

University of the Highlands and Islands

Report and Financial Statements For the year ended 31 July 2015

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

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University of the Highlands and Islands
Operating and Financial Review for the year ended 31 July 2015

Nature, Objectives and Strategy of the University

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

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

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

In setting out its plans for regionalisation of further education and ensuring greater links between schools, colleges and universities, the Scottish Government recognised that UHI is in a unique position to integrate further and higher education as a tertiary institution. In accordance with the Act further education funding for the Highlands and Islands is being distributed through UHI to eight assigned colleges (who are existing academic partners of UHI) for the first time in the 2014/15 academic year. The academic partners who have been 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 now the accountable body for both higher and further education performance in line with a single outcome agreement with the Scottish Funding Council (SFC). The changing nature of UHI's role required a change to the governance and management structure of the University. These changes were implemented in 2012/13 and 2013/14 in readiness for the new responsibilities. During 2014/15 these new arrangements have been embedded and were reviewed by the Scottish Funding Council who deemed them fit for purpose early in 2015 allowing further education funding to flow from UHI to the assigned colleges from 1st April 2015.

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

In 2012/13 the University benefited from the first tranche of 1,000 additional funded full time equivalent student places from the Scottish Funding Council (SFC) with a further 1,500 places being offered over the following 3 years with 200 of these being in 2013/14 and 700 in 2014/15. We successfully recruited sufficient additional students to exceed targets set to attract maximum funding from both sources. The increased funded student numbers will enable us to continue to increase the number of degree students we are able to attract and in turn this will enable us to offer

Operating and Financial Review (continued)

Nature, Objectives and Strategy of the University (cont'd)

an increased breadth and volume of subjects and degree programmes appropriate for a regional university with national and international ambitions. This will assist us in achieving financial sustainability.

During the year we continued to implement our Strategic Plan for 2012-17 which was approved in early 2012 and reported satisfactory progress against key performance indicators to the University Court in September 2015. Following extensive consultation with both internal and external stakeholders, the University created a new 5 year strategic plan for the partnership in spring 2015. This aligns its aims and objectives with its new dual sector responsibilities and refreshes its higher education priorities as it moves to the next phase in its development.

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.” 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

A major focus of activity during 2014/15 was to ensure that we successfully implemented the new arrangements for the regionalisation of further education across the Highlands and Islands. In addition to new governance and management arrangements, a new student association (Highlands and Islands Student Association - HISA) was established to represent both our further and higher education students. Elections for the first office bearers of HISA were held in June 2015 and the new association was launched for the 2015/16 academic year.

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

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

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

Operating and Financial Review (continued)

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

In October 2014 the University launched its second Gaelic Language Plan. The document sets out the University's strategy for continuing to promote and develop the use of Gaelic through its practices, curriculum and communications until 2018. 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 its third higher education outcome agreement in 2014/15 as required by the Scottish Funding Council. For 2015/16 we have negotiated a joint further and higher education agreement for the Highlands and Islands which is incrementally sharing outcomes between the two funding streams for further and higher education and in so doing underpinning the tertiary nature of the institution.

The University's fundraising activities continued to be successful in the year with donations totaling some £251,700 towards a range of projects were secured compared with £288,200 in the previous year.

The University increased its total higher education student numbers with 6,042 (2013/14 - 5,580) full-time equivalents during the year, primarily from within the region. UHI continues to service the lifelong learning needs of the region with 16% (2013/14 - 17%) of higher education students part-time and 52% (2013/14 - 53%) over 21 years of age at the start of their course.

Further Education

Funding for further education student activity is expressed in weighted student units of measurement ("WSUMs"). The region's target was 155,736 WSUMs and we achieved 159,491 WSUMs, i.e. 2.4% above target. The level achieved is also the highest attained since 2010-11 which is the earliest session for which regional level figures are available.

During session 2014-15 the region developed its first further education curriculum development plan for the Highlands and Islands covering the period 2015-2018. This provides for significant additional opportunities across the region and, if achieved, would see total activity grow by 7%. The new curriculum planned is designed in particular to meet the changing needs of the economy of the Highlands and Islands as set out in the Highlands and Islands Skills Investment Plan.

The achievement rates of the region's further education students has grown over the last few years and the figures audited in October 2014 (pertaining to session 2013-14) witnessed a 3.2% increase on 2012-13 levels (from 62.9% in 2012-13 to 66.1%). The revised Outcome Agreement negotiated with the Scottish Funding Council provides for year-on-year improvement to 71% in session 2016-17.

The region responded very effectively to the findings of the Wood Commission set out in "Education Working for All" and reflected in the Scottish Government's "Youth Employment Strategy" set out in December 2014. From a `standing start` in the early part of session 2014-15, by August 2015 the region's colleges had developed nine pathfinder Foundation Apprenticeship courses in four different local authority areas. Thirteen more pathfinders are also provisionally planned for August 2016 which would see coverage of all of the local authorities in the Highlands and Islands region.

Operating and Financial Review (continued)

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

Research Capacity

The Research Excellence Framework results for UK universities were published in December 2014. The University was delighted that its continued development and focus on key research activities had resulted in 69% of its research being classified as “world leading” or “internationally excellent”. These ratings inform future funding levels for research for the medium term so are vitally important to the growth of this part of the University’s activities. The key research strengths of the partnership in this exercise were Gaelic, based at Sabhal Mòr Ostaig UHI on Skye; diabetes and cardiovascular science based at the Centre for Health Sciences, Inverness; history based in Dornoch; archaeology based at Orkney College UHI; mountain studies based in Perth College UHI and earth systems and environmental sciences representing work at the Scottish Association for Marine Science UHI at Dunstaffnage and the Environmental Research Institute at North Highland College UHI. Each of these areas makes a major contribution to the profile required for the University to secure research degree awarding powers. An application for research degree awarding powers was made to the Quality Assurance Agency for Higher Education in spring 2015. This application is currently being assessed with an outcome expected in spring 2016.

