

University of the Highlands and Islands

Report and Financial Statements For the year ended 31 July 2016

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Report of the University Court for the year ended 31 July 2016

Nature, Objectives and Strategy of the University

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

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

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

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

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

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

Nature, Objectives and Strategy of the University (continued)

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 2015/16 was to ensure that we successfully embedded the new arrangements for the regionalisation of further education across the Highlands and Islands. Part of this involved the university as the regional strategic body for further education appointing the chairs and independent members of each of the five incorporated colleges in our region (Inverness, Perth, North Highland, Moray and Lews Castle) and agreeing a financial memorandum with each of the eight assigned colleges in our region.

A new student association (Highlands and Islands Student Association - HISA) to represent both our further and higher education students launched its operations following the elections for the first office bearers of HISA in June 2015.

We submitted our application for research Degree Awarding Powers (rDAP), which are a prerequisite for a university in Scotland, to the Quality Assurance Agency. A rigorous assessment followed and we await the outcome on the decision which is made by the Privy Council. 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 began a finance systems convergence project which will be implemented across the university and several of its academic partners during the year.

University of the Highlands and Islands
Report of the University Court (continued)
Strategic Report - Current and Future Development and Performance (continued)

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

The University successfully delivered against its joint higher and further education outcome agreement in 2015/16 as required by the Scottish Funding Council. The agreement for the Highlands and Islands incrementally shares outcomes between the two funding streams 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 totalling £124,324 towards a range of projects were secured compared with £251,700 in the previous year. During the year it was agreed to wind up the separate University of the Highlands and Islands Development Trust and transfer funds to the university. The use of these funds and future philanthropic donations will be overseen by an independent committee.

The University increased its total higher education student numbers with 6,268 (2014/15- 6040) full-time equivalents during the year, primarily from within the region. UHI continues to service the lifelong learning needs of the region with 16% (2014/15 - 16%) of higher education students part-time and 51% (2014/15 - 52%) over 21 years of age at the start of their course.

Further Education

From the start of 2015/16 the funding for further education student activity has been expressed in terms of credits, formerly this was in weighted student units of measurement ("WSUMs"). The final Further Education Statistical (FES) Return to the Scottish Funding Council (SFC) in relation to FE student activity levels across the partnership for AY 2015/16 will be determined on 14 October, but the provisional figures across the Highlands and Islands region from a very recent interim FES report indicate an increase in overall FE student activity for last academic year.

SFC's core student activity target (measured in credits) for the nine FE colleges across the region for 2015/16 was set at 110,967 credits, and in addition an ESF funding allocation provided for 3,795 credits, totalled 114,762 credits.

The final FES report indicates that collectively, the nine colleges have generated 116,649 credits of FE student activity, representing a difference of 5,682 credits above the baseline credits, and 1,887 credits above the total credits (core + ESF), i.e. baseline credits 105.12% and total credits (including ESF) 101.64%, showing overall student activity at 1.64% above target.

These figures are of course provisional at this stage, as some of the colleges have not yet completed their individual FES returns, and each return will have to be audited and approved, but indications are that the level of FE activity across the region in AY 2015/16 has again increased.

Although the Highlands and Islands further education region only came into existence during 2012/13, FE student activity at a regional level across the Highlands and Islands has been calculated as far back as 2010/11:

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Report of the University Court (continued)
Strategic Report - Current and Future Development and Performance (continued)

	Target	Actual	Target v Actual	%
			+/-	+/-
2010-11	151,845	158,637	+6792	+4.47%
2011-12	148,069	156,784	+8715	+5.88%
2012-13	143,930	149,774	+5844	+4.06%
2013-14	154,936	157,110	+2174	+1.40%
2014-15	155,736	159,491	+3755	+2.41%
2015-16*	110,967+3795	116,649	+1887	+1.64%

(Activity levels in WSUMs for 2010-11 to 2014-15 and in Credits for 2015-16)

***final FES return confirmed by SFC 281016**

showing that the region has exceeded its student activity target annually since 2010/11 and this trend continued in 2015/16, with the shift to credits from WSUMS in terms of measuring student activity levels.

During 2015/16 the region continued to progress its further education curriculum development plan for the Highlands and Islands covering the 3-year period 2015/2018, albeit not at the pace envisaged initially. Ultimately, this plan should provide for significant additional opportunities across the region and, if achieved, would see total activity grow by up to 7%. New curriculum areas developed/delivered in 2015/16 have been 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 (e.g. Engineering, Digital, Forestry, Health and Social Care).

The region continued to respond 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. During 2015/16 some of the region's colleges developed and delivered a range of Foundation Apprenticeship (FA) programmes in response to Developing the Workforce (DYW) with each college preparing/planning for FA delivery in 2016/17, which will provide coverage of all of the local authorities of the Highlands and Islands region.

Developing the Workforce (DYW) Groups were established by local Chambers of Commerce in Caithness, Lochaber, Inverness and Moray in 2015/16. The DYW group in Caithness is most advanced in its activity, while the Lochaber, Inverness and Moray DYW groups are still in the process of establishing themselves. All DYW have differing KPIs but all either include targets for the recruitment of Foundation Apprentices, Modern Apprentices, Work Placements or School/Employer partnerships.

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

Research Capacity

The key research strengths of the partnership in the Research Excellence Framework of 2014 were Gaelic, based at Sabhal Mòr Ostaig UHI on Skye; diabetes and cardiovascular science based at the Centre for Health Sciences, Inverness; history based in Dornoch; archaeology based at Orkney College UHI; mountain studies based in Perth College UHI and earth systems and environmental sciences representing work at the Scottish Association for Marine Science UHI at Dunstaffnage and the Environmental Research Institute at North Highland College UHI. Each of these areas 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 has been assessed and we await the final approval of the Scottish Parliament and Privy Council.

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

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

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

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

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

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

A partnership research facility (An Lochran) was opened at the new Inverness Campus in the spring of 2016. [An Lòchran](#) is a multiple occupancy building co-locating key research and education departments from the University of the Highlands and Islands with Highlands and Islands Enterprise and research and consultancy divisions from Scotland's Rural College (SRUC). This unique partnership aims to work together to encourage young people to become more involved in science and technology based subjects in support of our regions' future workforce development.

An Lòchran is also home to #hellodigital, a digital demonstration centre, teaching, research and laboratory facilities and an innovative Science Academy all under one roof.

This facility further enhances the capacity of UHI to develop research capability to inform curriculum development.

