

# **University of the Highlands and Islands**

## **Report and Financial Statements For the year ended 31 July 2019**

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## **University of the Highlands and Islands**

### **Report of the University Court for the year ended 31 July 2019**

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

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

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

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

In setting out its plans for regionalisation of further education and ensuring greater links between schools, colleges and universities, the Scottish Government recognised that UHI is in a unique position to integrate further and higher education as a tertiary institution. In accordance with the Act further education funding for the Highlands and Islands is distributed by UHI to eight assigned colleges (who are existing academic partners of UHI). The academic partners who were designated as assigned colleges from 1 August 2014 are Moray, Perth, Inverness, Lews Castle, North Highland, Shetland, Orkney and West Highland. From 1<sup>st</sup> January 2019, Argyll College (an existing partner) was also assigned to the university. The University Court is the accountable body for both higher and further education performance in line with a single regional outcome agreement with the Scottish Funding Council (SFC).

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

## **University of the Highlands and Islands**

### **Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)**

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. These are set out in detail on pages 8-10 of this report.

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](http://www.uhi.ac.uk)

#### **Strategic Report - Current and Future Development and Performance**

This year we are proud to have continued to foster our links with many other local, national and international partners. These connections are invaluable and help us to create new opportunities for our students and staff.

To highlight some of the examples; five students from Shetland College UHI took part in an exchange to Norway, with students from Vidaregaande Skule in Voss completing work experience in Shetland. The Scottish Association for Marine Science UHI agreed a new student exchange programme with Coastal Carolina University, South Carolina, and Argyll College UHI tutor, Lesley Burr is heading to the Arctic as the new Arctic Friends of the Scott Polar Research Institute artist in residence for 2019.

We opened a micro campus at the Hunan Institute of Engineering in China in November 2018. The development builds on our existing partnership which enables students from across China to study our bachelor of electrical and electronic engineering and mechanical engineering degrees. Sabhal Mòr Ostaig UHI partnered with National Museums Scotland on the production of content for the major summer exhibition, Wild and Majestic: Romantic Visions of Scotland in Edinburgh.

The early days of 2019 saw us welcome our first cohort of midwifery students. The postgraduate diploma has been developed in partnership with NHS Highland, NHS Western Isles and NHS Orkney. It will enable registered nurses to become fully qualified midwives in just 20 months, helping to meet the needs of communities across the north of Scotland.

The childcare sector is facing significant changes and challenges, such as gender bias. The University of the Highlands and Islands was awarded funding to pilot a fast-track men in childcare programme. Led by Inverness College UHI, the course has been highly successful. By

## **University of the Highlands and Islands**

### **Report of the University Court for the year ended 31 July 2019**

#### **Nature, Objectives and Strategy of the University (continued)**

offering a free study course that ran in the early evening it was accessible and appealing to career change students. One student found the all-male study approach so supportive he travelled a round trip of 100 miles once a week to participate in classes face to face.

In spring four of our music graduates performed at the 21st New York City Tartan Week, as part of the university's participation in the celebrations recognising the contributions made by Scottish-Americans to the United States.

We took to the air in April when the first ever large-scale aircraft powered by variable-buoyancy propulsion, the Phoenix, was launched. Working with Bristol, Newcastle, Sheffield and Southampton universities, our professor of engineering, Andrew Rae, led the design of the aeroplane, which looks very like an airship with wings. With its propulsion and power systems allowing it to be completely self-sufficient, Phoenix could be used as a "pseudosatellite", doing the same job from high in the atmosphere at a fraction of the cost.

Our researchers continue to positively impact and innovate to benefit societal needs. In May it was announced that Jun Wei, our professor of genetics, had devised a kit for screening blood bank stock for samples with high levels of a cancer-fighting antibody. The development of this new therapy shows promise in the treatment of liver cancer and represents an enormous step forward for health research at the university.

The distinctive Scottish natural environment uniquely features in our courses and influences the world-class research which we carry out. Our staff are proud to feature joint eighth in this year's Guardian university league table for earth and marine science courses.

The university will continue to play an active role in understanding and collaborating to address the world's threat from climate change. Professor Clive Mulholland, Réseau d'Excellence des Territoires Insulaires President and Principal and Vice-Chancellor led a global call for recognition of the effect plastic pollution is having on the world's ocean. In an open letter to the United Nations, European Union, Scottish Government and the UK Government from the network of excellence for island universities - which now has over 30 members worldwide – it calls for urgent action on micro plastics.

This summer the university's Institute of Archaeology played a key role in hosting a major international workshop on Orkney to set a benchmark for understanding the impact of climate change on World Heritage sites. In July a ground-breaking website was launched by our researchers aimed at gathering information from the public about the interaction between birds and debris such as plastics.

The university published its third Gaelic Language Plan in May. The document sets out the university's strategy for continuing to promote and develop the use of Gaelic through its practices, curriculum and communications until 2022. Proposals include producing more bilingual resources, encouraging staff to learn Gaelic as part of their development plans and holding more Gaelic events.

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### **Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)**

The university received its highest ever rating in the National Student Survey. The results place us as the fifth best university in Scotland for student satisfaction and the university performed above the Scottish average in almost all of the other measures.

The university expanded its expertise with the appointment of a professor of medical nanotechnology in July. Based at the Centre for Health Science in Inverness, Professor Alistair Kean plans to develop new innovations by applying the science of nanotechnology to healthcare. The discipline works with materials on an atomic and molecular scale.

This year we take great delight in sharing a snapshot of our achievements - as ever too many to mention. To conclude we would like share the work of our apprenticeship team in helping to address one of Scotland's traditional artisan crafts – boat building. Responding to the shortage of qualified adults and young people entering Scotland's boat building and repair industry, the University of the Highlands and Islands will be one of the first institutions in Scotland to offer a new Modern Apprenticeship. The programme, which has been developed by the science, engineering and manufacturing technologies alliance in collaboration with industry partners, will be available through Argyll College UHI from September.

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

The university's priorities include:

- Increasing and diversifying our student population, continuing our focus on widening access to those otherwise excluded from further and higher education through geography, social background or financial means. In addition, we will increase recruitment of young entrants.
- Utilising our distinctive blended and work based 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.
- A key priority for further education will be the development of a regional strategy for further education and underpinning regional approach to curriculum portfolio review to further enhance the alignment of curriculum to skills demand. This will be a continuation

## University of the Highlands and Islands

### Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)

of the work on-going to create a regional policy infrastructure for further education. To date this work has been well received by partners, reducing the risk of unplanned staff absence or departure and creating communities of practice that support collaboration and reduce duplication of effort.

The University successfully delivered against its joint higher and further education outcome agreement in 2018/19 as required by the Scottish Funding Council. The agreement for the Highlands and Islands incrementally shares outcomes between the two funding streams and underpins the tertiary nature of the institution.

Relevant regional outcome agreement national measures are entrants by different groups and research students

Proportion of Scottish-domiciled undergraduate entrants from relevant groups:

	2018-19	Original ROA target *	2017-18	Change year-on-year
SIMD20	8.2%	8.9%*	7.9%	0.3%
SIMD20 FT first degree	10.0%	8.9%	8.1%	1.9%
SIMD40	24.6%	27.5%*	24.1%	0.5%
From SHEP schools	3.9%	4.5%	4.6%	-0.7%
<b>Protected characteristics:</b>				
Male	37.5%	42%*	39.8%	-2.3%
Female	62.2%	58%*	60.1%	2.1%
Under 21	44.1%	48%*	43.2%	0.9%
Over 21	55.9%	52%*	56.8%	-0.9%
White	96.6%	97%	96.3%	0.3%
BME	2.6%	3%	2.8%	-0.2%
Ethnicity not known	0.8%	-	0.9%	-0.1%
No known disability	76.8%	83.7%	84.2%	-7.4%
Has a disability	23.2%	16.3%	15.8%	7.4%
Care leaver	1.5%	1.7%	1.4%	0.1%
On STEM courses	27.8%	31%*	26.8%	1.0%

*\*Targets were revised in the 2019-20 ROA reflecting changes in 2017-18. In particular the impact of the new nursing undergraduates.*

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### Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)

The number of research postgraduate students FTE:

2018-19	2017-18
122	108

The University's fundraising activities continued to be successful in the year with donations totalling £2,486,577 towards a range of projects were secured compared with £305,598 in the previous year. This included the receipt of two legacies valued at £2,329,078.

The University increased its total higher education student numbers with 7,129 (2017/18 - 7,054) full-time equivalents (FTE) during the year, primarily from within the region, made up of 6,532 undergraduates (including 220 Nursing BSc FTE), 352 taught postgraduate, 122 PGDE and 122 postgraduate research FTE. UHI continues to service the lifelong learning needs of the region with 18% (2017/18 - 17%) of undergraduate higher education FTE part-time and 55% (2017/18 - 54%) of our undergraduate students over 21 years of age at the start of their course.

#### Further Education

In 2018/19, the region once more exceeded activity targets set for further education. The table below shows a positive variance against activity targets being reported for the last five years, continuing an earlier established trend. The core student activity target for further education was reduced across the sector by 0.5% in 2017-18. This coincided with a 50% reduction in ESIF funding to support additional activity. The reduced total activity in further education should not therefore be interpreted as a reduction in demand.

	Core Target	ESIF Target	Actual	% Variance
2014-15	155,736		159,491 <sup>1</sup>	2.40%
2015-16	110,968	3,940	116,644	1.90%
2016-17	110,968	4,400	116,778	1.20%
2017-18	110,968	2,200	114,969	1.60%
2018-19	110,382	2,200	114,555	1.70% (pre-audit figures)

The region is however facing changes in levels of demand for specific modes of delivery, with an overall reduction in recruitment to full-time study and a rise in part time study. A single regional contract has been established with Skills Development Scotland for delivery of apprenticeships and the numbers recruited to Foundation Apprenticeships, Modern Apprenticeships and Graduate Apprenticeships continues to grow in line with the Government's agenda.