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

The construction of a partnership research facility at the new Inverness Campus was commenced and is scheduled to open in spring of 2016. This will further enhance the capacity of UHI to develop research capability to inform curriculum development.

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

Staff Development

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

Infrastructure

The new, HIE funded, Inverness Campus was officially opened in May 2015 with the new flagship building for Inverness College UHI opening to students for the 2015/16 academic year. This replaces their two existing locations at Longman and Midmills, Inverness. This development, together with the partnership research facility and the first phase of student residences for 150 students, demonstrates significant investment and growth in the University’s presence in the Inverness area.

A new teaching and administration building for Sabhal Mor Ostaig UHI was opened in Sleat, Isle of Skye representing a first phase in the development of an ambitious community development at Kilbeg.

Operating and Financial Review (continued)

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

Following extensive work during the year a contract was signed with Cityheart Ltd in September 2015 to deliver the first phase of student residences in Inverness and Fort William by September 2016. Work continues to finalise the development of a second phase across a number of other locations in the Highlands and Islands for entry in September 2017. This initiative will improve the student experience and the attractiveness of the University to prospective students, particularly school leavers and those from other parts of Scotland, the UK and overseas.

Key Performance Indicators

Student numbers

The University continued to increase its student population.

<u>Total</u>	<u>2014/15</u>	<u>2013/14</u>
Heads	8,297	7,867
Full-time equivalents	6,042	5,580

<u>Scottish Funding Council funded</u>	<u>2014/15</u>	<u>2013/14</u>
Full-time equivalents	5,731	4,698

Student retention

The Higher Education Statistics Agency publishes annual performance indicators for all United Kingdom universities. One of these is a measure of student non-continuation of full-time students from first to second year. The data for non-continuation for 2013/14 to 2014/15 will be published in March 2016. The most recent data available, therefore, is as follows:

Non-continuation	<u>2013/14</u>	<u>2012/13</u>
Degree students	11.4%	8.2%
Benchmark	10.9%	9.6%
Other undergraduate students	15.4%	13%
Benchmark	16.5%	17%

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

Student satisfaction

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

	<u>2014/15</u>	<u>2013/14</u>
Overall student satisfaction	80%	84%
Benchmark	84%	87%

Operating and Financial Review (continued)

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 £33.3m (higher education only) in 2013/14 to £75m (£37.6m for higher education and £37.4m 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 95% of our income being derived from SFC and grants from the European Union (EU) and Highlands and Islands Enterprise (HIE). The University is in a unique position in helping to regenerate the economy of the Highlands and Islands and its resultant geographic wider access provision creates a high cost of delivery across a sparse and socio-economically vulnerable population.

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

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

We are currently working with strategic partners, particularly the Scottish Funding Council and HIE to plan for optimising EU funding from the next Structural Funds programme (ESIF). The key themes under which we hope to secure funding are "Developing Scotland's Workforce" and "Innovation". In particular, we hope to secure funding for new curriculum development for both further and higher education to meet evolving employer needs in the region and improve mechanisms for employer engagement.

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 to secure research degree awarding powers.

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

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

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

Operating and Financial Review (continued)

Value for Money

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

Review of Financial Activities

UHI's income increased by £40.3m in the year reflecting the inclusion of further education funding, further increase in higher education student funded places and an increase in tuition fee income offset by a reduction in EU funding of £2.8m as the ESF project Investing in Recovery came to an end.

Staff costs increased by £0.5m over the year. This increase includes the impact of the current pension service cost in excess of contributions as detailed in note 7 and an additional amount paid to the LGPS pension scheme following the recent valuation. Other operating expenses increased by £38.7m in the year the majority of which was represented by SFC funding for further education distributed to our assigned colleges for the first time.

The outturn for the year ended 31 July 2015 was a surplus of £2.184m. This compares with a surplus of £1.096m in the previous year. The improved performance resulted from savings achieved on operating activities during the year and a lower than expected FRS 17 pension adjustment.

As required by Generally Accepted Accounting Practice (GAAP), the University continues to implement Financial Reporting Standard 17 'Retirement Benefits' (FRS17). As a result the University is required to disclose a liability relating to current commitments of £12.171m (2014 - £10.405m) on its balance sheet. Overall this has resulted in net assets of £3.8m (2014 - £0.6m). The actuarial loss on the pension scheme in the year of £1.1m (2014 - loss of £3m) is dealt with in the Statement of Total Recognised Gains and Losses (STRGL).

Payments to Suppliers

The University of the Highlands and Islands complies with the CBI Prompt Payment Code and has a policy of paying its suppliers at the end of the month following the month of invoice, or on the suppliers' terms, if earlier. The effect of the University's policy is that its trade creditors at the year-end (excluding academic partner balances and transactions) represent 41 days purchases (2014 – 7 days) which is 11.1% of purchases (2014 – 1.8%). This increase is due to one substantial invoice for the new partnership research facility being outstanding at the year end. Excluding this invoice, trade creditors would have represented 14 days or 3.7% of purchases.

Constitution

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

Operating and Financial Review (continued)

Leadership

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

Chancellor

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

In September 2014 the Chancellor presented academic and honorary awards at the University's Foundation Day and Shetland College UHI graduation ceremony in Lerwick.

Equal Opportunities and Widening Participation

The University is particularly focused on improving access to further and higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. In April 2015 the University published a progress report on the mainstreaming of equality and diversity within the University and our planned equality outcomes for 2013-17 as required by the public sector equality duty under the Equality Act 2010. The Race, Disability and Gender Equality Duties are strong drivers to ensure that these values are mainstreamed into the policies and processes of the organisation, and the implementation of the action plans flowing from the equality duties is overseen by the Finance and General Purposes Committee. There is an established working group who undertake impact assessment of University policies, procedures and practices. The University has a programme of staff training, to cover all the strands of discrimination, which is compulsory for all staff, and subject to regular review and monitoring.