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

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

Staff Development

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

Infrastructure

The first phase of student residences in Inverness (150 rooms) and Fort William (40 rooms), developed by Cityheart, were completed on schedule and available for students from 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 phase is likely to provide 40 rooms in Dornoch, 40 rooms in Elgin and a further 150 rooms on Inverness Campus. This initiative seeks to improve the student experience and the attractiveness of the University to prospective students, particularly school leavers and those from other parts of Scotland, the UK and overseas.

Key Performance Indicators

Student numbers

The University continued to increase its student population.

<u>Total</u>	<u>2015/16</u>	<u>2014/15</u>
Heads	8,636	8,335
Full-time equivalents	6,268	6,040
<u>Scottish Funding Council fundable</u>	<u>2015/16</u>	<u>2014/15</u>
Full-time equivalents	5,997	5,740

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 2014/15 to 2015/16 will be published in March 2017. The most recent data available, therefore, is as follows:

Non-continuation	<u>2014/15</u>	<u>2013/14</u>
Degree students	18.5%	11.4%
Benchmark	10.8%	10.9%
Other undergraduate students	20.1%	15.4%
Benchmark	17.6%	16.5%

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

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

Student satisfaction

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

	<u>2015/16</u>	<u>2014/15</u>
Overall student satisfaction	81%	80%
Benchmark	84%	84%

Strategic Report - Resources and Principal Risks

The University's most significant source of income continues to be Scottish Funding Council (SFC) grants for higher education teaching and research and further education, which increased from £75m in 2014/15 to £76m in 2015/16 (£41m for higher education and £35m for further education).

As with all publicly funded organisations, the University expects that funds will be more difficult to secure as a result of government efforts to reduce public sector borrowing and continues to plan prudently on that basis. As a new university we continue to be heavily dependent on public funding with 94% of our income being derived from SFC and grants from the European Union (EU) and Highlands and Islands Enterprise (HIE). The University is in a unique position in helping to regenerate the economy of the Highlands and Islands and its resultant geographic wider access provision creates a high cost of delivery across a sparse and socio-economically vulnerable population.

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

The University continues to rely heavily on grant funding from HIE and the EU for investment projects as it has insufficient core funding for major developments. Over recent years, the University benefited from EU funding through our Strategic Delivery Body (SDB) status. All funding allocated from the EU Structural Funds programme for 2007-14 have now been drawn down, the final instalments having been received in 2014/15.

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 have applied for funding are "Developing Scotland's Workforce" and "Innovation". In particular, we are seeking to secure funding for new curriculum development to meet evolving employer needs in the region and improve mechanisms for employer engagement.

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

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

Strategic Report - Resources and Principal Risks (continued)

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

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

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

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

Value for Money

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

Strategic Report - Review of Financial Activities

UHI's income increased by £3.1m in the year, mainly due to an increase in SFC teaching grant income, and an increase in other income related to capital grants for the new An Lochran building at Inverness Campus.

Staff costs reduced slightly to £10.6m compared to £10.7m the previous year. Other operating expenses increased by £2.8m in the year the majority of which was represented by SFC funding for further education distributed to our academic partners.

The outturn for the year ended 31 July 2016 was a surplus of £1.667m. This compares with a surplus of £1.589m in the previous year. Total comprehensive income for the year was a deficit of £1.186 million, compared to a surplus of £0.690 million in 2014/15

As required by Generally Accepted Accounting Practice (GAAP), the University has implemented the principles of FRS 102 (28) in relation to Retirement Benefits. As a result the University is required to disclose a liability relating to current commitments of £17.392m (2015 -£13.286m) on its balance sheet. Overall this has resulted in net liabilities of £1.2m (2015 – net assets £0.016m). The actuarial loss on the pension scheme in the year of £2.8m (2015 - loss of £0.8m) is shown at the bottom of consolidated statement of comprehensive income & expenditure.

The main changes included in the 2015/16 financial statements compared to the previous year, are shown below.

1. FRS102 – this is the accounting reporting standard which all colleges and universities must now follow from 2015/16 onwards. The key changes include having revised primary statements, removal of the statement of recognised gains & losses, treatment of the actuarial gain/(loss) on the LGPS (now shown in the Statement of Comprehensive Income & Expenditure) and deferred capital grants now being shown as a creditor, instead of being shown within reserves as in previous years.

Report of the University Court (continued)
Strategic Report - Review of Financial Activities (continued)

In addition, the changes to the treatment of the USS pension scheme, which was previously not disclosed on the balance sheet, has increased the pension liability by £1.25m.

2. Student Residences – at the end of 2015/16, the first Student Residences accommodation was opened at West Highland College in Fort William. It has rooms for up to 40 students and the value of the residences, which have been built and are run by Cityheart Limited, are shown under fixed assets in the balance sheet, with a corresponding long-term creditor also shown.

Overall, within the Balance Sheet, there are total net liabilities of £1.171 million at 31 July 2016, compared with total net assets of £0.016 million the previous year. The two main reasons for this are:

- The increase of the LGPS pension liability, which increased from £12.171 million in 2014/15 to £16.142 million in 2015/16 and the USS pension liability which increased from £1.115 million to £1.249 million.
- The different treatment of deferred capital grants under FRS102, whereby they are now included within creditors as a liability compared to being shown in reserves in previous years.

Other movements in the balance sheet include:

Fixed assets – increased due to the student residences building at Fort William and the building at Inverness Campus, An Lochran.

An increase in cash, from £13.629 million to £15.779 million, an increase of £2.150 million.

A long-term creditor is now in place in relation to the student residences building at Fort William, amounting to £1.758 million.

Although the overall balance sheet presented does not paint a positive picture, the key fundamentals of a good business are still in place. UHI still has a healthy and growing cash balance, as well as an increasing net current assets position, increasing from £5.890 million to £6.377 million in 2015/16. Therefore, UHI is still in a good position to take forward the mission of UHI, which is “to have a transformational impact on the prospects of our region, its economy, its people and its communities.”

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 4 days purchases (2015 – 41 days) which is 1.1% of purchases (2015 – 11.1%). The 2015 data included 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 for 2015.

Report of the University Court (continued)

Constitution

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

Leadership

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

Chancellor

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

In October 2015 the Chancellor presented academic awards at the Moray College UHI graduation ceremony and in November 2015 Her Royal Highness attended the University's Foundation Day at the new Inverness Campus, opening the new Inverness College UHI building, presenting honorary awards and attending the UHI Annual lecture given by Mr Douglas MacKinnon.