<sup>1</sup> The unit of measure changed from WSUMS to Credits in 2015/16. The reduction in measurement from 159,491 to 116,644, should not be interpreted as a reduction in levels of activity.

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### **Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)**

The UHI Work-based Learning Hub was established in 2017 to develop work-based learning pathways, using apprenticeship frameworks, to diversify both the curriculum offer and the University's income streams. The region, through this dedicated resource was able to respond quickly to the launch of this new product and in the first two years of Foundation Apprenticeships delivered a quarter those delivered nationally. Since this time, this work has continued to expand both in terms of numbers recruited and the range of frameworks offered. A similar regional approach has been adopted to promote the development and uptake of Graduate Apprenticeships, with UHI developing a GA in Civil engineering and a GA in Early Learning and Childcare. A significant development for the UHI Work-based Learning Hub has been the development of a single regional contract with SDS for MA delivery, replacing individual contracts previously held with academic partners. This has enabled the region to react more flexibly and responsively to employer demand whilst also taking advantage of economies of scale. The contracts value for the work of the Hub now exceeds £6m.

The 2018 Audit Scotland report 'Scotland's Colleges 2018' reported that the University of the Highlands and Islands had made good progress in delivering the anticipated benefits of regionalisation. It noted that the Regional Strategic Body was helping colleges to balance income and expenditure, and that it was becoming more effective through shared working. A significant part of this shared working has been the development of a regional policy infrastructure for further education, mirroring the infrastructure that supports higher education. The development of regional student-facing policies are now almost complete. This work has enhanced the resilience of academic partners where specialist functions are often supported by individual members of staff through the development of communities of practice across a variety of support functions.

Senior academic staff have also worked collaboratively to develop and implement regional policies to enhance student attainment and the region continues to see this work reflected in high levels of attainment, with the region exceeding national benchmarks. This work is now being extended to encompass health and safety management, carbon management and sustainability as well as human resource management policies. Increasingly this work is becoming tertiary in nature, spanning further and higher education, reflecting the maturation of the University partnership and its commitment to delivering seamless provision across all levels of the Scottish Credit and Qualifications Framework.

#### **Research, Knowledge Exchange and Impact**

2018/19 saw a number of significant achievements across research, knowledge exchange and impact.

The University awarded the first two PhD awards under its own name following the achievement of Research Degree Awarding Powers (RDAP) in 2017/18, marking a significant milestone in the University's development. More generally within the Graduate School the University validated a new suite of Masters by Research (MRes) qualifications and it is anticipated that students will begin to register for these in 2019/20. The University also achieved notable success through the award of six PhD studentships in Marine Science through the Marine Alliance for Science and Technology for Scotland (MASTS). This represented the highest number of PhD students for any

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### **Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)**

University in Scotland via this particular route. Results from the 2018/19 student satisfaction survey for research students, reveal an overall satisfaction score of 85%, 4% above both the mean for participating institutions and the mean for participating Scottish institutions. The University was placed first in the survey for research student satisfaction for Science, Technology, Engineering and Mathematics students.

Preparations for the University's submission to REF 2021 continued apace in 2018/19. The REF Code of Practice, which sets out the University's detailed arrangements for matters such as identifying the eligible cohort of staff and dealing with special staff circumstances was developed and submitted for approval to the National REF team and the Scottish Funding Council. A mock REF was held in June 2019, and a scrutiny event for the required research impact case studies was also held in March 2019. Drafts of required environment statements were prepared, both at the level of individual subject disciplines and at institutional level.

Significant work was concluded to strengthen the policy environment for research and knowledge exchange activity across the University, including the development and approval of new arrangements for dealing with research misconduct, work to upgrade our online system for processing applications for research ethics, and the approval of a new intellectual property policy, which has been adopted by most academic partners of the University.

A significant event occurred in early June 2019, when the University and Highlands and Islands Enterprise jointly hosted a two day event for Sir Mark Walport, Chief Executive of United Kingdom Research and Innovation (UKRI). This was an outstanding opportunity for the University to profile the work we do in the region, and extensive discussions were held with key staff and research leaders in environmental science, health and humanities. Sir Mark also visited the Scottish Association for Marine Science UHI and the Institute for Health Research and Innovation. More widely 2018/19 saw the deepening of the University's engagement with large scale initiatives and projects. In relation to the UK Industrial Strategy Challenge Fund, the University appointed an industrial strategy challenge fund officer.

#### **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.

## University of the Highlands and Islands

### Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)

#### Key Performance Indicators

##### Student numbers

The University continued to increase its student population.

<u>Total</u>	2018-19	Target	2017-18	Target
Heads	10,192	N/A	9,719	N/A
Full-time equivalents	7,129	6,307	7,054	6,300

##### Scottish Funding Council fundable

<u>Total</u>	2018-19	Target	2017-18	Target
Full-time equivalents	6,545	5,783	6,627	5,883

##### Student success/retention

The Higher Education Statistics Agency publishes annual performance indicators for all United Kingdom universities. One of these is a measure of full-time student non-continuation from year of entry. Data for 2018-19 entrants will not be published until March 2020. The most recent data available is for 2017-18 entrants and shows the non-continuation rate to 2018-19:

	<u>2017-18</u>	<u>2016-17</u>
Degree students	14.3%	11.0%
Benchmark	9.4%	9.4%
Other undergraduate students	17.2%	16.1%
Benchmark	16.0%	16.8%

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

The increase in non-continuation is disappointing, with some data issues contributing to the outcome. It should be noted that our young degree entrant measure is particularly affected by a relatively small population size, which means this is a volatile statistic. Also our regional mission to widening access to further and higher education, including providing opportunities for students to join us at any point in their studies, means our students take many different journeys. This includes the option to leave their course when a suitable job becomes available, because of new caring commitments, or because of a change of location and that is a decision personal to them. However we are taking a closer look at our data and have also recently received final feedback on our commissioned market research study on withdrawal and progression, the non-continuation strategy group will be preparing an action plan as a result.

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### Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)

The Scottish Funding Council publishes college sector performance indicators including student outcomes. 2018-19 PIs will be published in February 2020. The latest available data for the regions' full-time FE students is:

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

	<u>2017-18</u>	<u>2016-17</u>
Degree students	70.3%	67.5%
Benchmark	66.1%	65.3%

#### 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>2018-19</u>	<u>2017-18</u>
Overall student satisfaction	84.5%	85%
Benchmark	83.6%	83%

The university also participates in the annual Scottish Funding Council Student Satisfaction and Engagement Survey for FE students. The latest data show a reduction in satisfaction from the previous year but overall our colleges are above the national average.

	<u>2018-19</u>	<u>2017-18</u>
Overall student satisfaction	93.9%	96.1%
Scottish figure	93%	93.6%

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

PTES	<u>2018-19</u>	<u>2016-17</u>
Overall student satisfaction	89%	79%
Scottish figure	80%	78%

PRES	<u>2018-19</u>	<u>2016-17</u>
Overall student satisfaction	85% (4% points higher than participating Scottish Institutions)	87% (5% points higher than participating Scottish Institutions)

## University of the Highlands and Islands

### Report of the University Court for the year ended 31 July 2019 Nature, Objectives and Strategy of the University (continued)

#### Graduate destinations

The Higher Education Statistics Agency also publishes annual performance indicators on graduate destinations. From 2017-18, graduates will now take part in a new survey. The Graduate Outcome survey has a different methodology and questionnaire. Graduates will be surveyed 15 months after graduation rather than the previous six months. The first cohort results will not be available until April 2020. Therefore the most recent data available is from the previous survey methodology for 2016-17 graduates:

Proportion of leavers in work or further study:

	<u>2016/17</u>
Degree leavers	93.2%
Benchmark	94.0%
Other undergraduate leavers	98.5%
Benchmark	97.0%

The Scottish Funding Council also publishes results from the college leavers' destinations. The 2017-18 results are published mid-October. The latest results for our FE leavers are:

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

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

#### **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 £83m in 2017/18 to £101m in 2018/19 (£45m for higher education and £56m for further education). The significant increase in further education grants was provided to fund the additional cost of nationally bargained staff terms and conditions rather than any increase in teaching activity.

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 relatively new university we continue to be heavily dependent on public funding with 76% 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

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### **Report of the University Court for the year ended 31 July 2019 Strategic Report - Resources and Principal Risks (continued)**

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 has established a partnership assembly to consider how we continue to develop as a university partnership. The programme board for this initiative has commissioned a number of working groups to develop partnership-wide options for change. A financial sustainability and efficiency group is currently exploring areas including staff costs and income generation.

Whilst an ambitious programme of work has been set out and agreed by the partnership the key risk to the delivery of this programme is a lack of staff capacity and resource to backfill key staff members to allow them to focus on the change programme. This risk is exacerbated by a lack of strategic financial leadership across the partnership with vacancies at director of finance level in a number of our partners.

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

The University acknowledges that the ongoing uncertainty over plans to leave the European Union will have profound implications on future research funding and funds for new strategic initiatives and has established an adaptive element to strategic preparations to accommodate a rapidly changing environment. Uncertainty over “shared prosperity funding” and mechanisms to distribute this (anticipated to replace EU structural funds) again creates a significant risk.