Professional Advisors

External auditors: Ernst & Young LLP
Bankers: Clydesdale Bank plc
Solicitors: Anderson Strathern LLP, Thorntons LLP, Macroberts 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, 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
16 December 2015

Introduction

The University Court (Court) is the governing body of the University of the Highlands and Islands, and governs in accordance with the Articles of Association of the University of the Highlands and Islands (formerly UHI Millennium Institute), as amended by resolutions dated 6 March 1997, 21 September 1998, 23 March 2001, 4 November 2003, 23 June 2005, 27 March 2007, 22 September 2009, 15 February 2011 and 8 July 2014 pursuant to Sections 4 and 381A of the Companies Act 2006. The Court is committed to exhibiting best practice in all aspects of corporate governance. The Court is also the Board of Directors of the University of the Highlands and Islands. The Court conforms to the principles and guidelines set out in the Scottish Code of Good HE Governance published in July 2013. In the opinion of the Court, the University complies with the principles of the Scottish Code with one exception. The University did not have an agreed policy on academic freedom during the year to 31 July 2015 but this was subsequently approved by the University Court in September 2015. As the Regional Strategic Body for further education in the Highlands and Islands, the University is required to comply with the principles and guidelines set out in the Code of Good Governance for Scotland's Colleges which was published in December 2014. In the opinion of the Court, the University complies with this code.

Governance Structure

The Court is responsible for the strategic direction of the University, for the University's system of internal controls, approval of major developments and capital projects, health and safety, and human resources matters, and receives reports from senior managers on the operation of the day-to-day business of the University. The Court is required to meet at least three times per year and met five times in the period from August 2014 – July 2015.

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

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

University Court – Membership

University Court – Membership - The following tables provide a summary of Court membership for the period 01 August 2014 to 31 July 2015. The composition of the University Court is prescribed within Article 12.1 of the University's Articles of Association.

Corporate Governance and Internal Control (continued)

Category of membership	Period of office	Date appointed	NAME
Independent – appointed by Court	3 years	10/03/2014	Mr Garry Coutts (Chair) (formerly UHI Rector)
Principal & Vice-Chancellor	<i>Ex officio</i>	01/06/2014	Professor Clive Mulholland
President of the Highlands & Islands Students' Association	<i>Ex officio</i>	15/06/2015	Mr Luke Humberstone
Rector	<i>Ex officio</i>	06/12/2010	Mr Anton Edwards (formerly on Court as a representative of the UHI Foundation)
Staff member – elected by and from the staff	3 years	01/07/2013	Dr David Worthington
Staff member - elected by and from the staff	3 years	01/07/2013	Mrs Gillian Berkeley
Student Governor – elected by the students	3 years	17/07/2015	Ms Lorna Stanger
Appointed Governor - FE Academic Partner Chair, appointed by the FE Academic Partners	3 years	15/05/2014	Mr Peter Campbell – Shetland College UHI
Appointed Governor - Academic Partner Chair, appointed by the Research & Specialist Partners	3 years	15/12/2014	Mr Angus Ross – SAMS
Independent - Chair of UHI FE Regional Board	<i>Ex officio</i>	28/03/2013	Dr Michael Foxley
Independent – appointed by Court	3 years (renewable)	01/03/2004	Mr Andrew Rogers
Independent – appointed by Court	3 years (renewable)	01/10/2009	Ms Eileen Mackay
Independent – appointed by Court	3 years	01/07/2013	Mr James MacDonald
Independent – appointed by the Chief Executives of each of the Local Authorities	3 years	10/07/2013	Mr Malcolm Burr
Independent – appointed by the Highlands and Islands Enterprise	3 years	17/12/2014	Ms Iseabail Sine Mactaggart
Independent – appointed by Court	3 years	01/07/2013	Mr William Printie
Independent – appointed by Court	3 years	01/07/2013	Professor Fiona McLean (Vice Chair)
Independent – appointed by Court	3 years	22/10/2013	Dr David Alston
Independent – appointed by Court	3 years	17/12/2014	Ms Victoria Nairn
Member of Title Management Group	Sponsor University Governor	07/01/2008	Professor Kenneth Miller – University of Strathclyde

Corporate Governance and Internal Control (continued)

University Court – Membership (continued)

Former members

Category of membership	Term	NAME
President of UHISA	01/07/2013-15/06/2015	Miss Rachel Victoria Parker
Student Governor – elected by the students	18/02/2015 – 01/07/2015	Mr Matthew Iain Cameron

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

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

During the financial year 2014/15 the University offered the Chair of Court and Chair of the FE Regional board a fixed remuneration rate of £35.33 per hour or a daily rate of £265 based on a 7.5 hour day.

	Hours claimed for 2014/15	Remuneration
Mr Garry Coutts	321	£11,340
Dr Michael Foxley	665	£23,494

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 will with effect from the 1st August 2015 also begin routinely publishing court member expenses on a quarterly basis.

Sponsor Universities

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

Committees of the University Court

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

Corporate Governance and Internal Control (continued)

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.

Current Members Attendance Summary (1 August 2014 – 31 July 2015) - University Court and Senior Committees

	University Court	Audit Committee	Finance & General Purposes Committee	Remuneration Committee	Further Education Regional Board	Attendance %
Mr Garry Coutts*	5/5		*	*	*	100%
Professor Clive Mulholland**	5/5	4/4	4/5	2/2	3/4	90%
Luke Humberstone	1/1					100%
Mr Anton Edwards	4/5					80%
Ms Lorna Stanger	0/0					
Dr David Worthington	4/5					80%
Mrs Gillian Berkeley	5/5	4/4				100%
Mr Peter Campbell	4/5				4/4	88%
Mr Angus Ross	3/3		2/3			83%
Dr Michael Foxley	5/5	2/4			4/4	84%
Mr Andrew Rogers	3/5		5/5			80%
Mrs Eileen Mackay	5/5	4/4		2/2		100%
Mr James MacDonald	2/5		3/5	1/1		55%
Mr Malcolm Burr	4/5		2/5			60%
Ms Iseabail Sine Mactaggart	2/5		2/5			40%
Mr William Printie	5/5	4/4				100%
Professor Fiona McLean (Vice Chair)	5/5			1/2		86%
Dr David Alston	5/5		2/3	1/2		80%
Ms Victoria Nairn	2/5	1/3				37%
Professor Kenneth Miller	3/5					60%

* 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.

