for spend are short and projects are capital-intensive and complex. UHI has rolled out a programme approach to funds management across the partnership to manage and mitigate these risks.

#### **Value for Money**

UHI has continued to deliver its Value for Money Strategy, including undertaking benchmarking of all of its activities and a review of the organisation. The actions arising from these are being implemented in the strategic planning period to 2011.

## **Review of Financial Activities**

UHI's income rose by £2.1 million or 5.4% in the year. This reflects the rise in Funding Council Grants of £1.4m, tuition fees of £0.7m and externally-funded project activities particularly relating to the SDB of £1.8m.

Research grants fell by £1.5m in the year due to the completion of a significant Scottish Research Development Grant project.

Staff costs rose from £5.2m to £6.5m, as UHI delivered externally funded projects and invested in business transformation.

The outturn surplus is on target with UHI's financial strategy of investing its incoming resources in delivering and developing its academic resources. The outturn is comparable to the previous year.

As required by GAAP, UHI continued to implement FRS 17. As a result UHI is required to disclose a liability relating to current commitments of £2.7m (prior year £0.6m) on its balance sheet, reducing net assets to £5.0m (prior year £5.5m). The Actuarial loss on the pension scheme in the year of £2,044k (prior year gain of £392k) is dealt with in the Statement of Total Recognised Gains and Losses.

### Payment of Suppliers

UHI 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 UHI's policy is that its trade creditors at the year-end represent 4 days purchases (2008 - 2 days) which is 1.16% of invoices (2008 0.4%).

## **Constitution**

The UHI Millennium Institute is a company limited by guarantee incorporated on 24<sup>th</sup> December 1993 and has been established under the Further and Higher Education Act 1992. It is an exempt charity for the purposes of the Charities Act 1993. Under the terms of the Designation of UHI Millennium Institute (Scotland) Order 2001, which came into effect on 1 April 2001, UHI was designated as an institution eligible to receive support from funds administered by the Scottish Higher Education Funding Council (now the Scottish Funding Council).

## **Leadership**

There have been two significant changes in the leadership team subsequent to year end. Professor Matthew MacIver CBE has been appointed Chair of the Board of Governors. He replaces Colin MacKay CBE who served the Board for more than seven years. James Fraser, formerly Deputy Principal and Secretary at UHI, was selected to take over from Professor Robert Cormack on his retirement as Principal. Mr Fraser's appointment became effective on 1 October 2009.

## **Academic Partners**

In spring 2009 UHI terminated its Associated Institution Agreement with the Sustainable Development Research Centre; this meant that the UHI Partners became 13 full Academic Partners with no Associated Institutions. Further details can be found in the Financial Statements in note 26.

## **Equal Opportunities and Widening Participation**

UHI has a particular focus to improve access to higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. In 2005 UHI completed an equality charter, which provides the overarching ethos of promoting equality and diversity for the whole organisation. The Race, Disability and Gender Equality Duties are strong drivers to ensure that these values are mainstreamed into the policies and processes of the organisation, and the implementation of the action plans flowing from the equality duties is overseen by the Equal Opportunities Committee. UHI

has established links with Equality Forward, which provides advice and support for all Scotland's colleges and universities, and is funded directly by SFC. There is now a group of senior managers from each of the academic partners and associate institutions, who are taking forward the design, structure and implementation of a single equality scheme, for the whole UHI network. There is an established group of the equal opportunities committee undertaking impact assessment of all UHI policies, procedures and practices. UHI 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. UHI Executive office has undertaken a survey of all their staff to identify the profile of our staff in relation to all the recognised strands of discrimination, and also to identify areas of priority for the various statutory action plans.

### **Professional Advisors**

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

### **Elections**

The company has elected to:

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

### **Company Secretary**

The Secretary to UHI, Fiona M Larg, is also the Company Secretary.

**Matt MacIver CBE**  
**Chairman**  
Ness Walk  
INVERNESS  
IV3 5SQ

15 December 2009

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

## Corporate Governance and Internal Control

### Introduction

The Board of Governors is the governing body of UHI Millennium Institute, and governs in accordance with the Articles of Association of UHI Millennium Institute, as amended by resolutions dated 6 March 1997, 21 September 1998, 23 March 2001, 4 November 2003, 23 June 2005 and 27 March 2007 pursuant to Sections 4 and 381A of the Companies Act 1985. The Board is committed to exhibiting best practice in all aspects of corporate governance. The Board is also the Board of Directors of the UHI Millennium Institute. The Board conforms to the principles and practice set out in the Committee of University Chairmen (CUC) Guide for Members of Higher Education Governing Bodies in the UK, issued in November 2004, and has included in its Articles of Association the seven principles of public life. In the opinion of the Board of Governors, UHI complies with all the provisions of the Combined Code in so far as they relate to the Higher Education sector.

### Governance Structure

The Board of Governors is responsible for the ongoing strategic direction of UHI, for UHI's system of internal controls, approval of major developments and capital projects, health and safety, and human resources matters, and is in receipt of reports from senior managers on the operation of the day-to-day business of UHI. The Board is required to meet at least three times per year and in fact met seven times in the period from August 2008 – July 2009.

There is a clear division of responsibility between the roles of the Chairman on the one hand and the Principal of UHI on the other. Under the Memorandum and Articles of Association the Board delegates academic business to the Academic Council.