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. The university continues to work on the mainstreaming of equality and diversity within the University and our planned equality outcomes for 2013-17 as required by the public sector equality duty under the Equality Act 2010. A further report on progress will be produced in April 2017. The Race, Disability and Gender Equality Duties are strong drivers to ensure that these values are mainstreamed into the policies and processes of the organisation, and the implementation of the action plans flowing from the equality duties is overseen by the Finance and General Purposes Committee. There is an established working group who undertake impact assessment of University policies, procedures and practices. The University has a programme of staff training, to cover all the strands of discrimination, which is compulsory for all staff, and subject to regular review and monitoring.

University of the Highlands and Islands

Report of the University Court (continued)

Professional Advisors

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

Corporate Governance and Internal Control for the year ended 31 July 2016

Introduction

The University Court (Court) is the governing body of the University of the Highlands and Islands, and governs in accordance with the Articles of Association of the University of the Highlands and Islands (formerly UHI Millennium Institute), as amended by resolutions dated 6 March 1997, 21 September 1998, 23 March 2001, 4 November 2003, 23 June 2005, 27 March 2007, 22 September 2009, 15 February 2011 and 8 July 2014 pursuant to Sections 4 and 381A of the Companies Act 2006. The Court is committed to exhibiting best practice in all aspects of corporate governance. The Court is also the Board of Directors of the University of the Highlands and Islands. The Court conforms to the principles and guidelines set out in the Scottish Code of Good HE Governance published in July 2013. In the opinion of the Court, the University complies with the principles of the Scottish Code. As the Regional Strategic Body for further education in the Highlands and Islands, the University is also required to comply with the principles and guidelines set out in the Code of Good Governance for Scotland's Colleges which was published in 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 5 times in the period from 1 August 2015 – 31 July 2016.

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

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

Training and Development of Court Members

All Court members and members of the Further Education Regional Board are given induction training on joining the university and regular development sessions are held with Court members on topics of importance to the university and the higher education sector more widely. During 2015-16 a strategy day was held with members of Court, academic partner chairs and principals and senior university managers. A separate strategy day was held with members of the Further Education Regional Board (FERB) covering specific developments in further education. Briefing sessions have been held prior to formal meeting of FERB on a variety of topics. The Court held an informal development session over dinner in the training restaurant of Inverness College and were given a briefing on proposals for a School of Health, Care and Life Science including a tour of the new partnership research facility at Inverness Campus and the Centre for Health Science.

The Court have committed to meeting regularly on academic partner sites and the first of these meetings was held in June 2016 on Perth Campus. Briefings were given on the work of Perth College UHI, Court members met members of the Perth College board of management and a tour of the facilities was provided.

University of the Highlands and Islands
Corporate Governance and Internal Control (continued)

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

Due to the high numbers of members across the Highlands and Islands required to attend this training (35 from the university and a further c150 from assigned colleges), not all members have yet been able to attend. As 31 July 2016, 25 had attended the day 1 workshop and 28 the day 2 workshop. A combine session has been set up for 14th March 2017 which all other members will be expected to attend.

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

Effectiveness Review

The Court reviews its effectiveness on an annual basis and will commission an external review of its effectiveness during 2016/17.

University Court – Membership

University Court – Membership - The following table provides a summary of Court membership for the period 01 August 2015 to 31 July 2016. The composition of the University Court is prescribed within Article 12.1 of the University's Articles of Association.

Members are appointed for a term of 3 years, which can be renewed for a further term of 3 years. In exceptional circumstances, a third term of 3 years may be permitted, giving a maximum of 9 years' membership.

Corporate Governance and Internal Control (continued)

Category of membership	Period of office	Date appointed	NAME
<i>Independent – appointed by Court</i>	<i>3 years</i>	<i>01/08/2014</i>	<i>Mr Garry Coutts (Chair) (formerly UHI Rector)</i>
<i>Principal & Vice-Chancellor</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Professor Clive Mulholland</i>
<i>President of the Highlands & Islands Students' Association</i>	<i>Ex officio</i>	<i>15/06/2015</i>	<i>Mr Luke Humberstone</i>
<i>Rector</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Mr Anton Edwards (formerly on Court as a representative of the UHI Foundation)</i>
<i>Staff member – elected by and from the staff</i>	<i>3 years</i>	<i>01/08/2014</i>	<i>Dr David Worthington</i>
<i>Staff member - elected by and from the staff</i>	<i>3 years</i>	<i>01/08/2014</i>	<i>Mrs Gillian Berkeley</i>
<i>Student Governor – elected by the students</i>	<i>3 years</i>	<i>17/07/2015</i>	<i>Ms Lorna Stanger *(Resigned 30/06/2016)</i>
<i>Student Governor – elected by the students</i>	<i>3 Years</i>	<i>01/07/2016</i>	<i>Ms Gail Scott *(Resigned 08/08/2016)</i>
<i>Appointed Governor - FE Academic Partner Chair, appointed by the FE Academic Partners</i>	<i>3 years</i>	<i>01/08/2014</i>	<i>Mr Peter Campbell – Shetland College UHI</i>
<i>Appointed Governor - Academic Partner Chair, appointed by the Research & Specialist Partners</i>	<i>3 years</i>	<i>01/08/2014</i>	<i>Mr Angus Ross – SAMS</i>
<i>Independent - Chair of UHI FE Regional Board</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Dr Michael Foxley</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr Andrew Rogers</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Ms Eileen Mackay</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr James MacDonald</i>
<i>Independent – appointed by the Chief Executives of each of the Local Authorities</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr Malcolm Burr</i>
<i>Independent – appointed by the Highlands and Islands Enterprise</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Ms Iseabail Sine Mactaggart</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr William Printie</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Professor Fiona McLean (Vice Chair)</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Dr David Alston</i>
<i>Independent – appointed by Court</i>	<i>3 years</i>	<i>01/08/2014</i>	<i>Ms Victoria Nairn *(Resigned 17/10/2015)</i>
<i>Member of Title Management Group</i>	<i>Sponsor University Governor</i>	<i>01/08/2008</i>	<i>Professor Kenneth Miller – University of Strathclyde</i>

Corporate Governance and Internal Control (continued)

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

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

During the financial year 2015/16 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 2015/16	Remuneration
Mr Garry Coutts	520	£18,382
Dr Michael Foxley	630	£22,228

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

Sponsor Universities

Under the arrangements set in place for 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.