Corporate Governance and Internal Control (continued)

Audit Committee

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

Finance and General Purposes Committee

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

Remuneration Committee

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

Further Education Regional Board

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

Nominations Committee

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

Honorary Awards Committee

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

Corporate Governance and Internal Control (continued)

Foundation

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

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

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

Foundation elected Anton Edwards as Rector on 29 May 2014.

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

Title Management Group

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

Academic Council

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

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

Going Concern

The University is required to adopt the accounting requirements of Financial Reporting Standard 17 'Retirement Benefits'. This has resulted in a pension liability of £12.171m at the balance sheet date. This represents the University's allocation of the deficit in the Highland Council Pension Fund at 31 July 2015 (see note 23). The volatility in the stock markets and actuarial assumptions can cause large fluctuations in the pension scheme deficit which can move the University's unrestricted funds into deficit at any time. At 31 July 2015, the University had a deficit in its unrestricted fund. This scheme deficit represents a long term liability to pay additional pension contributions in the future based on actuarial estimates and calculations. The University continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 17 accounting adjustments and the University Court is therefore of the opinion that the University is a going concern.

Corporate Governance and Internal Control (continued)

Disclosure of information to Auditors

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

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

Signed on behalf of the University

Garry Coutts
Chair of University Court

Professor Clive Mulholland
Principal and Vice-Chancellor

16 December 2015

University of the Highlands and Islands

Statement of the Responsibilities of the University Court for the year ended 31 July 2015

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

16 December 2015

University of the Highlands and Islands

Statement on the System of Internal Control for the year ended 31 July 2015

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

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

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

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

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

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

Signed on behalf of the University

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

16 December 2015

Independent Auditor's Report to the Court of the University of the Highlands and Islands for the year ended 31 July 2015

We have audited the financial statements of UHI for the year ended 31 July 2015 which comprise the Group Income and Expenditure Account, the Group Statement of Total Recognised Gains and Losses, Group and University Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the University Court and auditors

As explained more fully in the University Court Responsibilities Statement set out on page 18, the Court are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the University and of the Group as at 31 July 2015 and of the surplus of the Group's income over expenditure and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006,
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act) and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).

Opinion on matters required by the Scottish Funding Council

In our opinion the financial statements:

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

University of the Highlands and Islands

Group Income and Expenditure Account for the year ended 31 July 2015

	Notes	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Income			
Funding Council Grants	2	74,975	33,281
Tuition fees and education contracts	3	10,092	9,571
Research grants and contracts	4	2,026	2,169
Other income	5	3,153	4,927
Endowment and investment income	6	103	83
Total income		90,349	50,031
Expenditure			
Staff costs	7	10,186	9,683
Other operating expenses	9	77,553	38,773
Interest payable	10	53	110
Depreciation	13	373	369
Total expenditure		88,165	48,935
Surplus on continuing operations after depreciation of tangible fixed assets and disposal of assets and before tax	12	2,184	1,096
Taxation	11	-	-
Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve		2,184	1,096

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

University of the Highlands and Islands

Group Statement of Total Recognised Gains and Losses for the year ended 31 July 2015

	Notes	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve	12	2,184	1,096
Actuarial (loss) on pension scheme	23	(1,176)	(2,997)
Total recognised gains/(losses) relating to the year		<u>1,008</u>	<u>(1,901)</u>
Reconciliation			
Opening reserves (including pension fund adjustments)	18	(1,682)	219
Total recognised gains/(losses) for the year		1,008	(1,901)
Closing reserves		<u>(674)</u>	<u>(1,682)</u>

**University of the Highlands and Islands
Group Balance Sheet as at 31 July 2015**

	Notes	2015 £000	2014 £000
Fixed assets			
Tangible assets	13	7,412	4,435
Current assets			
Debtors	15	3,275	2,595
Cash at bank and in hand		13,500	10,613
Student support funds account		129	150
		<u>16,904</u>	<u>13,358</u>
Creditors: amounts falling due within one year	16	(8,324)	(6,760)
Net current assets		<u>8,580</u>	<u>6,598</u>
Total assets less current liabilities		15,992	11,033
Creditors: amounts falling due after one year		-	-
NET ASSETS EXCLUDING PENSION LIABILITY		<u>15,992</u>	<u>11,033</u>
Pension Liability	23	(12,171)	(10,405)
NET ASSETS INCLUDING PENSION LIABILITY		<u>3,821</u>	<u>628</u>
Deferred capital grants	17	4,495	2,310
General reserve excluding pension scheme adjustments	18	11,497	8,723
Pension reserve	23	(12,171)	(10,405)
Total reserves		<u>(674)</u>	<u>(1,682)</u>
TOTAL		<u>3,821</u>	<u>628</u>

The financial statements on pages 21 to 46 were approved by the University Court on 16 December 2015 and were signed on its behalf by: -

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

University of the Highlands and Islands
University Balance Sheet as at 31 July 2015

	Notes	2015 £000	2014 £000
Fixed assets			
Tangible assets	13	7,412	4,435
Investments	14	-	-
		<u>7,412</u>	<u>4,435</u>
Current assets			
Debtors	15	3,464	2,675
Cash at bank and in hand		13,256	10,379
Student support funds account		129	150
		<u>16,849</u>	<u>13,204</u>
Creditors: amounts falling due within one year	16	8,269	(6,606)
Net current assets		<u>8,580</u>	<u>6,598</u>
Total assets less current liabilities		15,992	11,033
Creditors: amounts falling due after one year		-	-
NET ASSETS EXCLUDING PENSION LIABILITY		<u>15,992</u>	<u>11,033</u>
Pension Liability	23	(12,171)	(10,405)
NET ASSETS INCLUDING PENSION LIABILITY		<u>3,821</u>	<u>628</u>
Deferred capital grants	17	4,495	2,310
General reserve excluding pension scheme adjustments	18	11,497	8,723
Pension reserve	23	(12,171)	(10,405)
Total reserves		<u>(674)</u>	<u>(1,682)</u>
TOTAL		<u>3,821</u>	<u>628</u>