All governors have access to the Secretary to UHI, who is the Clerk to the Board and Secretary to the Company. The Secretary is responsible to the Board for ensuring that the Board complies with the requirements of the Scottish Funding Council, relevant legislation and sectoral norms for governance processes and procedures.

### Board of Governors – Membership

The Board of Governors during 2008-09 consisted of the following persons; changes throughout the period are shown in italics.

	Period of Off	Date of Appoint	Date of Cessation	
<b>Ex Officio</b>				
Principal of UHI	N/A			Robert Cormack
President - Students' Association	N/A	<i>01-09-08</i>	<i>01-07-09</i>	<i>Lindsey Mitchell</i>
				<i>Steven Jarmson</i>
<b>Elected</b>				
Two members of staff from among Staff Register of UHI of whom one teaching member and one a non-teaching member	3 years	19-12-06 29-02-07		Janet Hackel Fiona Skinner
<b>Appointed</b>				
7 Chairs of Boards of Management Academic Partners	3 years	19-12-06 19-12-06 <i>12-11-08</i> 19-12-06 19-12-06 01-12-07 07-01-08 03-03-08 <i>08-07-09</i>	<i>30-09-08</i>        <i>11.05.09</i>	HTC: Alex Murray Moray: <i>Robin MacLeod</i> Moray: <i>Jana Hutt</i> SAMS: John Arbuthnott Lochaber: Michael Foxley Shetland: Andrew Hughson NAFC: Iris Hawkins NHC: <i>Philip Arthur</i> NHC: <i>William Bruce</i>

<b>Independent</b>				
9 members appointed by the UHI Board	3 years (renewable)	05-11-03 05-11-03 05-11-03 05-11-03 05-11-03 05-11-03 05-11-03 28-09-04 20-02-06 28-04-09	15-01-09        18-04-09	Colin MacKay Philip MacKenzie Calum MacLeod Lord Prosser Anne Clark Jean Urquhart Jack Watson Hugh Morison Bill Bound Matthew MacIver
2 members appointed by Highland Islands Enterprise	3 years (renewable)	01-03-04 01-06-07		Andrew Rogers Mary Campbell
3 members appointed by Foundation	3 years	07-09-04 07-09-04 06-12-07 07-04-09	18-01-09	Geoff Payne Thomas Prag Derek Bedford Joe Moore
<b>Sponsor Universities</b>				
		07-01-08 07-01-08 07-01-08		Alistair Mair Melvyn Cornish Kenneth Miller

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

### Sponsor Universities

Under the arrangements set in place for UHI's process towards the receipt of title a contract was signed with the universities of Aberdeen, Edinburgh and Strathclyde, the "sponsor universities" setting out their role. As part of these arrangements UHI's Articles of Association were amended to include the three universities as members of the company and to permit the three universities to appoint one director from each to the UHI Board of Governors.

### Committees of the Board of Governors

The Board exercises its role with the aid of several committees. The Board approves the remits and memberships of the committees. The decisions and recommendations of these committees are formally reported to the Board. The Committees comprise the Audit Committee, the Equal Opportunities Committee, the Finance and General Purposes Committee, the Health & Safety Committee, the Nominations Committee, and the Remuneration Committee.

Colin MacKay (Chair)	Remuneration, Nominations, Finance & General Purposes, Equal Opportunities.
Philip Mackenzie	
William Prosser	Nominations
Hugh Morison	Finance & General Purposes, Health & Safety, Remuneration
Anne Clark	Equal Opportunities, Audit
Jean Urquhart	Equal Opportunities, Remuneration
Jack Watson	Finance & General Purposes, Remuneration
Matthew MacIver	Finance & General Purposes
William Bruce	
Alex Murray	
Jana Hutt	Finance & General Purposes

John Arbuthnott	
Michael Foxley	
Andrew Hughson	
Iris Hawkins	
Mary Campbell, HIE <sup>1</sup>	Audit
Andy Rogers, HIE	Finance & General Purposes
Derek Bedford, Fdn <sup>2</sup>	Finance & General Purposes
Thomas Prag, Fdn	Audit, Development Trust
Joe Moore, Fdn	
Janet Hackel	Equal Opportunities
Fiona Skinner	Equal Opportunities

### **Nominations Committee**

The Nominations Committee is a sub-committee of the Board chaired by the Chair of the Board. The Committee meets on an “as required” basis to review the membership of the Board, to seek new members when vacancies arise and to ensure that the committees of the Board are fully populated by Board members in terms of their composition. In seeking new members the Nominations Committee has drawn up a specification of the balance of skills and professional expertise which is deemed useful to the Board and seeks to implement UHI’s policies in respect of equal opportunities.

### **The Remuneration Committee**

The Remuneration Committee is a sub-committee of the Board. The Committee is entrusted with 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 consider annual inflationary trends, national and local market forces and benchmarks including salary movements within UHI Academic Partners.

### **The Foundation**

The Foundation, a body through which the people of the Highlands and Islands may influence and support the development of UHI, is an important element in the constitution of UHI. Its approval is required for constitutional change and for changes of full Academic Partners.

The Foundation met regularly throughout the year to receive a report from the Principal on the work of UHI, to receive annually the audited accounts of UHI and, as necessary, to appoint such members as it may be required to appoint to the Board of Governors.

The Foundation may of its own accord discuss and declare an opinion on any other matter relating to UHI and its resolution or opinion on any matter aforesaid shall be conveyed by the Principal to the next meeting of the Board of Governors.