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

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

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

The responsibilities of the Post 16 Education (Scotland) Act 2013 created new areas of risk to the University. These continue to be mitigated by strengthened governance and management arrangements which are reviewed on a regular basis. During 2018/19, the SFC asked the

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### **Report of the University Court for the year ended 31 July 2019 Strategic Report - Resources and Principal Risks (continued)**

university to carry out a self-evaluation exercise on how it was performing as a regional strategic body. Whilst success was recorded in most areas of responsibility an action plan is being implemented to address areas for improvement during 2019/20.

The financial implications of increased costs and lack of flexibility introduced by national bargaining continue to cause concern in the medium to long term.

There are several areas of non-compliance on reporting matters including late returns across the partnership which creates risk and reputational damage to the partnership as a whole.

The financial implications of increased costs and lack of flexibility introduced by national bargaining continue to cause concern in the medium to long term.

### **Strategic Report - Value for Money**

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

### **Strategic Report - Review of Financial Activities**

UHI's income increased by £25m in the year, mainly due to an increase in SFC further education grant income, and an increase in other income related to project funding.

Staff costs increased to £20.3m compared to £14.9m the previous year, mainly due to the increase in the USS pension provision of £3.6m, and increases in pension contributions. Other operating expenses increased by £17.6m in the year due to the increase in payments to academic partners in relation to the increased further education grant income.

The outturn for the year ended 31 July 2019 was a deficit of £2.2m. This compares with a deficit of £3.9m in the previous year. Total comprehensive income for the year was a deficit of £8.9m compared to a surplus of £7.1m in 2017/18. The reason for the significant deficit is due to the significant actuarial loss on the pension scheme of £6.7m.

As required by Generally Accepted Accounting Practice (GAAP), the University has implemented the principles of FRS 102 (28) in relation to Retirement Benefits as detailed on page 42. As a result the University is required to disclose a liability relating to current commitments of £22.3m (2018 - £10.3m) on its balance sheet. Overall this has resulted in net liabilities of £4.2m (2018 – net assets £4.7m). The actuarial loss on the pension scheme in the year of £6.7m (2018 - gain of £11.1m) is shown within the consolidated statement of comprehensive income & expenditure.

The main changes included in the 2018/19 financial statements compared to the previous year, are shown below.

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#### Strategic Report - Resources and Principal Risks (continued)

Fixed assets – the increase in fixed assets from £61.4m to £68.3m is due to the purchase of the Centre for Health Sciences, amounting to £9.8m. This has been apportioned £4.1m to Property, Plant and Equipment, and £5.7m to investment property, in line with the proportion occupied by the University and that occupied by tenants.

Overall, within the Balance Sheet, there are total net liabilities of £4.2m at 31 July 2019, compared with net assets of £4.7m the previous year. This is largely due to the increase in the pension liability, from £10.3m to £22.3m, an increase of £12m.

Other movements in the balance sheet include:

An increase in cash and term deposit investments, from £17.3m to £26.0m, an increase of £8.7m.

Long-term creditors have increased from £54.3m to £60.6m, an increase of £6.3m and relates to the SFC loan of £9.8m used to purchase the Centre for Health Sciences, £9.3m of which is repayable after more than one year.

The overall balance sheet position has deteriorated from 2017/18 due principally to the revised pension liability. However, the key fundamentals of a good business are still in place. UHI still has a healthy cash and term deposit investments balance and has increased its net current assets from £8.0m to £9.5m. This means it can continue to fund the core activity of the UHI partnership, providing learning and teaching in further and higher education across the Highlands & Islands.

Although the university reported a deficit before other gains and losses of £1.7 million, the underlying operating result was a £1 million surplus. This is due to an impairment loss of £0.3 million on the CFHS building, and charges relating to the service concessions for the student residences and also pension charges, amounting to £2.4 million.

The result of this has been an increase in net current assets, from £8.0 million in 2017/18 to £9.5 million in 2018/19. The key focus is to ensure that on an ongoing basis, the university can pay its debts over the next twelve months.

In terms of the pension liabilities reported, both in terms of the USS and the LGPS liabilities, the university is working with the sector to attempt to create a more sustainable model which can work for the sector in the future.

#### 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 7 days purchases

## **University of the Highlands and Islands**

### **Report of the University Court for the year ended 31 July 2019 Strategic Report - Resources and Principal Risks (continued)**

(2018 – 13 days) which is 1.82% of purchases (2018 – 3.46%). There was no interest paid under the Late Payment of Commercial Debts (Interest) Act 1998.

#### Public Sector Climate Change Duty

The university is moving towards having a single, partnership-wide carbon management plan and is engaging with the Environmental Association for Universities and Colleges and the Sustainable Scotland Network to support this. As we share best practice between partners, we plan to build a record of success with smaller projects and aim to attract funding to carry out more significant pieces of work.

Staff and students set up an environment and sustainability group in May 2018 to help improve sustainability and lessen the environmental impact of the university and its partners. The Highlands and Islands Students' Association took part in the NUS Green Impact award last year, scoring a result of 'good', and is currently awaiting this year's result.

#### Statement on Employment of Disabled Persons

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

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

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

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

#### Facilities Time Data

As the university does not have a recognition agreement with any trade union, there is no requirement to give trade union staff representatives time off for union duties.

#### Modern Slavery Act 2015

The University of the Highlands and Islands is committed to carrying out procurement of goods and services in an environmentally, socially, ethically and economically responsible manner and to

## **University of the Highlands and Islands**

### **Report of the University Court for the year ended 31 July 2019 Strategic Report - Resources and Principal Risks (continued)**

entering into agreements and contracts with suppliers that share and adhere to this commitment.

Much of the university's procurement of goods and services is carried out through APUC (Advanced Procurement for Universities and Colleges) Ltd of which it is a member. APUC require all suppliers to sign a supply chain code of conduct to acknowledge their compliance with the code in respect of their organisation and their supply chain. The code of conduct includes confirmation that the supplier does not use forced, involuntary or underage labour, provides suitable working conditions and terms and treats employees fairly.

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

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

#### **Constitution**

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

#### **Leadership**

Professor Clive Mulholland led the University as Principal and Vice Chancellor throughout the year. He retired on 31<sup>st</sup> July 2019 and has been replaced by Professor Crichton Lang on an interim basis.

#### **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.

## **University of the Highlands and Islands**

### **Report of the University Court for the year ended 31 July 2019**

#### **Strategic Report - Resources and Principal Risks (continued)**

During the financial year Her Royal Highness undertook one engagement on behalf of the University. The Chancellor presided over Orkney College UHI's graduation ceremony at St Magnus Cathedral, Kirkwall, in October.

HRH also officially opened the new Gairloch Heritage Museum on 9 July 2019. Susan MacLean, Centre Manager at West Highland College UHI's Gairloch centre and Principal Lydia Rohmer attended the official opening. West Highland College UHI will move into their new premises in the museum, in August 2019.

#### **Equal Opportunities and Widening Participation**

The University is focused on improving access to further and higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. We continue to work on the mainstreaming of equality and diversity within the University and our planned equality outcomes for 2017-2021 as required by the public sector equality duty under the Equality Act 2010. Our second report on progress was produced in April 2019. The Race, Disability and Gender Equality Duties are strong drivers to ensure that these values are mainstreamed into the policies and processes of the organisation, and the implementation of the action plans flowing from the equality duties is overseen by the Finance and General Purposes Committee. There is an established working group who undertake impact assessment of University policies, procedures and practices. The University has a programme of staff training, to cover all the strands of discrimination, which is compulsory for all staff, and subject to regular review and monitoring.

The University held a special event to mark International Women's Day in March 2019. Over 50 colleagues from around the partnership came together to celebrate the achievements of women across the University, to discuss how gender equality is promoted and to investigate what else can be done to address challenges female staff may face. The initiative was coordinated by the University's women's network, which was set up to discuss and address challenges facing women in higher and further education. The event was part of a wider campaign to mark International Women's Day, which also included social media activity and a special edition of the staff newsletter.

The University Court is committed to ensuring diversity in its membership and is pleased to report that the gender balance and diversity of Court members has improved significantly during 2018/19 and from the 11 appointments which are made directly by the Court (as opposed to being ex officio, nominated or elected) it now has 7 female members and four males. The overall makeup of Court is 12 male and 9 female members.

**Report of the University Court for the year ended 31 July 2019  
Strategic Report - Resources and Principal Risks (continued)**

**Professional Advisors**

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

**Elections**

The company has elected to:

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

**Company Secretary**

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

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

**Garry Coutts**  
**Chairman**  
Ness Walk  
INVERNESS  
IV3 5SQ

12 December 2019

## **University of the Highlands and Islands**

### **Corporate Governance and Internal Control for the year ended 31 July 2019**

#### **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, 8 July 2014 and 19<sup>th</sup> June 2019 pursuant to Sections 4 and 381A of the Companies Act 2006. The Court is committed to exhibiting best practice in all aspects of corporate governance. The Court is also the Board of Directors of the University of the Highlands and Islands.

A revised Scottish Code of Good Higher Education Governance was published in 2017 which replaced the 2013 Scottish Code of Good Higher Education Governance.

In the opinion of the Governing Body, the university complies with all the principles and provisions of the 2017 Scottish Code of Good Higher Education Governance.

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

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

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

## **University of the Highlands and Islands**

### **Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)**

#### **Governance Structure**

The Court is responsible for the strategic direction of the University, for the University's system of internal controls, approval of major developments and capital projects, health and safety, and human resources matters, and receives reports from senior managers on the operation of the day-to-day business of the University. The Court is required to meet at least four times per year under the 2017 Code and met four times in the period from 1 August 2018 – 31 July 2019 to discuss and transact normal business. There is a clear division of responsibility between the roles of the Chairman and the Principal and Vice-Chancellor of the University. Under the Articles of Association the University Court delegates academic business to the Academic Council.