The financial statements on pages 21 to 46 were approved by the University Court on 16 December 2015 and were signed on its behalf by: -

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

University of the Highlands and Islands
Group Cash Flow Statement for the year ended 31 July 2015

	Notes	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Cash inflow from operating activities	19	3,679	2,834
Returns on investments and servicing of finance	6, 20	103	83
Capital expenditure and financial investment	21	(916)	(114)
Increase in cash in the year		<u>2,866</u>	<u>2,803</u>
 Reconciliation of net cash flow to movement in net Funds			
Increase in cash in the year		<u>2,866</u>	<u>2,803</u>
Movement in net funds in the year		2,866	2,803
Net funds at 1 August		10,763	7,960
Net funds at 31 July	22	<u>13,629</u>	<u>10,763</u>

University of the Highlands and Islands

Notes to the Financial Statements for the year ended 31 July 2015

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

1. Principal Accounting Policies

Basis of preparation

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

Going concern

The University is required to adopt the accounting requirements of Financial Reporting Standard 17 'Retirement Benefits'. This has resulted in a pension liability of £12.171m at the balance sheet date. This represents the University's allocation of the deficit in the Highland Council Pension Fund at 31 July 2015 (see note 23). The volatility in the stock markets and actuarial assumptions can cause large fluctuations in the pension scheme deficit which can move the University's unrestricted funds into deficit at any time. At 31 July 2015, the University had a deficit in its unrestricted fund. This scheme deficit represents a long term liability to pay additional pension contributions in the future based on actuarial estimates and calculations. The University continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 17 accounting adjustments and the University Court is therefore of the opinion that the University is a going concern.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking, UHI Research and Enterprise Limited, for the year ended 31 July 2015. Intra-group transactions are eliminated on consolidation. The University has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own profit and loss account.

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 1985. As a result the University has not consolidated the incorporated colleges' accounts into the group accounts in 2014/15. 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.

Recognition of income

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

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

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

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

Pension schemes

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

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

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. In addition the University made an additional payment of deficit funding into LGPS of £348k following the 2014 valuation.

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

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

Notes to the Financial Statements (continued)

Tangible fixed assets

Land and Buildings

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

Buildings and land which cannot be separately valued are depreciated over their useful economic life on a straight-line basis over 50 years. Buildings under construction are not depreciated until they come into use.

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

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

Equipment

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

Assets are depreciated over their useful economic life as follows:

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

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

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

Notes to the Financial Statements (continued)

Leased assets

Operating Leases.

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

Investments

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

Foreign currency translation

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

Taxation

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

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

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

Provisions

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

2. Funding Council Grants

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
General Fund - Teaching	30,810	26,508
General Fund – Research and Knowledge Exchange	2,630	1,805
Release of deferred capital grants	46	47
Strategic funding	743	3,949
Capital maintenance grants	1,157	972
Grants for FE provision	37,368	-
Ring-fenced grants provided by Scottish Government	2,221	-
Other SFC grants	-	-
	<u>74,975</u>	<u>33,281</u>

Notes to the Financial Statements (continued)

3. Tuition Fees and Education Contracts

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Scotland and EU Fees	8,454	7,858
Rest of UK (old fee rates)	19	47
Rest of UK (new fee rates)	638	482
Non-EU fees	961	1,165
Non-credit bearing course fees	-	1
Education contracts	-	-
Other contracts	20	18
	10,092	9,571

4. Research Grants and Contracts

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Research Councils and charities	384	475
Industry and commerce	228	298
Governmental	642	613
EU	742	429
Other	30	354
	2,026	2,169

5. Other Income

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Other income generating activities	461	490
EU grant income	236	2,992
Enterprise agency grants	117	265
Other grant income	19	6
Other income	2,020	966
Deferred capital grant release	300	208
	3,153	4,927

6. Endowment and Investment Income

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Other interest receivable	103	83
	103	83

Notes to the Financial Statements (continued)

7. Staff Costs

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

	Year ended 31 July 2015 Number	Year ended 31 July 2014 Number
Administration and central services	131	131
Premises	1	1
Research grants and contracts	18	21
Academic/teaching departments	23	21
Academic services	36	38
	209	212

	Year ended 31 July 2015	Year ended 31 July 2014
Analysed as:		
Staff on permanent contracts	186	190
Staff on short-term and temporary contracts	23	22
	209	212

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

Staff costs for the above persons:	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Wages and salaries	7,503	7,404
Social security costs	629	600
Other pension costs - contributions	1,169	1,069
- current service cost in excess of contributions	885	610
	10,186	9,683
Administration and central services	5,910	5,409
Premises	45	46
Research grants and contracts	939	944
Academic/teaching departments	3,292	3,284
	10,186	9,683

Notes to the Financial Statements (continued)

8. Senior Post-holders' Emoluments

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

	Year ended 31 July 2015 Number	Year ended 31 July 2014 Number
£ 70,001 to £ 80,000 (1 of which senior postholder)	3	6
£ 80,001 to £ 90,000	3	2
£ 90,001 to £100,000	-	1
£100,101 to £110,000 (Senior postholders)	2	-
£110,001 to £120,000 (Senior postholder)	1	1
£120,001 to £130,000 (Senior postholder)	1	1
£150,001 to £160,000	-	-
£160,001 to £170,000	-	-
£170,001 to £180,000	-	-
£180,001 to £190,000 (Senior postholder)	1	-
	<u>11</u>	<u>11</u>

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

	Year Ended 31 July 2015 £000	Year Ended 31 July 2014 £000
Salary	182	171
Benefits in kind	-	2
	<u>182</u>	<u>173</u>
Pension contributions	<u>19</u>	<u>25</u>

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

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

Notes to the Financial Statements (continued)