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<sup>1</sup> HIE – Highlands and Islands Enterprise

<sup>2</sup> Fdn – UHI Foundation

## **Executive Board**

The Executive Board comprises the Principal (*ex officio*) and the Principal or Director of each of the UHI Academic Partners. Directors of Associated Institutions are invited to attend and participate in meetings, but do not have voting rights.

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

The Executive Board ensures that there is a regular input into the strategy and operation of UHI from the senior management of the Academic Partners. Following upon the constitutional review the Executive Board was strengthened through the establishment of a number of committees.

## **Going Concern**

The Board of Governors is satisfied that UHI has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

## **Disclosure of information to Auditors**

The governors who were members of the Board of Governors at the time of approving the accounts are listed on pages 5 and 6. Having made enquiries of fellow governors and the institute's auditors, each of these governors confirms that:

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

**Matt Maclver CBE**  
**Chairman**

**James M Fraser**  
**Principal**

15 December 2009

## **Statement of the Responsibilities of the Board of Governors**

The Board of Governors of UHI Millennium Institute is responsible for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Board of Governors of the UHI Millennium Institute 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 UHI Millennium Institute, UHI through its Principal, 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 Institute and the result for that year.

In preparing the financial statements, UHI 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 Institute will continue in operation.

UHI is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of UHI. UHI 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 Institute and to prevent and detect fraud and other irregularities.

The Board of Governors is responsible for ensuring that funds from the 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 Board of Governors 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 Board of Governors is responsible for securing economical, efficient and effective management of the institute'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 Institute**

**Matt MacIver CBE**  
**Chairman**

**James M Fraser**  
**Principal**

15 December 2009

## **Statement on the System of Internal Control**

It is the responsibility of the Director of Finance and Planning to ensure that an effective system of internal financial control is maintained and operated by UHI Millennium Institute. 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 governing body;
- regular reviews by the governing body 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.

UHI Millennium Institute has an internal audit process, which operates in accordance with the requirements of the Scottish Funding Council. The work of the internal audit process is informed by an analysis of the risks to which the institute is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by UHI's Governing Body on the recommendation of the Audit Committee. At least annually, the Internal Auditor provides the Governing Body with a report on internal audit activity in the Institute. The report includes the Internal Auditor's independent opinion on the adequacy and effectiveness of the Institute's system of internal control, including internal financial control.

There is a process for identifying, evaluating and managing UHI's significant risks. This has been formalised in line with the internal control guidance for Directors on the Combined Code as amended by the British Universities' Finance Officers Group and applied in 2003-04. The Risk Management Policy has been approved by the Board of Governors and the Risk register by the Executive Board and by the Board of Governors.

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 the internal auditors; (iii) the executive managers within the Institute who have responsibility for the development and maintenance of the financial control framework; and (iv) the work of the Institute's external auditors.

**Matt MacIver CBE**  
**Chairman**

**James M Fraser**  
**Principal**

15 December 2009

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF UHI MILLENNIUM INSTITUTE**

We have audited the financial statements of UHI Millennium Institute for the year ended 31 July 2009 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's Board of Governors, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board of Governors and auditors**

As explained more fully in the Board of Governors' Responsibilities Statement set out on page 9, the Board of Governors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2009 and of its income for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the financial statements:

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

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

In our opinion the information given in the Board of Governors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Peter Mearns (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Inverness  
Date: 15 December 2009

**UHI Millennium Institute**  
**Income and Expenditure Account for the year ended 31 July 2009**

	Notes	Year ended 31 July 2009 £	Year ended 31 July 2008 £
<b>Income</b>			
Funding Council Grants	2	26,504,084	25,267,470
Tuition fees and education contracts	3	6,289,599	5,607,367
Research Grants and Contracts	4	2,353,767	3,854,193
Other income	5	5,757,577	3,890,579
Endowment and Investment income	6	83,372	205,482
Pension Scheme Net Expected Return on Assets	10	-	76,000
<b>Total Income</b>		<b><u>40,988,399</u></b>	<b><u>38,901,091</u></b>
<b>Expenditure</b>			
Staff costs	7	6,558,399	5,228,378
Other operating expenses	9	33,671,790	33,037,974
Interest payable		17,000	-
Depreciation	13	433,931	352,589
<b>Total Expenditure</b>		<b><u>40,681,120</u></b>	<b><u>38,618,941</u></b>
Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets and disposal of assets and before tax		307,279	282,150
Taxation	11	-	-
Transfer from Development Reserve	18	-	-
<b>Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>		<b><u>307,279</u></b>	<b><u>282,150</u></b>

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

**UHI Millennium Institute  
Statement of Total Recognised Gains and Losses  
for the year ended 31 July 2009**

	Notes	Year ended 31 July 2009 £	Year ended 31 July 2008 £
<b>Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>		307,279	282,150
Actuarial (Loss)/Gain on Pension Scheme	23	(2,044,000)	(392,000)
<b>Total Recognised Gains relating to the Period</b>		<u>(1,736,721)</u>	<u>(109,850)</u>
<b>Reconciliation</b>			
<b>Opening reserves</b>		<b>2,989,824</b>	<b>3,099,674</b>
Total Recognised (losses)/gains for year		(1,736,721)	(109,850)
<b>Closing reserves</b>		<u><b>1,253,103</b></u>	<u><b>2,989,824</b></u>