University of the Highlands and Islands
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 2015 – 31 July 2016) - 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	1/4	6/7	1/2	4/4	77%
Luke Humberstone	4/5					80%
Mr Anton Edwards	4/5					80%
Ms Lorna Stanger	2/5					40%
Dr David Worthington	4/5					80%
Mrs Gillian Berkeley	4/5	2/4				66%
Mr Peter Campbell	4/5				2/4	66%
Mr Angus Ross	5/5		6/7			91%
Dr Michael Foxley	4/5	3/4			4/4	84%
Mr Andrew Rogers	4/5		6/7			83%
Mrs Eileen Mackay	4/5	3/4		2/2		81%
Mr James MacDonald	5/5		5/7	1/2		78%
Mr Malcolm Burr	3/5		6/7			75%
Ms Iseabail Sine Mactaggart	4/5		3/7			58%
Mr William Printie	3/5	4/4				77%
Professor Fiona McLean (Vice Chair)	5/5			2/2		100%
Dr David Alston	3/5		3/7	2/2		57%
Ms Victoria Nairn	1/1	1/1				100%
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.

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.

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 company is required to adopt the accounting requirements of Financial Reporting Standard 102 (28) in relation to retirement benefits. This has resulted in a pension liability of £16.142m at the balance sheet date for the LGPS and a pension liability of £1.249m for the USS. For the LGPS, this represents the company's allocation of the deficit in the Highland Council Pension Fund at 31 July 2016. The volatility in the stock markets and actuarial assumptions can cause large fluctuations in the pension scheme deficit which can move the company's unrestricted funds into deficit at any time. At 31 July 2016, the company had a deficit in its unrestricted fund. This scheme deficit represents a long term liability to pay additional pension contributions in the future based on actuarial estimates and calculations. The company continues to be able to meet its liabilities as they fall due irrespective of the Financial Reporting Standard 102 accounting adjustments and the University Court is therefore of the opinion that the company is a going concern.

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

University of the Highlands and Islands

Statement of the Responsibilities of the University Court for the year ended 31 July 2016

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

Statement on the System of Internal Control for the year ended 31 July 2016

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

Independent Auditor's Report to the Court of the University of the Highlands and Islands for the year ended 31 July 2016

We have audited the financial statements of University of the Highlands and Islands for the year ended 31 July 2016 which comprise the Consolidated and University Statement of Comprehensive Income and Expenditure, the Comprehensive and University Statement of Changes in Reserves, Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Accounting Policies and the related notes 1 to 30. 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), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 Statement of Responsibilities of the University Court set out on page 21, the Court (who are also the Trustees for the purposes of charity law) 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 Group and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Group and of the University as at 31 July 2016 and of the Group's and the University's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act) and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matter prescribed by the Companies Act 2006

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

Opinion on matters prescribed by the terms of our engagement as required by the Scottish Funding Council

In our opinion:

- funds from whatever source administered by the institution for specific purposes have been applied properly to those purposes and, if relevant, managed in accordance with relevant legislation, and any other terms and conditions attached to them; and
- 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.

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.

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

Date:

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

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

Consolidated and University Statement of Comprehensive Income and Expenditure
Year Ended 31 July 2016

	Notes	Year ended 31 July 2016		Year ended 31 July 2015	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Income					
Tuition fees and education contracts	1	10,341	10,341	10,092	10,092
Funding body grants	2	76,175	76,175	74,975	74,975
Research grants and contracts	3	2,267	2,196	1,963	1,767
Other income	4	4,570	4,631	3,114	3,087
Investment income	5	112	111	103	102
Total income before endowments and donations		93,466		90,247	
Donations and endowments	6	170	170	330	330
Total income		93,636	93,625	90,577	90,352
Expenditure					
Staff costs	7	10,620	10,620	10,715	10,715
Other operating expenses	9	80,265	80,255	77,457	77,233
Depreciation	10	599	599	373	373
Interest and other finance costs	8	484	484	443	443
Total expenditure		91,968	91,958	88,989	88,764
Surplus/deficit before other gains losses and share of operating surplus/deficit of joint ventures and associates.		1,667	1,667	1,589	1,589
Gain/(loss) on disposal of fixed assets				(96)	(96)
Surplus / (Deficit) before tax		1,667	1,667	1,493	1,493
Taxation		0	-	0	-
Surplus / (Deficit) for the year		1,667	1,667	1,493	1,493
Actuarial (loss)/gain in respect of pension schemes	28	(2,853)	(2,853)	(803)	(803)
Total comprehensive income for the year		(1,186)	(1,186)	690	690
Represented by:					
Restricted comprehensive income for the year		60	60	276	276
Unrestricted comprehensive income for the year		(1,246)	(1,246)	414	414
Revaluation reserve comprehensive income for the year		0	0	0	0
		(1,186)	(1,186)	690	690
Surplus for the year attributable to:					
Non controlling interest					
University		1,667	1,667	1,493	1,493
Total Comprehensive income for the year attributable to					
University		(1,186)	(1,186)	690	690

All items of income and expenditure relate to continuing activities

Consolidated and University Statement of Changes in Reserves
Year ended 31 July 2016

Consolidated and University	Income and expenditure account		Total
	<i>Restricted</i>	<i>Unrestricted</i>	
	£'000	£'000	£'000
Balance at 1 August 2014	177	(851)	(674)
Surplus/(deficit) from the income and expenditure statement	330	1,163	1,493
Other comprehensive income	-	(803)	(803)
Release of restricted funds spent in year	(54)	54	-
Total comprehensive income for the year	276	414	690
Balance at 1 August 2015	453	(437)	16
Surplus/(deficit) from the income and expenditure statement	170	1,497	1,667
Other comprehensive income	-	(2,853)	(2,853)
Release of restricted funds spent in year	(110)	110	-
Total comprehensive income for the year	60	(1,246)	(1,186)
Balance at 31 July 2016	513	(1,684)	(1,171)