9. Other Operating Expenses

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Academic departments	67,201	27,532
Academic services	1,993	1,732
Administration and central services	2,960	3,710
Premises	728	803
Research grants and contracts	3,708	4,330
Agency staff	49	61
Loss on disposal of asset	96	-
Other	818	605
	<u>77,553</u>	<u>38,773</u>

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

Other operating expenses include:

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
External auditors remuneration in respect of external audit services	38	33
External auditors remuneration in respect of other services	1	2
Internal auditors remuneration in respect of internal audit services	16	16
Hire of plant and machinery – operating leases	15	15
Hire of other assets – operating leases	263	312
Foreign exchange gain/(loss)	(73)	48

10. Pension Scheme Net Expected Return on Assets

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Expected return on pension scheme assets	1,159	1,023
Interest on pension liabilities	(1,212)	(1,133)
Net return	<u>(53)</u>	<u>(110)</u>

11. Taxation

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

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

Notes to the Financial Statements (continued)

12. Surplus on Continuing Operations for the Year

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

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Group and University's surplus for the year	2,184	1,096
	<u>2,184</u>	<u>1,096</u>

Notes to the Financial Statements (continued)

13. Tangible Fixed Assets

Group and University

	Land & Buildings	Leasehold Improvements	Celtica & Theological Collections	Video-conference Equipment	Computer Equipment	Research Equipment	Office Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost								
As at 1 August 2014	4,658	469	82	2,837	2,416	1,463	216	12,141
Additions	2,782	-	-	-	-	665	-	3,447
Disposals	-	(155)	-	-	-	-	-	(155)
As at 31 July 2015	7,440	314	82	2,837	2,416	2,128	216	15,433
Depreciation								
As at 1 August 2014	926	164	-	2,837	2,311	1,262	207	7,707
Charge for year	93	21	-	-	48	205	6	373
Depreciation on Disposals	-	(59)	-	-	-	-	-	(59)
As at 31 July 2015	1,019	126	-	2,837	2,359	1,467	213	8,021
Net Book Value								
As at 31 July 2015	6,421	188	82	-	57	661	3	7,412
As at 1 August 2014	3,733	306	82	-	104	201	9	4,435
Financed by: capital grant	3,282	184	82	-	-	945	-	4,492
Other	3,139	4	-	-	57	(284)	3	2,920
Net Book Value At 31 July 2015								
	6,421	188	82	-	57	661	3	7,412

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

The Land and Buildings category includes assets under construction totalling £2,782,131 (2014 - £nil) relating to the ICPF project, which have not been depreciated pending completion of the building, in line with the depreciation policy.

Notes to the Financial Statements (continued)

14. Fixed Asset Investments

University	Subsidiary Companies £
At 1 August 2014	1
Additions	-
At 31 July 2015	<u>1</u>

The University owns 100% of the issued ordinary share capital of UHI Research and Enterprise Limited, a company incorporated in Scotland. The company's principal activity is commercial research and consultancy. In the year the subsidiary had income of £224,997 (2014 - £171,746). The net profit of £63,042 (2014 - £38,775) was paid under gift aid to UHI (£54,517) and North Highland College (£8,525), (2014 - UHI). Net assets at 31 July 2015 are £1.

15. Debtors: Amounts Falling Due Within One Year

Group and University

	Group Year ended 31 July 2015 £000	University Year ended 31 July 2015 £000	Group Year ended 31 July 2014 £000	University Year ended 31 July 2014 £000
Trade debtors	384	327	323	219
Amounts due from subsidiary	-	246	-	185
Amounts due from Academic Partners and Sponsoring Universities	701	701	58	58
Prepayments and accrued income	2,190	2,190	2,214	2,213
	<u>3,275</u>	<u>3,424</u>	<u>2,595</u>	<u>2,675</u>

16. Creditors: Amounts Falling Due Within One Year

Group and University

	Group Year ended 31 July 2015 £000	University Year ended 31 July 2015 £000	Group Year ended 31 July 2014 £000	University Year ended 31 July 2014 £000
Payments received in advance	4,625	4,625	4,293	4,293
Trade creditors	1,572	1,572	369	369
Other taxation and social security	271	271	48	36
Accruals	1,725	1,670	1,899	1,757
Bursaries and Other Student Support Funds	131	131	151	151
	<u>8,324</u>	<u>8,269</u>	<u>6,760</u>	<u>6,606</u>

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

Notes to the Financial Statements (continued)

17. Deferred Capital Grants

Group and University	Funding Council £000	Other £000	Total £000
At 1 August 2014	72	2,238	2,310
Cash received and assets donated:			
Land & buildings	-	1,579	1,579
Equipment	-	952	952
Released to income and expenditure account:			
Land and buildings	2	143	145
Equipment	44	157	201
	46	300	346
At 31 July 2015			
Land and buildings	21	3,444	3,465
Equipment	5	1,025	1,030
	26	4,469	4,495

18. Movement on Reserves

Group and University	General Reserve £000	Pension Reserve £000	Total £000
Income and Expenditure Account Reserve			
At 1 August 2014	8,723	(10,405)	(1,682)
Surplus on continuing operations for the year to 31 July 2015	2,184		2,184
Pension scheme loss for the year ended 31 July 2015	1,766	(1,766)	-
Actuarial loss on pension scheme	(1,176)	-	(1,176)
At 31 July 2015	11,497	(12,171)	(674)

Notes to the Financial Statements (continued)

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

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Surplus on continuing operations after depreciation of assets at valuation	2,184	1,096
Depreciation (note 13)	373	369
Loss on disposal of assets	96	-
FRS 17 pension adjustment	590	720
Deferred capital grants released to income (note 17)	(346)	(254)
(Increase) in debtors	(743)	(24)
Increase in creditors	1,628	1,010
Interest receivable (note 6)	(103)	(83)
Net cash inflow from operating activities	<u>3,679</u>	<u>2,834</u>