**UHI Millennium Institute  
Balance Sheet as at 31 July 2009**

	Notes	2009 £	2008 £
<b>Fixed assets</b>			
Tangible assets	13	<b>6,246,416</b>	<b>5,035,023</b>
<b>Current assets</b>			
Debtors	14	4,066,958	3,298,055
Cash at bank and in hand		3,370,388	2,998,961
		<u>7,437,346</u>	<u>6,297,016</u>
<b>Creditors: amounts falling due within one year</b>	15	(6,036,391)	(5,152,968)
<b>Net current (liabilities)/assets</b>		<u>1,400,955</u>	<u>1,144,048</u>
<b>Total assets less current liabilities</b>		<b>7,647,371</b>	<b>6,179,072</b>
<b>Creditors: amounts falling due after one year</b>		-	-
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		<u>7,647,371</u>	<u>6,179,071</u>
Pension Liability	23	(2,701,000)	(656,000)
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<u>4,946,371</u>	<u>5,523,071</u>
Deferred capital grants	16	3,693,268	2,453,899
Expendable Endowments	17	-	79,348
General reserve	18	1,183,103	2,919,824
Development Reserve	18	70,000	70,000
<b>Total Reserves</b>		<u>1,253,103</u>	<u>2,989,824</u>
<b>TOTAL</b>		<u>4,946,371</u>	<u>5,523,071</u>

The financial statements on pages 13 to 36 were approved by the governing body on and were signed on its behalf by: -

**Matt MacIver CBE**  
Chairman

**James M Fraser**  
Principal

**UHI Millennium Institute**  
**Cash Flow Statement for the Year ended 31 July 2009**

	Notes	Year ended 31 July 2009 £	Year ended 31 July 2008 £
<b>Cash inflow from operating activities</b>	19	465,825	236,356
Returns on investments and servicing of finance	20	83,372	205,482
Capital expenditure and financial investment	21	(177,770)	(328,239)
<b>(Decrease)/Increase in cash in the period</b>		<u><b>371,427</b></u>	<u><b>113,599</b></u>
 <b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/Increase in cash in the period		<u>371,427</u>	<u>113,599</u>
Movement in net funds in period		371,427	113,599
Net funds at 1 August 2008		2,998,961	2,885,362
<b>Net funds at 31 July 2009</b>		<u><b>3,370,388</b></u>	<u><b>2,998,961</b></u>

## **UHI Millennium Institute**

### **Notes to the Financial Statements for the Year ended 31 July 2009**

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

#### **1. Principle Accounting Policies**

##### ***Basis of preparation***

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

##### ***Basis of accounting***

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

##### ***Basis of Consolidation***

The Institute had no subsidiary undertakings during the period.

##### ***Recognition of income***

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

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

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

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

##### ***Pension schemes***

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

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

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

The USS Scheme is a defined benefit scheme which is externally funded and 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 institution 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 FRS 17 "Retirement Benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

## **Tangible fixed assets**

### *Land and Buildings*

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

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

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

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

### *Equipment*

Equipment costing less than £1,000 per individual item is written off to the income and expenditure account in the period of acquisition. Computer equipment and research equipment costing between £1,000 and £5,000 is capitalised, but written off in the year of purchase. All other equipment is capitalised at cost.

Assets are depreciated over their useful economic life as follows:

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

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

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

## Leased assets

### Operating Leases

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

## Foreign currency translation

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

## Taxation

The Institute is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of the Income and Company Taxes Act (ICTA) 1988.

Accordingly, the Institute is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 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 Institute receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the cost of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

## Provisions

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

## 2. Funding Council Grants

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
SFC recurrent grant (including fee waiver)	20,244,300	19,713,000
SFC recurrent research grant	2,747,000	2,064,000
SFC non-recurrent research grant	1,816,264	391,373
LTIF grants	1,077,237	2,320,355
SRIF grants	256,802	420,741
Fee waiver	99,170	132,076
Other SFC grants	263,311	225,925
<b>Total</b>	<b>26,504,084</b>	<b>25,267,470</b>

### 3. Tuition Fees and Education Contracts

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
UK and EU Fees	5,239,857	4,594,978
Non-EU students	637,670	565,405
Non-credit bearing course fees	-	-
Education Contracts	340,338	404,845
Other Contracts	71,734	42,139
	<b>6,289,599</b>	<b>5,607,367</b>

### 4. Research Grants and Contracts

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Research Councils and Charities	263,840	23,638
Industry and Commerce	84,857	145,222
Governmental	1,011,106	2,406,605
EU	872,754	1,228,612
Other	121,210	50,116
	<b>2,353,767</b>	<b>3,854,193</b>

### 5. Other Income

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Other income generating activities	915,435	1,023,905
Other grant income	3,760,130	2,049,682
Other income	853,828	647,087
Deferred capital grant release	228,184	169,905
	<b>5,757,577</b>	<b>3,890,579</b>

### 6. Endowment and Investment Income

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Other interest receivable	83,372	205,482
	<b>83,372</b>	<b>205,482</b>

## 7. Staff Costs

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

	Year ended 31 July 2009 Number	Year ended 31 July 2008 Number
Administration and central services	100	83
Research grants and contracts	21	14
Academic/Teaching departments	9	8
Academic Services	35	32
	<b>165</b>	<b>137</b>
	Year ended 31 July 2009	Year ended 31 July 2008
Analysed as:		
Staff on permanent contracts	136	120
Staff on short-term and temporary contracts	29	17
	<b>165</b>	<b>137</b>

All teaching staff are employed and paid by the Institute's Academic Partners.