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

#### **Training and Development of Court Members**

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

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

Due to the high numbers of members across the Highlands and Islands required to attend this training (35 from the university and a further c150 from assigned colleges), the majority but not all members have been able to attend. There have been a number of new Court appointments and new college board member appointments during the year so further training sessions are set up on an ongoing basis.

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.

## University of the Highlands and Islands

### Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)

#### Effectiveness Review

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

#### University Court – Membership

The following table provides a summary of Court membership for the period 01 August 2018 to 31 July 2019. 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.

<b>Category of membership</b>	<b>Period of office</b>	<b>Date appointed</b>	<b>NAME</b>
<i>Independent – appointed by Court</i>	<i>3 years*</i>  <i>Initial appointment of 18 months.</i>  <i>Appointment extended by Court 20/06/18 until 31/07/2020</i>	<i>01/08/2014</i>	<i>Mr Garry Coutts (Chair) (formerly UHI Rector)</i>
<i>Principal &amp; Vice-Chancellor</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Professor Clive Mulholland (retired 31 July 2019)</i>
<i>Interim Principal &amp; Vice-Chancellor</i>	<i>Ex officio</i>	<i>01/08/2019</i>	<i>Professor Crichton Lang (appointed 1 August 2019)</i>
<i>President of the Highlands &amp; Islands Students' Association</i>	<i>Ex officio</i>	<i>16/07/2018</i>	<i>Alan Simpson</i>
<i>Rector</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Mr Anton Edwards (re-elected by Foundation 7<sup>th</sup> June 2017)</i>
<i>Staff member – elected by and from the staff</i>	<i>3 years</i>	<i>15/09/2017</i>	<i>Dr Gareth Davies</i>
<i>Staff member - elected by and from the staff</i>	<i>3 years</i>	<i>15/09/2017</i>	<i>Rosemary McCormack</i>
<i>Student Governor – elected by the students</i>		<i>01/07/2017</i>	<i>Callum Stephen (resigned 17/01/2019)</i>
<i>Student Governor – elected by the students</i>		<i>01/07/2019</i>	<i>Natasha Morgan</i>

<i>Appointed Governor - FE Academic Partner Chair, appointed by the FE Academic Partners</i>	<i>3 years</i>	<i>01/08/2017</i>	<i>Mr Neil Stewart – Inverness College UHI</i>
<i>Appointed Governor - Academic Partner Chair, appointed by the Research &amp; Specialist Partners</i>	<i>3 years</i>	<i>10/04/2018</i>	<i>Mr David Sandison – NAFC</i>
<i>Independent - Chair of UHI FE Regional Board</i>	<i>Ex officio</i>	<i>01/08/2014</i>	<i>Dr Michael Foxley</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr Andrew Rogers</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>18/09/2017</i>	<i>Mrs Andrea Robertson</i>
<i>Independent – appointed by the Chief Executives of each of the Local Authorities</i>	<i>3 years (renewable)</i>	<i>01/09/2017</i>	<i>Mr Roddy Burns</i>
<i>Independent – appointed by the Highlands and Islands Enterprise</i>	<i>3 years (renewable)</i>	<i>09/10/2017</i>	<i>Mr Alistair Dodds</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Mr William Printie</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>01/08/2014</i>	<i>Professor Fiona McLean (Vice Chair)</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>09/02/2018</i>	<i>Ms Linda Kirkland</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>09/02/2018</i>	<i>Dr Poonam Malik</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>20/04/2018</i>	<i>Heidi May</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>27/06/2019</i>	<i>Dr Sarah Helps</i>
<i>Independent – appointed by Court</i>	<i>3 years (renewable)</i>	<i>29/07/2019</i>	<i>Ms Kirsty Macpherson</i>
<i>Trade Union Member</i>	<i>3 years (renewable)</i>	<i>01/10/2019</i>	<i>Lesley Cole</i>
<b>Co-Opted Independent Committee members</b>			
<i>FGPC</i>	<i>3 years (renewable)</i>	<i>From 03/2018</i>	<i>Duncan Macaulay</i>
<i>FERB</i>	<i>3 years (renewable)</i>	<i>From 02/2018</i>	<i>Bruce Robertson</i>
<i>Audit</i>	<i>3 years (renewable)</i>	<i>From 03/2017</i>	<i>Frank Gribben</i>
	<i>Initial appointment was for 12 months but extended to 3 years (renewable)</i>	<i>From 03/2017</i>	<i>Sinead Urquhart</i>

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.

## University of the Highlands and Islands

### Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)

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

During the financial year 2018/19 the University offered the chair of Court, the chair of the Further Education Regional Board and the vice chair of Court a fixed remuneration rate of £37.47 per hour respectively or a daily rate of £281 based on a 7.5 hour day.

	2018/19		2017/18	
	Hours claimed	Remuneration	Hours claimed	Remuneration
Mr Garry Coutts	696	£26,060	826	£30,948
Dr Michael Foxley	672	£25,180	654	£24,505
Ms Fiona McLean	185	£6,969	175	£6,551

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

### Committees of the University Court

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

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

## University of the Highlands and Islands

### Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)

#### Attendance Summary (1 August 2018 – 31 July 2019)

##### University Court and Senior Committees

	Court	Audit	Finance & General Purposes	Further Education Regional Board	Remuneration	Attendance %
Garry Coutts*	4/4				2/2	100%
Clive Mulholland**	4/4	3/4	4/5			84%
Alan Simpson	4/4			3/4		87%
Anton Edwards	4/4				2/2	100%
Gareth Davies	3/4					75%
Rosemary McCormack	4/4					100%
Callum Stephen (resigned 01/19)	2/2			0/2		50%
Neil Stewart	4/4		3/5	3/4		76%
David Sandison	4/4					100%
Michael Foxley	4/4			4/4		100%
Andrew Rogers	3/4		5/5			88%
Andrea Robertson	3/4		5/5			88%
Roddy Burns	1/4	1/4				25%
Alistair Dodds	4/4	2/3				86%
William Printie	4/4	3/4				87%
Fiona McLean	4/4	4/4		4/4	2/2	100%
Linda Kirkland	4/4		4/4	4/4	1/1	100%
Poonam Malik	4/4		4/4			100%
Heidi May	3/4					75%
Sarah Helps – observer prior to full appointment 06/19	4/4	3/3				100%

Kirsty Macpherson – observer prior to full appointment (from 07/19)	3/4					75%
Duncan Macaulay			5/5			100%
Bruce Robertson				4/4		100%
Frank Gribben		4/4				100%
Sinead Urquhart		3/4				75%

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

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

### **Audit Committee**

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

### **Finance and General Purposes Committee**

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

### **Remuneration Committee**

The Remuneration Committee is chaired by an independent member of Court. The Committee is delegated by the Court to implement the remuneration policy approved by the Court including setting the salaries of senior staff and approving any changes thereto. The Committee also approves any general movements in staff salaries e.g. annual inflationary rises. In respect of the former task the Committee commissions external advice drawn both from the universities and college sector and elsewhere. In respect of the latter the Committee considers annual inflationary trends, national and local market forces and benchmarks including salary movements implemented by the University's academic partners.

## **University of the Highlands and Islands**

### **Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)**

#### **Further Education Regional Board**

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

#### **Nominations Committee**

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

#### **Honorary Awards Committee**

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

#### **Foundation**

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

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

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

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

## **University of the Highlands and Islands**

### **Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)**

#### **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 £17.3m at the balance sheet date for the LGPS and a pension liability of £5.1m for the USS. For the LGPS, this represents the company's allocation of the deficit in the Highland Council Pension Fund at 31 July 2019. 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 2019, the company had a deficit in its unrestricted fund.

Although the university reported a deficit before other gains and losses of £1.7 million and is in a net liability position, the underlying operating result is a £1 million surplus. This is due to an impairment charge of £0.3 million on the CFHS building, and charges relating to the service concessions for the student residences and also pension charges, amounting to £2.4 million.

The result of this has been an increase in net current assets, from £8.0 million in 2017/18 to £9.5 million in 2018/19. The key focus is to ensure that on an ongoing basis, the university can pay its debts over the next twelve months.

For the medium term, although deficits are forecast for 2020/21 and 2021/22, the main reason for this is the current forecast for poor occupancy levels at the student residences, and also planned strategic investments. However, plans are in place to continue to reduce the operational deficit of the student residences to a more manageable level, and this continues into 2019/20 and beyond.

The forecast cashflow for 2019/20 is expected to fall back from the 2018/19 level of £26 million, but is forecast to stay above the 2017/18 level of £17.3 million.

In terms of the pension liabilities reported, both in terms of the USS and the LGPS liabilities, the university is working with the sector to attempt to create a more sustainable model which can work for the sector in the future.

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.

## University of the Highlands and Islands

### Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)

#### Long term sustainability

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

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

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

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

CPI - Consolidated partnership surplus – target is surplus of 1% of turnover – actual for 2017/18 was a consolidated deficit of 3.3%.

KPI – consolidated non SFC income – target is to increase 3% on 2016/17 baseline (£57.9 million) – actual for 2017/18 was £61.8 million, a 6.7% increase.

## **University of the Highlands and Islands**

### **Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)**

#### **Long term sustainability (continued)**

KPI – philanthropic funding – target of £250,000 – actual for 2017/18 was £306,000 and the actual for 2018/19 is £2.4 million

In terms of the first indicator, the reason for the deficits is the reduction in FE funding and the unfunded cost of living increases and increasing employer pension costs. To address these issues, as a partnership we will be working on a more financially sustainable model over the next year.

For the second indicator, the non-SFC income has increased by 6.7% compared with 2016/17 and so the target has been achieved.

Finally, the philanthropic funding target was achieved in both 2017/18 and 2018/19.