Consolidated and University Balance Sheet

	Notes	As at 31 July 2016		As at 31 July 2015	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Non-current assets					
Fixed assets	10	<u>11,602</u>	<u>11,602</u>	<u>7,412</u>	<u>7,412</u>
		<u>11,602</u>	<u>11,602</u>	<u>7,412</u>	<u>7,412</u>
Current assets					
Trade and other receivables	12	3,247	3,301	3,275	3,464
Investments	13	7,000	7,000	7,000	7,000
Cash and cash equivalents	19	<u>8,779</u>	<u>8,679</u>	<u>6,629</u>	<u>6,385</u>
		<u>19,026</u>	<u>18,980</u>	16,904	16,849
Less: Creditors: amounts falling due within one year	14	<u>(12,649)</u>	<u>(12,603)</u>	<u>(11,014)</u>	<u>(10,959)</u>
Net current (liabilities)/assets		6,377	6,377	5,890	5,890
Total assets less current liabilities		<u>17,979</u>	<u>17,979</u>	13,302	13,302
Creditors: amounts falling due after more than one year	15	(1,758)	(1,758)	0	0
Provisions					
Pension provisions	16	(17,392)	(17,392)	(13,286)	(13,286)
Total net assets		<u>(1,171)</u>	<u>(1,171)</u>	<u>16</u>	<u>16</u>
Restricted Reserves					
Income and expenditure reserve - restricted reserve	17	513	513	453	453
Unrestricted Reserves					
Income and expenditure reserve - unrestricted		(1,684)	(1,684)	(437)	16
Total Reserves		<u>(1,171)</u>	<u>(1,171)</u>	<u>16</u>	<u>469</u>

The financial statements were approved by the Governing Body on _____ and were signed on its behalf on _____ by:

Garry Coutts
Chairman

Professor Clive Mulholland
Principal and Vice-Chancellor

Consolidated Cash Flow

Year ended 31 July 2016

	Notes	31 July 2016	31 July 2015
		£'000	£'000
Cash flow from operating activities			
(Deficit)/Surplus for the year		(1,186)	690
Adjustment for non-cash items			
Depreciation	10	599	373
Decrease/(increase) in debtors	12	28	(679)
Increase/(decrease) in creditors	14	1,563	3,521
Increase/(decrease) in pension provision	16	4,106	2,312
Increase/(decrease) in other provisions	16	0	0
Adjustment for investing or financing activities			
Investment income	5	(112)	(103)
Interest payable	8	484	443
Gain on sale of fixed assets		0	96
Net cash inflow from operating activities		5,483	6,653
Cash flows from investing activities			
Investment income	5	112	103
Payments made to acquire fixed assets	10	(2,959)	(3,447)
		(2,847)	(3,344)
Cash flows from financing activities			
Interest paid	8	(484)	(443)
		(484)	(443)
Increase in cash and cash equivalents in the year		2,151	2,866
Cash and cash equivalents at beginning of the year	19	6,629	3,763
Cash and cash equivalents at end of the year	19	8,780	6,629

University of the Highlands and Islands

Statement of Accounting Policies

for the year ended 31 July 2016

1. Basis of preparation

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

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

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

Application of first time adoption grants certain exemption from the full requirements of the SORP in the transition period. The University has not applied any such exemptions.

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

The financial statements of the University were authorised for issue by the University Court on 28 November 2016. The functional currency of the University is pound sterling and the financial statements have been prepared to the rounded £000.

2. Basis of consolidation

The consolidated financial statements include the University and its subsidiary for the financial year to 31 July 2016. Intra-group transactions are eliminated on consolidation.

Although the Post 16 (Scotland) Education Act 2013 and the Assigned Colleges (University of the Highlands and Islands) Order 2014 assigned the incorporated colleges (Inverness College, Lews Castle College, Moray College, North Highland College and Perth College) to the University in its role as Regional Strategic Body, giving the University powers to appoint the majority of the board of these colleges, the University does not consider that it was in a position to exercise "dominant influence" over these colleges during the year sufficient to class them as "subsidiary undertakings" as defined by the Companies Act 2006 and FRS102. As a result the University has not consolidated the incorporated colleges' accounts into the group accounts in 2015/16. As the nature of the relationship between the University and the incorporated colleges continues to evolve while the full effects of the legislation come into force, the University will review this position on an ongoing basis.

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

3. Income recognition

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

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

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

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

Grant funding

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

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

Donations and endowments

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

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

Statement of Accounting Policies (continued)

for the year ended 31 July 2016

3. Income recognition (continued)

Capital grants

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

4. Accounting for retirement benefits

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

USS

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

LGPS

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

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

5. Employment benefits

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

6. Service Concession Arrangements

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

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

7. Operating leases

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

University of the Highlands and Islands

Statement of Accounting Policies (continued)

for the year ended 31 July 2016

8. Foreign currency

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

9. Fixed assets

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

Land and buildings

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

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

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

Equipment

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

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

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

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

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

Statement of Accounting Policies (continued)

for the year ended 31 July 2016

10. Cash and cash equivalents

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

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

11. Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

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

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

12. Taxation

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

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

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

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

13. Reserves

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

University of the Highlands and Islands

Notes to the Accounts for the year ended 31 July 2016

	Notes	Year Ended 31 July 2016		Year Ended 31 July 2015	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
1 Tuition fees and education contracts					
Scotland and EU fees		9,012	9,012	8,454	8,454
RUK (old fee rates)		0	0	19	19
RUK (new fee rates)		647	647	638	638
Non-EU fees		671	671	961	961
Non-credit bearing course fees		0	0	0	0
Education contracts		12	12	20	20
Other contracts					
		10,341	10,341	10,092	10,092
2 Funding body grants					
Recurrent grant					
General Fund - Teaching	SFC Main Teaching	34,535	34,535	31,076	31,076
General Fund - Research and Knowledge Exchange	SFC Research	2,945	2,945	2,630	2,630
Release of deferred capital grants	SFC DCG	19	19	46	46
Specific grants					
Strategic funding	SFC Specific	407	407	282	282
Capital maintenance grants	Capital Maintenance	1,473	1,473	1,157	1,157
Grants for FE provision	FE Provision	34,607	34,607	37,368	37,368
Ring-fenced grants funded by Scottish Government	Ring Fenced	2,189	2,189	2,416	2,416
		0	0	0	0
		76,175	76,175	74,975	74,975
3 Research grants and contracts					
Research councils		268	268	226	226
Research charities		78	78	100	100
Government (UK and overseas)		717	693	642	580
EU		990	990	742	742
Industry and commerce		50	8	228	95
Other		163	159	24	24
		2,267	2,196	1,963	1,767
4 Other income					
Residences, catering and conferences		0	0	0	0
Other revenue grants		617	617	236	236
Enterprise Agency grants		186	186	117	117
Other grant income		58	58	19	19
Exchange gain		109	109	1	1
Other capital grants		1,002	1,002	263	263
Other income		2,027	2,089	2,018	1,990
Other income generating activities		571	571	461	461
		4,570	4,631	3,114	3,087
5 Investment income					
Other investment income		112	111	103	102
Net return on pension scheme	28	0	0	0	0
		112	111	103	102
6 Donations and endowments					
Donations with restrictions	17	170	170	330	330
		170	170	330	330