### Staff costs for the above persons:

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Wages and salaries	5,426,141	4,289,289
Social security costs	423,012	330,129
Other pension costs - contributions	725,246	575,960
- current service cost in excess of contributions	22 (58,000)	33,000
- past service costs	22 42,000	-
	<b>6,558,399</b>	<b>5,228,378</b>
Administration and central services	3,848,896	2,974,887
Research grants and contracts	761,388	565,088
Academic/Teaching departments	1,821,788	1,688,403
	<b>6,432,072</b>	<b>5,228,378</b>
Exceptional restructuring costs	126,327	
Total	<b>6,558,399</b>	<b>5,228,378</b>

Included in the above analysis of wages and salaries are staff costs of £181,363 relating to staff seconded to Distance Lab for whom the Institute receive reimbursement in full which is reported in other income.

The number of staff, including senior post-holders and the principal, who received emoluments in the following ranges was:

	Year ended 31 July 2009 Number	Year ended 31 July 2008 Number
£ 70,001 to £ 80,000	1	-
£ 80,001 to £ 90,000	-	1
£ 90,001 to £100,000	-	1
£100,101 to £110,000	1	-
£110,001 to £120,000	-	-
£140,001 to £150,000	-	1
£150,000 to £160,000	-	-
£160,000 to £170,000	1	-
	<u>3</u>	<u>3</u>

## 8. Senior Post-holders' Emoluments

	Number 2009	Number 2008
The number of senior post-holders including the principal was:	<u>2</u>	<u>2</u>
Senior post-holders' emoluments are made up as follows:		£
Salaries	272,046	245,979
Social security costs	30,794	27,761
Benefits in kind	5,893	5,481
Pension contributions	42,077	35,837
<b>Total emoluments</b>	<u><b>350,810</b></u>	<u><b>315,058</b></u>

The above emoluments include amounts payable to the Principal (who is also the highest paid senior post-holder) of:

	Year Ended 31 July 2009 £	Year Ended 31 July 2008 £
Salary	164,961	145,979
Benefits in kind	<u>2,880</u>	<u>2,799</u>
	<u>167,841</u>	<u>148,778</u>
Pension contributions	<u>22,783</u>	<u>20,437</u>

The pension contributions in respect of the Principal and senior post-holders are in respect of employer's contributions to the Local Government Pension Scheme/Universities' Superannuation Scheme and are paid at the same rate as for other employees.

The members of the Institute other than the principal and the staff member did not receive any payment from the Institute other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

## 9. Other Operating Expenses

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Academic Departments	20,489,327	20,968,095
Academic Services	2,369,790	1,573,692
Administration and Central Services	4,186,186	3,405,672
Premises	562,523	493,235
Research Grants and Contracts	5,244,872	6,020,174
Agency Staff	256,628	258,692
Other	562,464	318,414
<b>Total</b>	<b>33,671,790</b>	<b>33,037,974</b>

### Other operating expenses include:

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Auditors' remuneration:		
external audit – Ernst & Young	25,201	20,375
internal and other audit services	56,986	23,068
Hire of plant and machinery - operating leases	16,450	16,236
Hire of other assets - operating leases	272,276	90,069

## 10. Pension Scheme Net Expected Return on Assets

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Expected return on pension scheme assets	562,000	508,000
Interest on pension liabilities	(578,000)	(432,000)
Net return	(16,000)	76,000

## 11. Taxation

The company is recognised by the Inland Revenue as a charity for the purposes of Section 505, Income and Corporation Taxes Act 1988.

## 12. Surplus on Continuing Operations for the Period

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

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Institute's surplus for the period	307,279	282,150
Total	<u>307,279</u>	<u>282,150</u>

## 13. Tangible Fixed Assets

	Land & Buildings	Leasehold Improvements	Celtica & Theological Collections	Videoconference Equipment	Computer Equipment	Research Equipment	Office Equipment	Total
<b>Cost</b>								
As at 31 July 2008	4,658,418		81,962	1,746,920	4,509,347	507,586	152,198	11,656,431
Additions	-	346,147	0	894,209	257,279	58,644	89,044	1,645,323
As at 31 July 2009	4,658,418	346,147	81,962	2,641,129	4,766,626	566,230	241,242	13,301,754
<b>Depreciation</b>								
As at 31 July 2008	359,154		-	1,654,181	4,305,028	175,478	127,567	6,621,407
Charge for Year	93,168	15,369		84,318	117,553	94,720	28,801	433,931
As at 31 July 2009	452,322	15,369	-	1,738,499	4,422,581	270,198	156,368	7,055,338
<b>Net Book Value</b>								
As at 31 July 2009	4,206,096	330,778	81,962	902,630	344,045	296,032	84,874	6,246,416
As at 31 July 2008	4,299,264	-	81,962	92,740	204,319	332,108	24,631	5,035,023
Financed by capital grant	1,954,684	299,690	81,962	860,798	146,165	279,662	70,309	3,693,270
Other	2,251,412	31,088		41,832	197,880	16,370	14,565	2,553,146
Net book value At 31 July 2009	4,206,096	330,778	81,962	902,630	344,045	296,032	84,874	6,246,416

#### 14. Debtors: amounts falling due within one year

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Trade Debtors	588,703	1,661,275
Prepayments and accrued income	3,478,255	1,636,780
<b>Total</b>	<b>4,066,958</b>	<b>3,298,055</b>

#### 15. Creditors: Amounts Falling Due Within One Year

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Payments received in advance	2,816,156	2,011,691
Trade creditors	430,186	142,738
Other taxation and social security	273,046	56,837
Accruals	2,442,949	2,830,824
Bursaries and Other Student Support Funds	74,054	110,878
<b>Total</b>	<b>6,036,391</b>	<b>5,152,968</b>

The BACS facility and credit card limits are secured by the Clydesdale Bank who hold a ranking agreement for £1,200,000 plus 12 months interest and charges.