20. Returns on Investments and Servicing of Finance

	Year Ended 31 July 2015 £000	Year Ended 31 July 2014 £000
Other interest received	103	83
Net cash inflow from returns on investment and servicing of finance	<u>103</u>	<u>83</u>

21. Capital Expenditure and Financial Investment

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Purchase of tangible fixed assets	(3,447)	(114)
Deferred capital grants received	2,531	-
Net cash outflow from capital expenditure and financial investment	<u>(916)</u>	<u>(114)</u>

22. Analysis of Changes in Net Funds

	At 1 August 2014 £000	Cashflows £000	Other changes £000	At 31 July 2015 £000
Cash at bank and in hand	10,613	2,887	-	13,500
Student support funds	150	(21)	-	129
Total	<u>10,763</u>	<u>2,866</u>	<u>-</u>	<u>13,629</u>

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations

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

Local Government Pension Scheme

The Highland Councils LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2015 was £1.263m of which employers' contributions totalled £886k and employees' contributions totalled £377k. In addition, the University also paid £384k additional deficit funding following the 2014 valuation.

The following information is based upon pension expense calculation as at 31 July 2015.

Valuation Method

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

Demographic/Statistical Assumptions for the Scheme

A set of demographic assumptions has been adopted which is consistent with those used for the formal funding valuation as at 31 March 2014. The post retirement mortality assumptions adopted in line with the Club Vita analysis which was carried out for the valuation. These are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. Improvements have been applied that are in line with the CIM 2012 assuming the rate of longevity improvements has reached a peak and will converge to a long term rate of 1.25% p.a. The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 July 2015	31 July 2014
Retiring Today:		
Males	22.5	21.3
Females	24.1	23.6
Retiring in 20 years:		
Males	24.7	22.6
Females	26.8	25.1

Financial Assumptions for the Scheme

Assumptions as at	31 July 2015		31 July 2014		31 July 2013	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.5%	-	3.6%	-	3.6%	-
CPI Increases	2.6%	-0.9%	2.8%	-0.8%	2.8%	-0.8%
Salary Increases	4.5%*	1.0%	5.0%*	1.4%	5.1%	1.5%
Pension Increases	2.6%	-0.9%	2.7%	-0.9%	2.8%	-0.8%
Discount Rate	3.6%	0.1%	4.0%	0.4%	4.6%	1.0%

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

These assumptions are set with reference to market conditions at 31 July 2015. The actuary has adopted the approach whereby a Corporate Bond yield curve is constructed in the following manner:

- Use the UBS corporate bond curve (derived by applying the UBS delta curve fitting methodology to the constituents of the iBoxx £ Corporates AA index) for durations up to 8 years;
- From 12 years onwards use gilts curve plus a long term average credit spread of 0.9% p.a.;
- Interpolate between the two approaches for durations between 8 and 12 years.

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Separate discount rates (and the corresponding RPI/CPI inflation assumptions) are then set for individual employers, dependent on their own weighted average duration. This is consistent with last year's approach.

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 2014 for the year to 31 July 2015). The expected return on assets assumption is set equal to the discount rate (as per the forthcoming introduction of FRS102).

The following expected returns have been adopted:

Asset class	Expected return at:		
	1 August 2015	1 August 2014	1 August 2013
	% p.a.	% p.a.	% p.a.
Equities	3.6%	6.7%	6.5%
Other Bonds	3.6%	3.8%	4.0%
Property	3.6%	4.7%	4.6%
Cash	3.6%	3.6%	3.4%
Expected return on assets	3.6%	5.9%	5.8%

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

	31 July 2015	31 July 2014	31 July 2013	31 July 2012	31 July 2011
	£000	£000	£000	£000	£000
Defined benefit obligation	(34,904)	(29,499)	(24,145)	(20,212)	(15,298)
Scheme assets	22,733	19,094	17,456	13,936	11,561
Deficit	(12,171)	(10,405)	(6,689)	(6,276)	(3,737)
Experience adjustment on scheme assets	1,351	236	1,831	350	253
Percent of assets	5.9%	1.2%	10.5%	2.5%	2.2%
Experience adjustment on scheme liabilities	964	(8)	(31)	(1,090)	-
Percent of liabilities	2.8%	-0.02%	-0.1%	-5.4%	-
Cumulative actuarial gains and losses	(9,581)	(8,405)	(5,409)	(5,458)	(3,100)

UHI net pension assets as at	Year Ended 31 July 2015	Year Ended 31 July 2014	Year Ended 31 July 2013
	£000	£000	£000
Fair value of scheme assets	22,733	19,094	17,456
Present value of funded obligation	(34,904)	(29,499)	(24,145)
Deficit	(12,171)	(10,405)	(6,689)
Net liability in Balance Sheet	(12,171)	(10,405)	(6,689)

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Analysis of the amount charged to UHI income and expenditure account	Year Ended 31 July 2015 £000	Year Ended 31 July 2014 £000
Current service cost *	1,771	1,530
Interest on obligation	1,212	1,133
Expected return on scheme assets	(1,159)	(1,023)
Total	<u>1,824</u>	<u>1,640</u>
Actual return on scheme assets	<u>1,982</u>	<u>1,258</u>

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

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

Actual return less expected return on pension scheme assets	1,351	236
Experience gains and losses	(964)	8
Change in assumptions underlying the present value of the scheme liabilities	(1,563)	(3,240)
Actuarial (loss)/gain recognised in STRGL	<u>(1,176)</u>	<u>(2,996)</u>

Sensitivity analysis to UHI obligations and service costs

	Approx % increase to Employer Liability	Approx monetary amount £000
0.5% decrease in Real Discount Rate	13%	4,586
1 year increase in member life expectancy	3%	1,047
0.5% increase in Salary Increase Rate	5%	1,836
0.5% increase in Pension Increase Rate	8%	2,621

Asset and benefit obligation reconciliation for the year to 31 July 2015 UHI share of the LGPS