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2016

	Year Ended 31 July 2016		Year Ended 31 July 2015	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
7 Staff costs				
Staff Costs :	£'000	£'000	£'000	£'000
Salaries	7,898	7,898	7,504	7,504
Social security costs	700	700	629	629
Movement on USS provision	101	101	546	546
Other pension costs	1,921	1,921	2,036	2,036
Total	10,620	10,620	10,715	10,715

Administration and Central Services	6,349	6,349	6,309	6,309
Research Grants and Contracts	1,013	1,013	987	987
Academic/Teaching Departments	3,258	3,258	3,419	3,419
Total	10,620	10,620	10,715	10,715

Emoluments of the Vice-Chancellor:	£	£
Salary	206	182
Benefits	0	0
Pension contributions	20	19
	226	201

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

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

Average staff numbers by major category :	No.	No.
Administration and Central Services	130	131
Premises	1	1
Research Grants and Contracts	20	18
Academic/Teaching Departments	24	23
Academic Services	33	36
	208	209

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

Key management personnel

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

Key Management Personnel are the Principal and Vice-Chancellor, the Chief Operating Officer and Secretary, the Deputy Principal, the Vice-Principal (Enterprise) and the Vice Principal (Research).

	Year Ended Year ended 31 July 2016 £'000	Year Ended Year ended 31 July 2015 £'000
Key management personnel compensation	628	592

Notes to the Accounts
for the year ended 31 July 2016

7 Staff costs (continued)

Court Members

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

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

During the financial year 2015/16 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 2015/16	Remuneration
Mr Garry Coultts	520	£18,382
Dr Michael Foxley	630	£22,258

The total expenses paid to or on behalf of 21 council members was £14,011 (2015 - £13,698 to 20 council members). This represents travel and subsistence expenses incurred in attending Court, Committee meetings and other events in their official capacity.

Notes	Year Ended 31 July 2016		Year Ended 31 July 2015	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
8 Interest and other finance costs				
Net charge on pension scheme	28	484	443	443
		484	443	443

9 Analysis of total expenditure by activity

Academic and related expenditure	68,197	68,197	69,194	69,194
Administration and central services	4,949	4,942	2,961	2,736
Premises (including service concession cost)	881	881	727	727
Residences, catering and conferences	0	0	0	0
Research grants and contracts	4,568	4,565	3,708	3,708
Agency Staff	91	91	49	49
Other expenses	1,579	1,579	817	817
	80,265	80,255	77,457	77,233
Other operating expenses include:				
External auditors remuneration in respect of audit services	46		38	
External auditors remuneration in respect of non-audit services	2		1	
Internal auditors remuneration in respect of internal audit services	13		16	
Operating lease rentals				
Land and buildings	212		263	
Other	16		15	

Notes to the Accounts
for the year ended 31 July 2016

10 Fixed Assets

	Freehold Land and Buildings £'000	Service concession arrangement Land and Buildings (Note 11) £'000	Leasehold Improvement £'000	Celtica and Theological collections £'000	Equipment £'000	Total £'000
Cost or valuation						
At 1 August 2015	7,440	-	314	82	7,597	15,433
Additions	1,163	1,830	-	-	1,796	4,789
At 31 July 2016	8,603	1,830	314	82	9,393	20,222
Depreciation						
At 1 August 2015	1,019	-	126	-	6,876	8,021
Charge for the year	136	-	21	-	442	599
Disposals	-	-	-	-	-	-
At 31 July 2016	1,155	-	147	-	7,318	8,620
Net book value						
At 31 July 2016	7,448	1,830	167	82	2,075	11,602
At 1 August 2015	6,421	-	188	82	721	7,412

At 31 July 2016, freehold land and buildings included £0.239 (2015 - £0.239m) in respect of freehold land and is not depreciated.

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

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

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2016

11 Service Concession Arrangements

The University has one on Balance Sheet arrangement where service delivery has commenced.

Movement in Service concession arrangement assets

The asset value of the service concession included in the Balance Sheet as at 31/07/2016 is £1,829,707 (01/08/2015 £NIL).

Movement in Service concession arrangement liabilities

The total liabilities relating to the service concession included in the Balance Sheet as at 31/07/2016 were £1,829,707 (01/08/2015 £NIL).

Future commitments

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

£'000	Payable in 1 year	Payable in 2-5 years	Payable in 6-10 years	Payable in more than 10 years	Total
Service charge	72	273	313	1,172	1,830

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

a) On Balance Sheet concession arrangements

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

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

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

The University has an annual occupancy guarantee amounting to committed annual payments of £73,192 recorded within other operating expenses.

University of the Highlands and Islands

Notes to the Accounts for the year ended 31 July 2016

12 Trade and other receivables

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Research grants receivables	92	92	130	130
Other trade receivables	1,002	952	955	898
Other receivables	0	0	0	0
Prepayments and accrued income	2,153	2,257	2,190	2,190
Amounts due from subsidiary companies	0	0	0	246
	<u>3,247</u>	<u>3,301</u>	<u>3,275</u>	<u>3,464</u>

13 Current Investments

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Short term deposits	7,000	7,000	7,000	7,000
	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>

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

At 31 July 2016 the weighted average interest rate of these fixed rate deposits was 0.95% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 285 days. The fair value of these deposits was not materially different from the book value.