#### 16. Deferred Capital Grants

	Total £
<b>At 1 August 2008</b>	<b>2,453,899</b>
Cash Received and assets donated	
Land & buildings	-
Equipment	1,467,554
Released to income and expenditure account	
Land and buildings (note 5)	44,814
Equipment (note 5)	183,370
<b>Total</b>	<b>228,184</b>
<b>At 31 July 2009</b>	
Land and buildings	1,954,683
Equipment	1,738,586
<b>Total</b>	<b>3,693,269</b>

## 17. Endowments

	<b>Expendable Endowment £</b>	<b>Total £</b>
<b>Balances at 1 August 2008</b>		
Capital	79,348	79,348
Accumulated income	-	-
	<hr/>	<hr/>
Expenditure	(79,348)	(79,348)
	<hr/>	<hr/>
<b>At 31 July 2009</b>	<u>-</u>	<u>-</u>

The expendable endowment fund represented funding received in advance for the Lifescan Chair of Diabetes and the movement is dealt with in Other Research Income (note 4).

## 18. Movement on Reserves

	<b>General Reserve £</b>	<b>Development Reserve £</b>	<b>Total £</b>
<b>Income and Expenditure Account Reserve</b>			
<b>At 1 August 2008</b>	<b>2,919,824</b>	<b>70,000</b>	<b>2,989,824</b>
Surplus on continuing operations for the year to 31 July 2009	307,279		307,278
Actuarial (Loss)/Gain on Pension Scheme	(2,044,000)		(2,044,000)
	<hr/>	<hr/>	<hr/>
<b>At 31 July 2009</b>	<u><b>1,183,103</b></u>	<u><b>70,000</b></u>	<u><b>1,253,103</b></u>

The Development Reserve is to be used for future planned curriculum development activities. It is expected that these will arise as a result of the Institute's application for University Title.

## 19. Reconciliation of Operating Surplus/(Deficit) to Net Cash Inflow from Operating Activities

	<b>Year ended 31 July 2009 £</b>	<b>Year ended 31 July 2008 £</b>
Surplus on continuing operations after depreciation of assets at valuation	307,279	281,449
Depreciation (note 13)	433,931	352,589
FRS 17 Pension adjustment	1,000	(43,000)
Deferred capital grants released to income (note 16)	(228,184)	(169,903)
(Increase) in debtors	(768,904)	(818,054)
Increase in creditors	804,075	982,402
Interest receivable (note 6)	(83,372)	(205,482)
Release of permanent endowment	-	(143,645)
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<u><b>465,825</b></u>	<u><b>236,356</b></u>

## 20. Returns on Investments and Servicing of Finance

	Year Ended 31 July 2009 £	Year Ended 31 July 2008 £
Other interest received	83,372	205,482
<b>Net cash inflow from returns on investment and servicing of finance</b>	<b><u>83,372</u></b>	<b><u>205,482</u></b>

## 21. Capital Expenditure and Financial Investment

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Purchase of tangible fixed assets	(1,645,324)	(441,427)
Deferred capital grants received	1,467,554	113,188
<b>Net cash (outflow) from capital expenditure and financial investment</b>	<b><u>(177,770)</u></b>	<b><u>(328,239)</u></b>

## 22. Analysis of Changes in Net Funds

	At 1 August 2008 £	Cashflows £	Other changes £	At 31 July 2009 £
Cash at bank and in hand	2,998,961	371,427	-	3,370,388
<b>Total</b>	<b><u>2,998,961</u></b>	<b><u>371,427</u></b>	<b><u>-</u></b>	<b><u>3,370,388</u></b>

## 23. Pension and similar obligations

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

### Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 130,000 active members and the institution has 9 active members participating in the scheme.

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

Because of the mutual nature of the scheme, the institution 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 FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

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

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male members' mortality	PA92 MC YoB tables - rated down 1 year
Female members' mortality	PA92 MC YoB tables – No age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

### 23. Pension and similar obligations (continued)

Males (females) currently aged 65	22.8 (24.8) years
Females (females) currently ages 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts), the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discounted rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 would have been approximately 104%.

The technical provisions relate essentially to past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 107% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1<sup>st</sup> October 2009.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using AA bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy out basis at that date was approximately 46%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principle assumptions used to measure the scheme liabilities are set out on the next page:

## 23. Pension and similar obligations (continued)

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund’s liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme’s cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation was due as at 31<sup>st</sup> March 2011. The contribution rate will be reviewed as part of each valuation.

At 31 March 2009, USS had over 130,000 active members and the institution had 9 active members participating in the scheme.