#### **Disclosure of information to Auditor**

The members of the University Court who were members at the time of approving the accounts are listed on pages 25 and 26. Having made enquiries of fellow University Court members and the University's auditor, 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 auditor is 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 auditor is aware of that information.

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

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

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

## **University of the Highlands and Islands**

### **Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)**

#### **Statement on the System of Internal Control (continued)**

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

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

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

UHI's review of the effectiveness of the system of internal control is informed by a number of factors: (i) the work of the internal auditor; (ii) the Audit Committee which oversees the work of internal audit and external auditor; (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 auditor.

On the basis of the work carried out since 1 August 2018, the Head of Internal Audit concludes that where scope to improve controls was identified management actions have been agreed to address these. There is sufficient evidence of controls and procedures to provide reasonable assurance that the University has adequate and effective arrangements for risk management, control and governance.

On the basis of the work carried out since 1 August 2018, the Head of Internal Audit concludes that the University has in place a Value for Money Policy and Procedures which confirms the University's commitment to achieving value for money from all of its activities, regardless of the method of funding. It further defines the scope, responsibilities, concept of value for money and approaches to assessing value for money to help promote and secure value for money within the University.

**University of the Highlands and Islands**

**Corporate Governance and Internal Control for the year ended 31 July 2019 (continued)**

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

**Signed on behalf of the University**

**Garry Coutts**

**Chair of University Court**

**12 December 2019**

**Professor Crichton Lang**

**Interim Principal and Vice-Chancellor**

## **University of the Highlands and Islands**

### **Statement of the Responsibilities of the University Court for the year ended 31 July 2019**

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**

**12 December 2019**

**Professor Crichton Lang**

**Interim Principal and Vice-Chancellor**

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

### **Opinion**

We have audited the financial statements of the University of the Highlands and Islands ('the parent institution') and its subsidiary (the 'group') for the year ended 31 July 2019 which comprise the Statement of Principal Accounting Policies, Consolidated Statement of Comprehensive Income and Expenditure, Consolidated and University Statement of Changes in Reserves, Consolidated and University Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 29 , including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the University's state of affairs as at 31 July 2019 and of the group and University's income and expenditure, recognised gains and losses, and statement of cash flow for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and relevant legislation; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

### **Basis for opinion**

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

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

### **Conclusions relating to going concern**

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

- the University Court's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

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

### **Other information**

The other information comprises the information included in the annual report annual report set out on pages 1 - 32, other than the financial statements and our auditor's report thereon. The University Court is responsible for the other information.

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

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

We have nothing to report in this regard.

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

In our opinion, in all material respects:

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

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

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

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

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

### **Responsibilities of the University Court**

As explained more fully in the Statement of the University Court's Responsibilities set out on page 30, the University Court is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the University Court determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

### **Use of our report**

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

***Stephen Reid (Senior statutory auditor)***

***For and on behalf of Ernst & Young LLP, Statutory Auditor***

***Edinburgh***

**December 2019**

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

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

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

# University of the Highlands and Islands

## Consolidated and University Statement of Comprehensive Income and Expenditure Year Ended 31 July 2019

	Notes	Year ended 31 July 2019		Year ended 31 July 2018	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
<b>Income</b>					
Tuition fees and education contracts	1	11,841	11,841	11,489	11,489
Funding body grants	2	101,472	101,472	83,113	83,113
Research grants and contracts	3	5,971	5,953	5,772	5,713
Other income	4	13,373	13,370	9,437	9,452
Investment income	5	158	158	70	70
<b>Total income before endowments and donations</b>		<b>132,815</b>	<b>132,794</b>	109,881	109,837
Donations and endowments	6	2,486	2,486	306	306
<b>Total income</b>		<b>135,301</b>	<b>135,280</b>	110,187	110,143
<b>Expenditure</b>					
Staff costs	7	20,331	20,331	14,929	14,929
Other operating expenses	9	113,788	113,767	96,151	96,107
Depreciation	10	2,246	2,246	2,364	2,364
Impairment of fixed assets	10	300	300	-	-
Interest and other finance costs	8	302	302	533	533
<b>Total expenditure</b>		<b>136,967</b>	<b>136,946</b>	113,977	113,933
<b>Deficit before other gains/losses and share of operating surplus/deficit of joint ventures and associates.</b>		<b>(1,666)</b>	<b>(1,666)</b>	<b>(3,790)</b>	<b>(3,790)</b>
(Loss) on disposal of fixed assets		-	-	(163)	(163)
Loss on revaluation of investment property	10	(500)	(500)	-	-
<b>Deficit before tax</b>		<b>(2,166)</b>	<b>(2,166)</b>	<b>(3,953)</b>	<b>(3,953)</b>
Taxation		-	-	-	-
<b>Deficit for the year</b>		<b>(2,166)</b>	<b>(2,166)</b>	<b>(3,953)</b>	<b>(3,953)</b>
Actuarial (loss)/gain in respect of pension schemes	28	(6,741)	(6,741)	11,084	11,084
<b>Total comprehensive (expense)/income for the year</b>		<b>(8,907)</b>	<b>(8,907)</b>	<b>7,131</b>	<b>7,131</b>
Represented by:					
Restricted comprehensive income for the year		2,329	2,329	-	-
Unrestricted comprehensive income for the year		(11,236)	(11,236)	7,131	7,131
		<b>(8,907)</b>	<b>(8,907)</b>	<b>7,131</b>	<b>7,131</b>
<b>(Deficit)/surplus for the year attributable to:</b>					
University		(2,166)	(2,166)	(3,953)	(3,953)
<b>Total Comprehensive (expense)/income for the year attributable to University</b>		<b>(8,907)</b>	<b>(8,907)</b>	<b>7,131</b>	<b>7,131</b>

All items of income and expenditure relate to continuing activities

University of the Highlands and Islands  
**Consolidated and University Statement of Changes in Reserves**  
Year ended 31 July 2019

Consolidated and University	Income and expenditure account		Total £'000
	Restricted £'000	Unrestricted £'000	
<b>Balance at 1 August 2017</b>	-	<b>(2,440)</b>	<b>(2,440)</b>
Deficit from the income and expenditure statement	-	(3,953)	(3,953)
Other comprehensive income	-	11,084	11,084
Release of restricted funds spent in year	-	-	-
<b>Total comprehensive income for the year</b>	-	<b>7,131</b>	<b>7,131</b>
<b>Balance at 1 August 2018</b>	-	<b>4,691</b>	<b>4,691</b>
Deficit from the income and expenditure statement	2,329	(4,495)	(2,166)
Other comprehensive income	-	(6,741)	(6,741)
Release of restricted funds spent in year	-	-	-
<b>Total comprehensive income for the year</b>	<b>2,329</b>	<b>(11,236)</b>	<b>(8,907)</b>
<b>Balance at 31 July 2019</b>	<b>2,329</b>	<b>(6,545)</b>	<b>(4,216)</b>

# University of the Highlands and Islands

## Consolidated and University Balance Sheet

	Notes	As at 31 July 2019		As at 31 July 2018	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
<b>Non-current assets</b>					
Fixed assets	10	<u>68,307</u>	<u>68,307</u>	<u>61,408</u>	<u>61,408</u>
		<b>68,307</b>	<b>68,307</b>	<b>61,408</b>	<b>61,408</b>
Investments	13	967	967	-	-
<b>Current assets</b>					
Trade and other receivables	12	6,243	6,234	6,946	6,937
Investments	13	6,000	6,000	6,000	6,000
Cash and cash equivalents	19	<u>20,021</u>	<u>19,960</u>	<u>11,329</u>	<u>11,303</u>
		<b>32,264</b>	<b>32,194</b>	<b>24,275</b>	<b>24,240</b>
Less: Creditors: amounts falling due within one year	14	<u>(22,809)</u>	<u>(22,739)</u>	<u>(16,319)</u>	<u>(16,284)</u>
<b>Net current assets</b>		<b>9,455</b>	<b>9,455</b>	<b>7,956</b>	<b>7,956</b>
<b>Total assets less current liabilities</b>		<b>78,729</b>	<b>78,729</b>	<b>69,364</b>	<b>69,364</b>
Creditors: amounts falling due after more than one year	15	(60,623)	(60,623)	(54,349)	(54,349)
<b>Provisions</b>					
Pension provisions	16	(22,322)	(22,322)	(10,324)	(10,324)
<b>Total net (liabilities)/assets</b>		<b>(4,216)</b>	<b>(4,216)</b>	<b>4,691</b>	<b>4,691</b>
<b>Restricted Reserves</b>					
Income and expenditure reserve - restricted reserve	17	2,329	2,329	-	-
<b>Unrestricted Reserves</b>					
Income and expenditure reserve - unrestricted		(6,545)	(6,545)	4,691	4,691
<b>Total Reserves</b>		<b>(4,216)</b>	<b>(4,216)</b>	<b>4,691</b>	<b>4,691</b>

The financial statements were approved by the Governing Body on 12 December 2019 and were signed on its behalf by:

Garry Coutts  
Chairman

Professor Crichton Lang  
Interim Principal and Vice-Chancellor

# University of the Highlands and Islands

## Consolidated Cash Flow

Year ended 31 July 2019

	Notes	31 July 2019	31 July 2018
		£'000	£'000
<b>Cash flow from operating activities</b>			
(Deficit)/surplus for the year		<b>(8,907)</b>	<b>7,131</b>
<b>Adjustment for non-cash items</b>			
Depreciation	10	<b>2,246</b>	2,364
Impairment of fixed assets	10	<b>300</b>	-
Loss on revaluation of investment property	10	<b>500</b>	-
Decrease/(increase) in debtors	12	<b>703</b>	(2,312)
Increase in creditors	14	<b>2,934</b>	30,368
Increase/(decrease) in pension provision	16	<b>11,998</b>	(9,208)
<b>Adjustment for investing or financing activities</b>			
Investment income	5	<b>(158)</b>	(70)
Interest payable	8	<b>302</b>	533
Loss on fixed assets		-	163
<b>Net cash inflow from operating activities</b>		<b><u>9,918</u></b>	<b><u>28,969</u></b>
<b>Cash flows from investing activities</b>			
Investment income	5	<b>158</b>	70
Payments made to acquire fixed assets	10	<b>(4,245)</b>	(222)
Payments made to acquire investment properties	10	<b>(5,700)</b>	-
Donated investments		<b>(967)</b>	-
Service Concession Financing	11	-	(29,928)
		<b><u>(10,754)</u></b>	<b><u>(30,080)</u></b>
<b>Cash flows from financing activities</b>			
Interest paid	8	<b>(302)</b>	<b>(533)</b>
New loans	15	<b>9,830</b>	-
		<b><u>9,528</u></b>	<b><u>(533)</u></b>
<b>Increase/(decrease) in cash and cash equivalents in the year</b>		<b><u>8,692</u></b>	<b><u>(1,644)</u></b>
Cash and cash equivalents at beginning of the year	19	<b>11,329</b>	12,973
Cash and cash equivalents at end of the year	19	<b>20,021</b>	11,329

# University of the Highlands and Islands

## Statement of Accounting Policies

for the year ended 31 July 2019

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### 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, modified to include listed investments at their market value.

The financial position and strategy of the University are set out in the Report of the University Court on pages 2 to 17. 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 27 November 2019. 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 2019. 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 2018/19. 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.

### 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.

# University of the Highlands and Islands

## Statement of Accounting Policies (continued)

for the year ended 31 July 2019

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### 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 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 2019

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**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. Investment properties**

Certain of the University's properties are held for long-term investment. Investment properties are accounted for as follows:

- ♦ Investment properties are initially recognised at cost which includes purchase cost and any directly attributable expenditure
- ♦ Investment properties whose fair value can be measured reliably are measured at fair value. The surplus or deficit on revaluation is recognised in the profit and loss account accumulated in the profit and loss reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year.

**10. Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

**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.

**Investments**

Endowment asset investments relate to restricted endowments held and controlled by UHI and are included in the balance sheet at valuation. Income less expenditure and net movements in the valuation are included in the Statement of Comprehensive Income and Expenditure.

Other listed investments are included at market value.

## **University of the Highlands and Islands**

### **Statement of Accounting Policies (continued)**

for the year ended 31 July 2019

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#### **11. 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.

#### **12. 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.

#### **13. 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.

#### **14. 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 2019

	Notes	Year Ended 31 July 2019		Year Ended 31 July 2018	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
<b>1 Tuition fees and education contracts</b>					
Scotland and EU fees		10,109	10,109	9,957	9,957
RUK (new fee rates)		778	778	716	716
Non-EU fees		928	928	766	766
Education contracts		26	26	50	50
		<b>11,841</b>	<b>11,841</b>	<b>11,489</b>	<b>11,489</b>
<b>2 Funding body grants</b>					
<b>Recurrent grant</b>					
General Fund - Teaching		36,371	36,371	35,308	35,308
General Fund - Research and Knowledge Exchange		3,391	3,391	3,174	3,174
Release of deferred capital grants		49	49	41	41
<b>Specific grants</b>					
Strategic funding		12	12	68	68
Capital maintenance grants		1,421	1,421	1,328	1,328
Grants for FE provision		56,256	56,256	40,752	40,752
Ring-fenced grants funded by Scottish Government		3,972	3,972	2,442	2,442
		<b>101,472</b>	<b>101,472</b>	<b>83,113</b>	<b>83,113</b>
<b>3 Research grants and contracts</b>					
Research councils		31	31	81	81
Research charities		96	96	348	348
Government (UK and overseas)		2,044	2,044	1,776	1,771
EU		2,424	2,424	2,726	2,726
Industry and commerce		58	58	34	34
Other		1,318	1,300	807	753
		<b>5,971</b>	<b>5,953</b>	<b>5,772</b>	<b>5,713</b>
<b>4 Other income</b>					
Other revenue grants		3,218	3,218	1,996	1,996
Enterprise Agency grants		36	36	59	59
Other grant income		2,084	2,084	1,012	1,012
Exchange gain		50	50	12	12
Other capital grants		414	414	724	724
Other income		5,755	5,752	3,897	3,912
Other income generating activities		1,816	1,816	1,737	1,737
		<b>13,373</b>	<b>13,370</b>	<b>9,437</b>	<b>9,452</b>
<b>5 Investment income</b>					
Other investment income		158	158	70	70
Net return on pension scheme	28	-	-	-	-
		<b>158</b>	<b>158</b>	<b>70</b>	<b>70</b>
<b>6 Donations and endowments</b>					
Donations with restrictions	17	2,486	2,486	306	306
		<b>2,486</b>	<b>2,486</b>	<b>306</b>	<b>306</b>

**University of the Highlands and Islands**  
**Notes to the Accounts**  
for the year ended 31 July 2019

	Year Ended 31 July 2019		Year Ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
<b>7 Staff costs</b>				
Staff Costs :	£'000	£'000	£'000	£'000
Salaries	11,821	11,821	10,562	10,562
Social security costs	1,227	1,227	1,108	1,108
Pension contributions paid	2,227	2,227	1,916	1,916
Pension net service cost	1,485	1,485	1,253	1,253
Movement on USS provision	3,571	3,571	90	90
<b>Total</b>	<b>20,331</b>	<b>20,331</b>	<b>14,929</b>	<b>14,929</b>
Administration and Central Services	10,238	10,238	8,994	8,994
Premises	56	56	64	64
Research Grants and Contracts	1,975	1,975	1,545	1,545
Academic/Teaching Departments	2,047	2,047	2,092	2,092
Academic/Teaching Support Services	959	959	891	891
Movement on pension provision	5,056	5,056	1,343	1,343
	<b>20,331</b>	<b>20,331</b>	<b>14,929</b>	<b>14,929</b>

	Year ended 31 July 2019	Year ended 31 July 2018
Emoluments of the Vice-Chancellor:	£	£
Salary	219	214
Benefits	-	-
Pension contributions	22	22
	<b>241</b>	<b>236</b>

The remuneration of the Principal equates to 6.19 x the median annualised full time equivalent salary of all other employees.  
Professor Clive Mulholand retired from his post of Principal and Vice-Chancellor on 31 July 2019. Deputy Vice-Principal Professor Crichton Lang replaces him on an interim basis.

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

	No.	No.
£100,000 to £109,999	2	1
£110,000 to £119,999	-	-
£120,000 to £129,999	2	2
	<b>4</b>	<b>3</b>

Average staff numbers by major category :	No.	No.
Administration and Central Services	155	130
Premises	2	1
Research Grants and Contracts	38	35
Academic/Teaching Departments	49	50
Academic Services	59	56
	<b>303</b>	<b>272</b>

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 - part year), Vice Principal (Further Education), the Vice Principal (Research & Impact) and the Vice Principal (Strategic Developments).  
3 Further Vice Principals are on half-time secondment from Academic Partners and are not included in these figures.

	Year ended 31 July 2019 £'000	Year ended 31 July 2018 £'000
<b>Key management personnel compensation</b>	<b>769</b>	<b>744</b>

**University of the Highlands and Islands**  
**Notes to the Accounts**  
**for the year ended 31 July 2019**

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**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 2018/19 the University offered the Chair and Vice-Chair of Court and Chair of the FE Regional board a fixed remuneration rate of £37.47 per hour or a daily rate of £281 based on a 7.5 hour day.

	2018/19		2017/18	
	Hours claimed	Remuneration	Hours claimed	Remuneration
Mr Garry Coutts	696	£26,060	826	£30,948
Dr Michael Foxley	672	£25,180	654	£24,505
Prof Fiona MacLean	185	£6,969	175	£6,551

The total expenses paid to or on behalf of 26 court members was £17,886 (2017 - £12,640 to 17 court members). This represents travel and subsistence expenses incurred in attending Court, Committee meetings and other events in their official capacity.

## University of the Highlands and Islands

### Notes to the Accounts

for the year ended 31 July 2019

Notes	Year Ended 31 July 2019		Year Ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
<b>8 Interest and other finance costs</b>				
Net charge on pension scheme	28	294	294	533
Loan Interest		8	8	-
		<b>302</b>	<b>302</b>	<b>533</b>

	Year Ended 31 July 2019		Year Ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
<b>9 Analysis of total expenditure by activity</b>				
Academic and related expenditure	96,315	96,315	77,619	77,619
Administration and central services	9,626	9,601	6,599	6,597
Premises (including service concession cost)	1,698	1,698	4,230	4,230
Residences, catering and conferences	-	-	-	-
Research grants and contracts	5,533	5,533	6,986	6,952
Agency Staff	3	3	2	2
Other expenses	613	617	715	707
	<b>113,788</b>	<b>113,767</b>	<b>96,151</b>	<b>96,107</b>

**Other operating expenses include:**

External auditor remuneration in respect of audit services	48	39
External auditor remuneration in respect of non-audit services	2	4
Internal auditor remuneration in respect of internal audit services	32	35

**Operating lease rentals:**

Land and buildings	848	971
Other	28	24

**The deficit before tax is stated after charging:**

Impairment loss on fixed assets (see note 10)	300	-
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**University of the Highlands and Islands**  
**Notes to the Accounts**  
for the year ended 31 July 2019

**10 Fixed Assets**

Fixed assets comprises:	Year ended 31 July 2019		Year ended 31 July 2018	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Property, plant and equipment - at cost	63,107	63,107	61,408	61,408
Investment properties - at fair value	5,200	5,200	-	-
	<b>68,307</b>	<b>68,307</b>	<b>61,408</b>	<b>61,408</b>

The investment property was valued by an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued, in accordance with the current edition of the RICS Valuation - Global Standards which incorporate IVSC International Valuation Standards.