14 Creditors : amounts falling due within one year

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Service concession arrangements (note 14)	72	72	0	0
Trade payables	249	245	1,572	1,572
Social security and other taxation payable	38	34	271	271
Accruals and deferred income	12,290	12,252	9,171	9,116
	<u>12,649</u>	<u>12,603</u>	<u>11,014</u>	<u>10,959</u>

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

Deferred income

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

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Accruals	2,724	2,724	1,656	1,656
Donations	14	14	14	14
Research grants received on account	1,180	1,180	1,749	1,749
Grant income	1,785	1,785	1,883	1,883
Deferred Government Capital Grants	5,295	5,295	2,966	2,966
Other income	1,292	1,254	903	848
	<u>12,290</u>	<u>12,252</u>	<u>9,171</u>	<u>9,116</u>

University of the Highlands and Islands

Notes to the Accounts
for the year ended 31 July 2016

15 Creditors : amounts falling due after more than one year

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Service concession liabilities due after one year	1,758	1,758	0	0
	<u>1,758</u>	<u>1,758</u>	<u>0</u>	<u>0</u>

16 Provisions for liabilities

Consolidated	Obligation to fund deficit on USS Pension £'000	Defined Benefit Obligations (Note 35) £'000	Total Pensions Provisions £'000
At 1 August 2015	1,115	12,171	13,286
Utilised in year			0
Additions in 2015/16	135	3,971	4,106
Unused amounts reversed in 2015/16			0
At 31 July 2016	<u>1,250</u>	<u>16,142</u>	<u>17,392</u>

University	Obligation to fund deficit on USS Pension £'000	Pension scheme under 35 £'000	Total Pensions Provisions £'000
At 1 August 2015	1,115	12,171	13,286
Utilised in year			0
Additions in 2015/16	135	3,971	4,106
Unused amounts reversed in 2015/16			0
At 31 July 2016	<u>1,250</u>	<u>16,142</u>	<u>17,392</u>

USS deficit

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

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2016

17 Restricted Reserves

Reserves with restrictions are as follows:

Donations	2016 Total £'000	2015 Total £'000
Balances at 1 August 2015	453	177
New donations	170	330
Expenditure	(110)	(54)
Total restricted comprehensive income for the year	60	276
At 31 July 2016	513	453
	2016 Total £'000	2015 Total £'000
Analysis of other restricted funds /donations by type of purpose:		
Research support	513	453
	513	453

18 Deferred Capital Grants

Group and University	Funding Council £'000	Other £'000	Total £'000
At 1 August 2015	26	2,940	2,966
Cash received and assets donated:			
Land & buildings	-	2,143	2,143
Equipment	85	1,122	1,207
	<u>85</u>	<u>3,265</u>	<u>3,350</u>
Released to income and expenditure account:			
Land and buildings	2	658	660
Equipment	17	344	361
	<u>19</u>	<u>1,002</u>	<u>1,021</u>
At 31 July 2016			
Land and buildings	19	2,005	2,024
Equipment	73	3,198	3,271
	<u>92</u>	<u>5,203</u>	<u>5,295</u>

19 Cash and cash equivalents

	At 1st August 2015 £'000	Cash Flows £'000	At 31st July 2016 £'000
Consolidated			
Cash and cash equivalents	6,500	2,129	8,629
Student support funds	129	21	150
	<u>6,629</u>	<u>2,150</u>	<u>8,779</u>

Notes to the Accounts
for the year ended 31 July 2016

20 Capital and other commitments

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

21 Lease obligations

Total rentals payable under operating leases:

	31 July 2016			31 July 2015 £'000
	Land and Buildings £'000	Plant and Machinery £'000	Total £'000	
Payable during the year	212	16	228	278
Future minimum lease payments due:				
Not later than 1 year	103	10	113	5
Later than 1 year and not later than 5 years	0	30	30	15
Later than 5 years	0	-	0	23
Total lease payments due	103	40	143	43

22 Events after the reporting period

The first phase of student residences Fort William (40 rooms), developed by Cityheart, were completed on schedule in June 2016 and are included in the financial statements. The second part of phase 1 of the student residences project at Inverness College UHI were completed in late August 2016 and were available for students from September 2016. 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 phase is likely to provide 40 rooms in Dornoch, 40 rooms in Elgin and a further 150 rooms on Inverness Campus. This initiative seeks to improve the student experience and the attractiveness of the University to prospective students, particularly school leavers and those from other parts of Scotland, the UK and overseas.

23 Subsidiary undertakings

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

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

During the year the subsidiary company had income of £141,570 (2015 - £224,997). The net profit of £7,196 (2015 - £63,042) was paid under gift aid to UHI (2015 - UHI £54,517 and North Highland College £8,525). Net assets at 31 July 2016 are £1.

**Notes to the Accounts
for the year ended 31 July 2016**

24 Related Party Transactions

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

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

Partner	Invoiced to Partners	Payments to Partners	Amounts due	
			to Partners at 31 July 2016	from Partners at 31 July 2016
	£000	£000	£000	£000
Argyll College	80	779	-	3
HTC	3	280	-	36
Inverness College	348	14,955	2	98
Lewis Castle College	68	4,395	1	15
Moray College	335	10,619	6	10
North Atlantic Fisheries College	18	247	1	5
North Highland College	163	9,364	1	26
Orkney Islands Council	52	2,722	25	(2)
Perth College	358	15,476	9	23
SAMS	36	2,256	-	6
Shetland Islands Council	98	2,335	-	1
SMO	10	1,039	-	3
West Highland College	83	3,504	2	-
University of Aberdeen	12	67	1	-
University of Edinburgh	8	15	-	-
University of Strathclyde	81	9	-	25
	1,753	68,062	48	249

25 Hardship Funds and Childcare Funds

	Hardship £000	Childcare £000
Balance brought forward	-	-
Funds received in year	440	7
Expenditure	(337)	(13)
Repayable to funding body	(103)	6
Balance carried forward	<u>0</u>	<u>0</u>

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

26 Contingent Liabilities

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

27 Securities

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

Notes to the Accounts for the year ended 31 July 2016

28 Pension Schemes

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

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

The two main schemes, being USS and LGPS, are both defined-benefit schemes contracted out of the State Second Pension (S2P) the assets of which are held in separate trustee administered funds. No staff are currently enrolled in the NEST scheme.

(i) The Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), 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 2016, the percentage was 16% to 31 March 2016 and 18% from 1 April 2016 (2015: 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 FRS102 (28) accounts for the scheme as if it were a defined contribution scheme, and has recognised as a liability its obligation to fund its share of the scheme deficit.

The total charged to the profit and loss account is £463k (2015: £811k).

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

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

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

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

	2016	2015
Discount rate	3.60%	3.30%
Pensionable salary growth	n/a	3.5% in the first year and 4.0% thereafter
Pension increases	2.20%	2.20%

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

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

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

	2016	2015
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
Females currently aged 45 (years)	28.8	28.7

	2016	2015
Scheme assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS 102 total scheme deficit	£8.5bn	£11.1bn
FRS 102 total funding level	85%	82%

Notes to the Accounts for the year ended 31 July 2016

28 Pension Schemes (continued)

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

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

New Entrants

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

Normal Pension Age

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

Flexible Retirement

Flexible retirement options were introduced.