The total pension cost of the institution was £109,328 (2008 £113,795). This includes £0 (2007 £0) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

## 23. Pension and similar obligations (continued)

### 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 2009 was £916,104 of which employers' contributions totalled £650,032 and employees' contributions totalled £266,072.

The following information is based upon pension expense calculation as at 31 July 2009.

#### Changes to the LGPS

A number of changes to the LGPS came into effect on 1<sup>st</sup> April 2009. The changes relate mainly to benefits accruing and scheme member contributions from 1 April 2009.

However, the changes introduced in the 2009 scheme also affect members' benefits earned before 1 April 2009 as follows:

- An increase in the period of the pension guarantee following retirement from 5 to 10 years
- The introduction of contingent dependants' benefits for co-habitees

The appropriate past service cost of these benefit improvements has been calculated as 0.6% of active members' liabilities.

#### Valuation Method

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

#### Demographic/Statistical Assumptions

A set of demographic assumptions has been adopted which is consistent with those used for the formal funding valuation as at 31 March 2008. The post retirement mortality tables adopted were the PA92 series projected to calendar year 2008 for current pensioners and 2018 for non-pensioners with the future improvement in mortality set at a minimum of 1% per annum. The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	Last valuation as at 31 March 2008	Previous valuation as at 31 March 2005	
		Manuals	Officers (& post 98)
Non-pensioners			
Males	18.87	17.64	19.35
Females	21.91	18.49	22.32
Pensioners			
Males	19.88	17.64	19.35
Females	22.98	18.49	22.32

#### Financial Assumptions

Assumptions as at	31 July 2009		31 July 2008		31 July 2007	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
Price Increases	3.6%	-	3.9%	-	3.5%	-
Salary Increases	4.6%	1%	4.9%	1%	5.0%	1.5%
Pension Increases	3.6%	-	3.9%	-	3.5%	-
Discount Rate	6.0%	2.3%	6.4%	2.4%	5.8%	2.2%

## 23. Pension and similar obligations (continued)

The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at 31 July 2009.

### Expected Return on Assets

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 2008 for the year to 31 July 2009). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

### Amounts for the current and previous four periods:

	<b>31 July 2009</b>	<b>31 July 2008</b>	<b>31 July 2007</b>	<b>31 July 2006</b>	<b>31 July 2005</b>
	£000	£000	£000	£000	£000
Defined Benefit Obligation	(10,307)	(7,615)	(6,959)	(6,720)	(5,143)
Scheme assets	7,607	6,959	6,653	5,603	3,828
<b>Surplus/Deficit</b>	<b>(2,701)</b>	<b>(656)</b>	<b>(306)</b>	<b>(1,117)</b>	<b>(1,315)</b>
Experience Adjustment on Scheme Assets	(827)	(1,162)	194	389	481
Percent of Assets	-10.9%	-16.7%	2.9%	6.9%	12.6%
Experience Adjustment on Scheme Liabilities	(996)	-	-	150	(12)
Percent of Liabilities	-9.7%	-	-	2.2%	-0.2%
<b>Cumulative Actuarial Gains and Losses</b>	<b>(1,736)</b>	<b>308</b>	<b>690</b>	<b>(5)</b>	<b>(250)</b>

The following expected returns have been adopted:

Asset Class	Expected return at:		
	1 August 2009	1 August 2008	1 August 2007
	% p.a.	% p.a.	% p.a.
Equities	7.5%	7.8%	7.8%
Gilts	4.5%	4.8%	4.8%
Other Bonds	6.0%	6.4%	5.8%
Property	5.5%	5.8%	5.8%
Cash	3.0%	5.0%	5.8%

Net Pension Asset as at	Year Ended	Year Ended	Year Ended
	31 July	31 July	31 July
	2009	2008	2007
	£000	£000	£000
Fair value of Scheme Assets	7,607	6,959	6,652
Present value of Funded Obligation	(10,307)	(7,615)	(6,959)
Deficit	(2,701)	(656)	(307)
Net Liability in Balance Sheet	(2,701)	(656)	(307)

## 23. Pension and similar obligations (continued)

Analysis of the amount charged to income and expenditure account	Year Ended 31 July 2009 £000	Year Ended 31 July 2008 £000
Current service cost	583	550
Interest on obligation	578	432
Expected return on Scheme assets	(562)	(508)
Past service cost	42	-
Losses/(gains) on curtailments and settlements	1	-
Total	642	475
Actual return on Scheme assets	(743)	(654)

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

Actual return less expected return on pension scheme assets	(1,305)	(1,162)
Experience Gains and Losses	(518)	-
Change in assumptions underlying the present value of the scheme liabilities	(221)	780
Change in asset valuation	-	(10)
Actuarial gain / (loss) recognised in STRGL	<u>(2,044)</u>	<u>(392)</u>

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of Total Obligation	10,065	10,308	10,556
Projected Service Cost	625	649	673
Adjustment to mortality rating assumption	+1 year	None	-1 year
Present Value of Total Obligation	9,904	10,308	10,714
Projected Service Cost	614	649	685