Movements in the fair value of investment property is as follows:

<b>Fair value</b>	£'000
At 1 August 2018	-
Additions	5,700
Deficit on valuation	(500)
As at 31 July 2019	<u>5,200</u>

The historic cost of investment property is £5.7m

	Freehold Land and Buildings	Service concession arrangement Land and Buildings (Note 11)	Leasehold Improvement	Celtica and Theological collections	Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>						
At 1 August 2018	8,612	55,218	313	82	9,559	73,784
Additions	4,109	-	-	-	136	4,245
Disposals	-	-	-	-	-	-
<b>At 31 July 2019</b>	<b>12,721</b>	<b>55,218</b>	<b>313</b>	<b>82</b>	<b>9,695</b>	<b>78,029</b>
<b>Depreciation and impairment</b>						
At 1 August 2018	1,491	2,300	189	-	8,396	12,376
Charge for the year	168	1,577	21	-	480	2,246
Impairment loss	300	-	-	-	-	300
Disposals	-	-	-	-	-	-
<b>At 31 July 2019</b>	<b>1,959</b>	<b>3,877</b>	<b>210</b>	<b>-</b>	<b>8,876</b>	<b>14,922</b>
<b>Net book value</b>						
<b>At 31 July 2019</b>	<b>10,762</b>	<b>51,341</b>	<b>103</b>	<b>82</b>	<b>819</b>	<b>63,107</b>
At 1 August 2018	7,121	52,918	124	82	1,163	61,408

At 31 July 2019, freehold land and buildings included £0.239m (2018 - £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 2019

#### 11 Service Concession Arrangements

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

##### Movement in Service concession arrangement assets

The asset value of the service concession included in the Balance Sheet as at 31/07/2019 is £51,323,000 (31/07/2018 £52,918,000).

##### Movement in Service concession arrangement liabilities

The total liabilities relating to the service concession included in the Balance Sheet as at 31/07/2019 were £52,443,747 (31/07/2018 £54,726,870).

	Year ended 31 July 2019	Year ended 31 July 2018
	£'000	£'000
Opening balance	54,727	25,129
Additions	-	29,928
Payments	<u>(2,283)</u>	<u>(330)</u>
	<b><u>52,444</u></b>	<b><u>54,727</u></b>

##### Future commitments

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

	Payable in 1 year	Payable in 2-5 years	Payable in 6-10 years	Payable in more than 10 years	Total
Service charge £'000	<u>1,159</u>	<u>4,874</u>	<u>6,661</u>	<u>39,750</u>	<b><u>52,444</u></b>

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

##### a) On Balance Sheet concession arrangements

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

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

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

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

The University has committed annual payments of £2,209,000 recorded within other operating expenses.

**University of the Highlands and Islands**  
**Notes to the Accounts**  
**for the year ended 31 July 2019**

**12 Trade and other receivables**

	Year ended 31 July 2019		Year ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Amounts falling due within one year:				
Research grants receivables	1,341	1,341	1,067	1,067
Other trade receivables	891	882	2,570	2,579
Other receivables	-	-	-	-
Prepayments and accrued income	4,011	3,991	3,309	3,290
Amounts due from subsidiary companies	-	20	-	1
	<u>6,243</u>	<u>6,234</u>	<u>6,946</u>	<u>6,937</u>

**13 Investments**

	Year ended 31 July 2019		Year ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Additions - Market Securities	967	967	-	-
As at 31 July 2019	<u>967</u>	<u>967</u>	<u>-</u>	<u>-</u>

The investments held relate to a legacy bequeathed to the university during the year.

**Current Investments**

	Year ended 31 July 2019		Year ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Short term deposits	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>

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

At 31 July 2019 the weighted average interest rate of these fixed rate deposits was 1.02% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 160 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 2019		Year ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Service concession arrangements (note 11)	1,159	1,159	378	378
Trade payables	680	680	982	982
Social security and other taxation payable	59	54	51	50
Accruals and deferred income	20,420	20,355	14,908	14,874
SFC Loan	15 491	491	-	-
	<u>22,809</u>	<u>22,739</u>	<u>16,319</u>	<u>16,284</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 2019		Year ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Accruals	8,993	8,954	5,506	5,506
Donations	-	-	-	-
Research grants received on account	889	852	1,000	1,000
Grant income	4,977	4,987	1,944	1,944
Deferred Government Capital Grants	18 3,708	3,708	4,133	4,133
Other income	1,853	1,854	2,325	2,291
	<u>20,420</u>	<u>20,355</u>	<u>14,908</u>	<u>14,874</u>

**University of the Highlands and Islands**  
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**for the year ended 31 July 2019**

**15 Creditors : amounts falling due after more than one year**

	Year ended 31 July 2019		Year ended 31 July 2018	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Service concession liabilities due after one year	51,284	51,284	54,349	54,349
SFC Loan	9,339	9,339	-	-
	<u>60,623</u>	<u>60,623</u>	<u>54,349</u>	<u>54,349</u>

Loans repayable, included within creditors, are analysed as follows:

	Group and University	
	2019	2018
Current	491	-
Long Term	9,339	-
	<u>9,830</u>	<u>-</u>

The loan, from SFC University Financial Transactions Programme, relates to the purchase of the Centre for Health Science and is repayable over 20 years at a fixed interest rate of 0.25%.

**16 Provisions for liabilities**

Consolidated and University	Obligation to fund deficit on USS Pension £'000	Defined Benefit Obligations (Note 28) £'000	Total Pensions Provisions £'000
At 1 August 2018	1,463	8,861	10,324
Charge through income statement	3,603	1,654	5,257
Actuarial loss	-	6,741	6,741
<b>At 31 July 2019</b>	<u>5,066</u>	<u>17,256</u>	<u>22,322</u>

**USS deficit**

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the USS to deficit payments in accordance with the deficit recovery plan. In calculating this provision, management have estimated future staff levels within the USS scheme for the duration of the contractual obligation and salary inflation. Key assumptions are set out below and further information is provided in note 25(a).

The adoption of the new deficit recovery plan following the 2017 actuarial valuation has given rise to a significant increase in the deficit provision which has increased from £1.5 million to £5.1 million. More details on the 2017 actuarial valuation are set out in note 28.

Since the year end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed of which more detail is given in note 28. As at 31 July 2019 and with all other assumptions used to calculate the provision unchanged, this would have resulted in a revised provision of £2.9 million, a decrease of £2.2 million from the current year end provision.

The major assumptions used to calculate the obligation are:

	2019	2018
Discount rate	1.58%	2.16%
Salary growth	4.00%	4.00%

**University of the Highlands and Islands**  
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for the year ended 31 July 2019

**17 Restricted Reserves**

Reserves with restrictions are as follows:

	Consolidated and University	
	2019 Total £'000	2018 Total £'000
<b>Donations</b>		
<b>Balances at 1 August 2017</b>	-	-
New donations	2,486	306
Expenditure	(157)	(306)
<b>Total restricted comprehensive income for the year</b>	<b>2,329</b>	<b>-</b>
<b>At 31 July 2018</b>	<b>2,329</b>	<b>-</b>
	2019 Total £'000	2018 Total £'000
<b>Analysis of other restricted funds /donations by type of purpose:</b>		
Research support	1,362	249
Student support	1,124	57
	<b>2,486</b>	<b>306</b>

**18 Deferred Capital Grants**

Group and University	Funding Council £'000	Other £'000	Total £'000
At 1 August 2018	82	4,051	4,133
Cash received and assets donated:			
Land & buildings	-	-	-
Equipment	-	39	39
	<u>-</u>	<u>39</u>	<u>39</u>
Released to income and expenditure account:			
Land and buildings	2	107	109
Equipment	26	329	355
	<u>28</u>	<u>436</u>	<u>464</u>
At 31 July 2019			
Land and buildings	13	3,007	3,020
Equipment	41	647	688
	<u>54</u>	<u>3,654</u>	<u>3,708</u>

**19 Cash and cash equivalents**

	At 1st August 2018 £'000	Cash Flows £'000	At 31st July 2019 £'000
<b>Consolidated</b>			
Cash and cash equivalents	11,191	8,718	19,909
Student support funds	138	(26)	112
	<u>11,329</u>	<u>8,692</u>	<u>20,021</u>
<b>University</b>	£'000	£'000	£'000
Cash and cash equivalents	11,165	8,683	19,848
Student support funds	138	(26)	112
	<u>11,303</u>	<u>8,657</u>	<u>19,960</u>

**University of the Highlands and Islands**  
**Notes to the Accounts**  
**for the year ended 31 July 2019**

**19 Cash and cash equivalents (continued)**

<b>Consolidated reconciliation of net debt</b>	<b>31 July 2019</b>	
	<b>£'000</b>	
Net debt 1 August 2018	46,591	
Movement in cash and cash equivalents	8,691	
New loans	(9,830)	
Other non-cash changes	(2,916)	
Net debt 31 July 2019	<u>42,536</u>	
<b>Change in net debt</b>	<b><u>(4,055)</u></b>	
<b>Analysis of net debt:</b>	<b>31 July 2019</b>	<b>31 July 2018</b>
	<b>£'000</b>	
Cash and cash equivalents	20,021	11,329
Borrowings: amounts falling due within one year		
Secured loans	491	-
Finance leases	103	941
Service concession arrangements (note 14)	1,159	378
	<u>1,753</u>	<u>1,319</u>
Borrowings: amounts falling due after more than one year		
Secured loans	9,339	-
Service concession liabilities due after one year	51,284	54,348
Finance leases due after one year	181	2,253
	<u>60,804</u>	<u>56,601</u>
<b>Net debt</b>	<b><u>42,536</u></b>	<b><u>46,591</u></b>

**20 Capital and other commitments**

There were no capital commitments at the balance sheet date.