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	Year Ended 31 July 2015 £000	Year Ended 31 July 2014 £000
Opening defined benefit obligation	29,499	24,145
Service cost	1,771	1,530
Interest cost	1,212	1,133
Actuarial losses	2,527	3,232
Estimated benefits paid (net of transfers in)	(488)	(946)
Contributions by scheme participants	383	405
Closing defined benefit obligation	<u>34,904</u>	<u>29,499</u>

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Reconciliation of opening and closing balances of the fair value of scheme assets	Year Ended 31 July 2015 £000	Year Ended 31 July 2014 £000
Opening fair value of scheme assets	19,094	17,456
Expected return on scheme assets	1,159	1,023
Actuarial gains	1,351	236
Contributions by employer including unfunded benefits	1,234	920
Contributions by scheme participants	383	405
Estimated benefits paid (net of transfers in)	(488)	(946)
Fair value of scheme assets at end of the year	<u><u>22,733</u></u>	<u><u>19,094</u></u>

Reconciliation of opening and closing deficit	Year Ended 31 July 2015 £000	Year Ended 31 July 2014 £000
Deficit at beginning of year	(10,405)	(6,689)
Current service cost	(1,771)	(1,530)
Employer contributions	1,234	920
Other finance income	(53)	(110)
Settlements/curtailments	-	-
Actuarial (loss)/gain	(1,176)	(2,997)
Deficit at end of the year	<u><u>(12,171)</u></u>	<u><u>(10,405)</u></u>

**Projected pension expense for the year to 31 July 2016
UHI share of the LGPS**

Projections for Year to 31 July 2016	Year to 31 July 2016 £000
Service cost *	1,617
Interest cost	1,284
Return on assets	(834)
Total	<u><u>2,067</u></u>
Employer contributions	988

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

Note that these figures exclude:

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

These projections are based on the assumptions as at 31 July 2015.

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The 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. In 2015, the percentage was 16% (2014: 16%). The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 "Retirement Benefits", accounts for the scheme as if it were a defined contribution scheme.

The total cost charged to the profit and loss account is £283,320 (2014: £178,617) as shown in note 7. There was neither a prepayment nor an accrual at the end of the financial year in respect of these contributions. The disclosures below represent the position from the scheme's financial statements.

The latest available triennial actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method and is currently being audited by the scheme auditor. It is expected that employer contributions will increase to 18% from 1 April 2016.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to member after allowing for expected future increases in earnings.

FRS 17 liability numbers have been produced using the following assumptions:

	2015	2014
Discount rate	3.3%	4.5%
Pensionable salary growth	3.5% in the first year and 4.0% thereafter	4.4%
Price inflation (CPI)	2.2%	2.6%

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

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

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long term rate were also adopted for the 2014 FRS 17 figures, for the March 2015 figures the long term rate has been increased to 1.5% and the CMI 2014 projections adopted, and the tables have been weighted by 98% for males and 99% for females. The current life expectations on retirement at age 65 are:

	2015	2014
Males currently aged 65 (years)	24.2	23.7
Females currently aged 65 (years)	26.3	25.6
Males (females) currently aged 45 (years)	26.2	25.5
Females currently aged 45 (years)	28.6	27.6

Notes to the Financial Statements (continued)

23. Pension and Similar Obligations (continued)

Existing benefits	2015	2014
Scheme assets	£49.0bn	£41.6bn
FRS17 liabilities	£67.6bn	£55.5bn
FRS17 deficit	£18.6bn	£13.9bn
FRS17 funding level	72%	75%

24. Financial Commitments

Annual rentals under operating lease commitments are as follows:

Group and University

	Year ended 31 July 2015 £000	Year ended 31 July 2014 £000
Land and Buildings		
Expiring within one year	5	20
Expiring within two and five years inclusive	15	61
Expiring in over five years	23	141
	<u>43</u>	<u>222</u>

25. Capital and Other Commitments

In June 2014, the University Court approved the investment of £7m (£5.5m grant funded from EU, HIE and other sources) in the development of a partnership research facility at the new Inverness Campus. This project is well underway which is scheduled to open in spring 2016.

Notes to the Financial Statements (continued)

26. Related Party Transactions

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

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

Partner	Invoiced to Partners £000	Payments to Partners £000	Amounts due to Partners at 31 July 2015 £000	Amounts due from Partners at 31 July 2015 £000
Argyll College	102	620	2	19
Highland Theological College	2	298	-	35
Inverness College	714	16,846	8	77
Lews Castle College	159	4,609	15	16
Moray College	292	9,622	-	424
NAFC	11	296	-	1
North Highland College	182	9,350	16	34
Orkney College	68	2,790	24	10
Perth College	420	15,250	23	75
SAMS	23	2,627	16	-
Shetland College	50	2,302	-	11
Sabhal Mor Ostaig	21	737	2	4
West Highland College	109	3,069	10	20
Aberdeen University	12	61	-	-
Edinburgh University	33	1	-	-
Strathclyde University	12	11	-	10
	2,210	68,489	116	736

Provisions totalling £45,475 (2014 - £35,000) have been made in respect of these balances, which are shown above gross of any provision.

UHI Research and Enterprise Limited owes £54,518 to UHI and £8,525 to North Highland College (2014 £38,775 to North Highland College) at 31 July 2015. This balance comprises gift aid payments of £63,043 (2014 £38,775).

27. Hardship Funds and Childcare Funds

	Hardship £000	Childcare £000
Balance brought forward	-	-
Funds received in year	395	7
Expenditure	(345)	(2)
Repayable to funding body	(50)	(5)
Balance carried forward	-	-

Notes to the Financial Statements (continued)

27. Hardship Funds and Childcare Funds (continued)

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

28. Contingent Liability

The University of the Highlands and Islands receives funding from SFC for distribution to academic partners for the furtherance of Higher Education activities, 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 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.

29. Securities

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

30. Post Balance Sheet Events

In September 2015 the University Court approved a contract with Cityheart Ltd which will provide the first phase of a student residences programme across the Highlands and Islands. This phase will provide residences in Inverness and Fort William and are scheduled to open in September 2016.

31. Losses and Special Payments

There were no losses or special payments during the year.