Members contributions increased

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

USS investment builder

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

Pension increase cap

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

University of the Highlands and Islands
Notes to the Accounts
for the year ended 31 July 2016

28 Pension Schemes (continued)

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

The actuary has estimated that the funding level as at 31 March 2014 under the scheme specific funding regime had fallen from 92% to 89% (a deficit of circa £5.3bn). Over the past twelve months, the funding level has deteriorated from 89%, as at 31 March 2014 to 86%. This estimate is based on the funding level at 31 March 2015, adjusted to reflect the fund's actual investment performance over the last year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). The next formal valuation is at 31st March 2016 and this will incorporate updated assumptions agreed by the trustee company.

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

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

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial valuation are set out below:

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

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

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

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

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

University of the Highlands and Islands

Notes to the Accounts for the year ended 31 July 2016

28 Pension Schemes (continued)

(ii) Local Government Pension Scheme

The Highland Councils LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2016 was £1,285k of which employers' contributions totalled £891k and employees' contributions totalled £394k.

The following information is based upon pension expense calculation as at 31 July 2016.

Valuation method

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

Demographic/Statistical Assumptions for the Scheme

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

Life expectancy from age 65 (years)	31-Jul-16	31-Jul-15
Retiring Today:		
Males	22.5	22.5
Females	24.1	24.1
Retiring in 20 years:		
Males	24.7	24.7
Females	26.8	26.8

Financial Assumptions for the Scheme

Assumptions as at	31-Jul-16		31-Jul-15		31-Jul-14	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	2.90%	-	3.50%	-	3.60%	-
CPI Increases	1.90%	-1.00%	2.60%	-0.90%	2.80%	-0.80%
Salary Increases	3.90%	1.00%	4.50%	1.00%	5.00%	1.40%
Pension Increases	1.90%	-1.00%	2.60%	-0.90%	2.70%	-0.90%
Discount Rate	2.40%	-0.50%	3.60%	0.10%	4.00%	0.40%

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.

Analysis of movement in the fair value of scheme assets

	Year to 31-Jul-16 £'000	Year to 31-Jul-15 £'000
Fair value of assets at the start of the year	22,733	19,094
Expected return on assets	834	786
Actuarial gain on assets	2,243	1,724
Actual contributions paid by University	966	1,234
Actual member contributions	367	383
Actual benefit payments	(463)	(488)
Fair value of scheme assets at the end of the year	<u>26,680</u>	<u>22,733</u>
Present value of liabilities at the start of the year	34,904	29,499
Current service cost	1,586	1,771
Past service costs	48	-
Interest cost on defined benefit obligation	1,284	1,212
Actual member contributions	367	383
Actual benefit payments	(463)	(488)
Changes in financial assumptions	5,398	1,176
Changes in demographic assumptions	-	387
Other experience adjustments	(302)	964
Present value of funded liabilities	<u>42,822</u>	<u>34,904</u>
Fair value of scheme assets at the end of the year	26,680	22,733
Present value of funded liabilities	(42,822)	(34,904)
Net liability in Balance Sheet	<u>(16,142)</u>	<u>(12,171)</u>

University of the Highlands and Islands

Notes to the Accounts
for the year ended 31 July 2016

28 Pension Schemes (continued)

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

	Year to 31-Jul-16	Year to 31-Jul-15
	£'000	£'000
Current service cost *	1,586	1,771
Past service costs	48	-
Interest on obligation	1,284	786
Expected return on scheme assets	(834)	(1,212)
Actuarial loss in respect of pension schemes	2,853	803
Total	4,937	2,148

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

Sensitivity analysis to UHI obligations and service costs

	Approx % increase to Employer Liability	Approx monetary amount £000
0.5% decrease in Real Discount Rate	13%	5,775
1 year increase in member life expectancy	3%	1,275
0.5% increase in Salary Increase Rate	5%	2,132
0.5% increase in Pension Increase Rate	8%	3,463

Reconciliation of opening and closing deficit

	Year to 31-Jul-16	Year to 31-Jul-15
	£'000	£'000
Deficit at beginning of year	(12,171)	(10,405)
Current service cost	(1,634)	(1,771)
Employer contributions	966	1,234
Other finance income	(450)	(426)
Actuarial (loss)/gain	(2,853)	(803)
Deficit at end of the year	(16,142)	(12,171)

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

	Year to 31-Jul-16
	£'000
Projections for Year to 31 July 2017	
Service cost *	1,872
Interest cost	1,048
Return on assets	(650)
Total	2,270
Employer contributions	1,027

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

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

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

The monetary amount of the projected service cost for the period to 31 July 2017 may be adjusted to take account of actual pensionable payroll for the period.

**Notes to the Accounts
for the year ended 31 July 2016**

29 Accounting estimates and judgements

USS Pension Scheme

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

Service Concession arrangements

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

30 Transition to FRS102 and the 2015 SORP

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 2016, the comparative information presented in these financial statements for the year ended 2015 and in the preparation of an opening FRS 102 Statement of Financial Position at 1 August 2014. In preparing its FRS 102, SORP based Statement of Financial Position, the University has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP).

An explanation of how the transition to FRS 102 and the SORP has affected the University's financial position, financial performance and cash flows is set out in the following tables.

	01 August 2014		31 July 2015	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Financial position				
Total reserves under 2007 SORP	(1,682)	(1,682)	(674)	(674)
USS pension provision	(569)	(569)	(1,115)	(1,115)
Grant income	190	190	455	455
Deferred capital grants	1,387	1,387	1,350	1,350
Employee leave accrual	-	-	-	-
Endowments	-	-	-	-
Total effect of transition to FRS 102	1,008	1,008	690	690
Total reserves under 2015 SORP	(674)	(674)	16	16
	Year ended 31 July 2015			
Financial performance	Consolidated £'000	University £'000		
Surplus for the year under 2007 SORP	1,008	1,008		
USS pension provision	(546)	(546)		
Grant income	265	265		
Deferred capital grants	(37)	(37)		
Total effect of transition to FRS 102	(318)	(318)		
Total comprehensive income for the year under 2015 SORP	690	690		

Cash Flows

The only impact of the transition to FRS 102 on the cash flows of the University or the Group is the reclassification of some short term investments to cash and cash equivalents as shown above.