## 23. Pension and similar obligations (continued)

### Asset and Benefit Obligation Reconciliation for the year to 31 July 2009

<b>Reconciliation of opening and closing balances of the present value of the defined benefit obligation</b>	<b>Year Ended 31 July 2009 £000</b>	<b>Year Ended 31 July 2008 £000</b>
Opening Defined Benefit Obligation	7,615	6,959
Service cost	583	550
Interest cost	578	432
Actuarial losses (gains)	1,217	(780)
Losses/(gains) on Curtailments	1	-
Estimated benefits paid (net of transfers in)	5	252
Past service cost	42	-
Contributions by Scheme participants	267	202
Closing Defined Benefit Obligation	<u>10,308</u>	<u>7,615</u>

### Reconciliation of opening and closing balances of the fair value of Scheme assets

Opening fair value of Scheme assets	6,959	6,653
Change in asset valuation	-	(10)
Expected return on Scheme assets	562	508
Actuarial gains and (losses)	(827)	(1,162)
Contributions by employer	641	517
Contributions by Scheme participants	267	202
Estimated benefits paid (net of transfers in)	5	252
Fair value of Scheme assets at end of period	<u>7,607</u>	<u>6,959</u>

### Reconciliation of opening and closing surplus

Surplus/(Deficit) at beginning of year	(656)	(306)
Change in asset valuation	-	(10)
Service cost	(583)	(550)
Employer contributions	641	517
Past service costs	(42)	-
Other finance income	(16)	76
Settlements/Curtailments	(1)	-
Actuarial gain/loss	(2,044)	(383)
Surplus/(Deficit) at end of the year	<u>(2,701)</u>	<u>(656)</u>

## 23. Pension and similar obligations (continued)

### Projected Pension Expense for the year to 31 July 2010

Projections for Year to 31 July 2010	Year to 31 July 2010 £000
Service Cost	649
Interest Cost	644
Return on assets	(564)
Total	729
Employer Contributions	600

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 July 2009.

## 24. Financial Commitments

Annual rentals under operating lease commitments are as follows:

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
<b>Land and Buildings</b>		
Expiring within one year	51,796	78,893
Expiring within two and five years inclusive	-	-
Expiring in over five years	220,474	30,478
	<u>272,270</u>	<u>109,371</u>
<b>Other</b>		
Expiring within one year	16,217	-
Expiring between two and five years inclusive	-	16,290
Expiring in over five years	-	-
	<u>16,217</u>	<u>16,290</u>

The lease on the storage unit in Nairn expired in May 2005. The lease terminated in October 2008.

The lease for units in the Greenhouse expired on 15<sup>th</sup> June 2007. The lease terminated in October 2008.

The lease on property at Fairways commenced in July 2007, for a period of 10 years, with an option to terminate after 5 years. A further lease for additional space at Fairways commenced on 1 June 2009 for one year, with a three month notice period thereafter.

The lease for premises at Dochfour expired on 31 January 2009.

Leases on premises for the Clinical Research Facility and the Diabetes Research Institute commenced on 26 November 2008 for a period of 15 years.

## 25. Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2008:

	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Commitments contracted for	2,063,754	78,096
Authorised but not contracted for	-	-
	<u>2,063,754</u>	<u>78,096</u>

## 26. Related Party Transactions

Due to the nature of the Institute's operations and the composition of the Board of Governors (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 board of governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the Institute's financial regulations and usual procurement procedures. The ultimate controlling party is the Board of Governors.

The Institute has 14 constituent partners at the end of the period, in order to deliver a range of higher education services throughout the Highlands and Islands. The transactions with all of these partners and the 3 sponsoring Universities during the financial period are outlined below:

Partner	Invoiced to Partners £	Payments to Partners £	Amounts due to Partners at 31 July 2009 £	Amounts due from Partners at 31 July 2009 £
Argyll College	11,029	140,414	1,095	1,622
Highland Theological College	750	218,973	10,985	7,162
Inverness College	119,240	4,212,936	25,465	11,792
Lews Castle College	44,982	1,970,827	18,144	7,939
Lochaber College	10,734	236,791	1,003	640
Moray College	117,752	3,631,820	26,170	24,549
North Atlantic Fisheries College	7,589	292,271	-	3,213
North Highland College	99,389	3,302,145	12,002	6,315
Orkney College (OIC)	18,901	896,636	10,876	196
Perth College	131,504	4,766,134	33,015	3,165
SAMS	8,807	2,057,854	3,753	7,545
Shetland College (SIC)	14,432	376,451	6,143	5,508
Sabhal Mor Ostaig	6,676	934,609	3,692	8,177
SDRC	71,515	200,143	-	-
Aberdeen University	9,045	76,767	774	164
Edinburgh University	-	5,992	775	-
Strathclyde University	105,280	102,524	-	1,400
	<u>777,625</u>	<u>23,423,287</u>	<u>153,892</u>	<u>89,387</u>

Provisions totalling £6,412 (2008 - £44,402) have been made in respect of these balances, which are shown above gross of any provision.

## 27. Hardship Funds and Childcare Funds

	<b>Hardship</b>	<b>Childcare</b>
Balance B/Fwd	<b>27,140</b>	<b>25,909</b>
Funds received in year	262,343	251,140
Expenditure	(262,899)	(211,697)
Repayable to funding body (clawback)	(26,224)	(20,027)
Virements	20,590	(20,590)
Balance C/Fwd	<b>20,951</b>	<b>24,735</b>

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

## 28. Contingent Liability

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

## 29. Securities

The Clydesdale Bank and The Millennium Commission have been granted standard securities over the property at Ness Walk.

## 30. Post Balance Sheet Events

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

## 31. Losses and special payments

There were no losses or special payments during the year.