**21 Lease obligations**

Total rentals payable under operating leases:

	<b>Group and University</b>			31 July 2018
	<b>31 July 2019</b>		<b>Total</b>	
	<b>Land and Buildings</b>	<b>Plant and Machinery</b>		<b>£'000</b>
<b>Payable during the year</b>	<b>848</b>	<b>28</b>	<b>876</b>	<b>995</b>
<b>Future minimum lease payments due:</b>				
Not later than 1 year	78	25	103	941
Later than 1 year and not later than 5 years	149	33	182	2,222
Later than 5 years	-	-	-	31
<b>Total lease payments due</b>	<b><u>227</u></b>	<b><u>58</u></b>	<b><u>285</u></b>	<b><u>3,194</u></b>

**22 Events after the reporting period**

As set out in note 16 in respect of the USS pension scheme, a new Schedule of Contributions based on the 2018 actuarial valuation has been agreed. This results in a decrease of £2,210,418 in the provision for the obligation to fund the deficit on the USS pension, which would instead be £2,855,236. This adjustment will be reflected in the University's Financial Statements for the year ended 31 July 2020.

# University of the Highlands and Islands

## Notes to the Accounts

### for the year ended 31 July 2019

#### 23 Subsidiary undertakings

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

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

During the year the subsidiary company had income of £97,194 (2018 - £120,983). The net profit of £23,371 (2018 - £1,083) was paid under gift aid to UHI. Net assets at 31 July 2019 are £1.

#### 24 Related Party Transactions

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

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

Partner	Invoiced to Partners	Payments to Partners	Amounts due	
			to Partners at 31 July 2019	from Partners at 31 July 2019
	£000	£000	£000	£000
Argyll College	140	3,225	-	9
HTC	4	443	-	1
Inverness College	608	21,239	7	32
Lewis Castle College	133	5,821	1	7
Moray College	462	13,686	5	15
North Atlantic Fisheries College	11	495	15	3
North Highland College	439	12,114	19	12
Orkney Islands Council	94	3,548	16	17
Perth College	559	20,878	66	24
SAMS	28	2,655	4	16
Shetland Islands Council	137	3,029	1	6
SMO	12	845	1	5
West Highland College	136	5,246	1	6
	<b>2,763</b>	<b>93,224</b>	<b>136</b>	<b>153</b>

#### 25 Hardship Funds and Childcare Funds

	NMFDF £000	HE	HE	2018/19	2017/18
		Childcare £000	Discretionary £000	Total £000	Total £000
Balance brought forward	-	-	-	-	-
Allocation received in year	10	6	404	410	385
Expenditure	(10)	(5)	(367)	(372)	(300)
Repayable to funding body	-	(1)	(37)	(38)	(85)
Balance carried forward	-	-	-	-	-

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

#### 26 Contingent Liabilities

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

#### 27 Securities

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

# University of the Highlands and Islands

## Notes to the Accounts

### for the year ended 31 July 2019

#### 28 Pension Schemes

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

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

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

##### (i) The Universities Superannuation Scheme

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

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

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

The total charged to the profit and loss account is £1,045k (2018 £862k).

The latest available complete actuarial valuation of the Retirement Income Builder Section of the scheme is at 31 March 2017 ("the valuation date") which was carried out using the projected unit method. The valuation as at 31 March 2018 was completed after the year end and the resulting adjustments will be made in the accounts to 31 July 2020, as per note 22.

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

The 2017 valuation was the fourth 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 £60.0 billion and the value of the scheme's technical provisions was £67.5 billion indicating a shortfall of £7.5 billion and a funding ratio of 89%.

The key financial assumptions used in the 2017 valuation are described below. More detail is set out in the Statement of Funding Principles.

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Discount rate (forward rates)	Years 1-10: CPI - 0.53% reducing linearly to CPI - 1.32% Years 11-20: CPI + 2.56% reducing linearly to CPI + 1.7% by year 21 Years 31 +: CPI + 1.7%

The main demographic assumption used relates to the mortality assumptions. These assumptions are based on analysis of the scheme's experience carried out at part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

Mortality base table	2017 Valuation Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females Post-retirement 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females
Future improvements to mortality	CMI_2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females

# University of the Highlands and Islands

## Notes to the Accounts

### for the year ended 31 July 2019

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#### 28 Pension Schemes (continued)

The current life expectancies on retirement at age 65 are:

	2019	2018
Males currently aged 65 (years)	24.6	24.5
Females currently aged 65 (years)	26.1	26.0
Males currently aged 45 (years)	26.6	26.5
Females currently aged 45 (years)	27.9	27.8

The funding position of the scheme has since been updated on and FRS 102 basis:

	2019	2018
Scheme assets	£67.4bn	£63.6bn
Total scheme liabilities	£79.2bn	£72.0bn
FRS 102 total scheme deficit	£11.8bn	£8.4bn
FRS 102 total funding level	85%	88%

Key assumptions used are:

	2019	2018
Discount rate	2.44%	2.64%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.11%	2.02%

A new deficit recovery plan was put in place as part of the 2017 valuation, which requires payment of 5% of salaries over the period 1 April 2020 to 30 June 2034. The 2019 Pension liability provision reflects this plan. The provision figures have been produced using the following assumptions as at 31 March 2018 and 2019.

This significant increase in deficit contributions has given rise to a substantial increase in the deficit provision which has increased from £1.4m to £5.1m as set out in note 16.

The 2018 actuarial valuation was finalised after the year end which indicated a shortfall of £3.6 billion.

Since the year end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed. This amends the existing deficit recovery plan as set out in the 2017 valuation Schedule of Contributions. This new plan requires deficit payments of 2% of salaries from 1 October 2019 to 30 September 2021 and then payments of 6% of salaries from 1 October 2021 to 31 March 2028. As at 31 July 2019 and assuming all other assumptions used to calculate the provision remain unchanged, this would have resulted in a revised provision of £2.8m, a decrease of £2.2m from the current year end provision and a lower face of the Statement of Comprehensive Income of £4.5m.

# University of the Highlands and Islands

## Notes to the Accounts

### for the year ended 31 July 2019

#### 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 2019 was £1,538k of which employers' contributions totalled £1,153k and employees' contributions totalled £385k.

The following information is based upon pension expense calculation as at 31 July 2019.

##### Valuation method

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

##### Demographic/Statistical Assumptions for the Scheme

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

##### Mortality

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

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

##### Historic Mortality

Period ended	Prospective Pensioners	Pensioners
31-Jul-18	CMI 2016 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25%pa	CMI 2016 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25%pa

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

##### Financial Assumptions for the Scheme

Assumptions as at	31-Jul-19		31-Jul-18		31-Jul-17	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.50%	-	3.40%	-	3.40%	-
CPI Increases	2.50%	-	2.40%	-	2.40%	-1.00%
Salary Increases	3.40%	0.00%	3.40%	1.00%	4.50%	1.00%
Pension Increases	2.40%	0.00%	2.40%	-1.00%	2.50%	-1.00%
Discount Rate	2.10%	-0.70%	2.80%	-0.50%	2.70%	-0.50%

##### Expected Return on Assets for the Scheme

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period (i.e. as at 1 August 2017 for the year to 31 July 2018). The expected return on assets assumption is set equal to the discount rate.

##### Analysis of movement in the fair value of scheme assets

	Year to 31-Jul-19 £'000	Year to 31-Jul-18 £'000
Fair value of assets at the start of the year	33,132	30,858
Expected return on assets	940	843
Actuarial gain on assets	1,270	666
Actual contributions paid by University	1,153	954
Actual member contributions	390	378
Actual benefit payments	(591)	(567)
Fair value of scheme assets at the end of the year	<u>36,294</u>	<u>33,132</u>
Present value of liabilities at the start of the year	41,992	49,042
Current service cost	2,127	2,207
Past service costs	418	-
Interest cost on defined benefit obligation	1,202	1,350
Actual member contributions	390	378
Actual benefit payments	(591)	(567)
Changes in financial assumptions	8,011	(4,677)
Changes in demographic assumptions	-	(36)
Other experience adjustments	-	(5,705)
Present value of funded liabilities	<u>53,549</u>	<u>41,992</u>
Fair value of scheme assets at the end of the year	36,294	33,132
Present value of funded liabilities	<u>(53,549)</u>	<u>(41,992)</u>
Net liability in Balance Sheet	<u>(17,255)</u>	<u>(8,860)</u>

**University of the Highlands and Islands**  
**Notes to the Accounts**  
for the year ended 31 July 2019

28 Pension Schemes (continued)

Analysis of the amount charged to

UHI Statement of Comprehensive Income and Expenditure

	Year to 31-Jul-19	Year to 31-Jul-18
	£'000	£'000
Current service cost *	2,127	2,207
Past service costs	418	-
Interest on obligation	1,202	1,350
Expected return on scheme assets	(940)	(843)
Actuarial loss in respect of pension schemes	6,741	(11,084)
Total	<u>9,548</u>	<u>(8,370)</u>

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

Sensitivity analysis to UHI obligations and service costs

	Approx % increase to Employer Liability	Approx monetary amount £000
0.5% decrease in Real Discount Rate	13%	6,718
0.5% increase in Salary Increase Rate	3%	1,526
0.5% increase in Pension Increase Rate	9%	5,020

Reconciliation of opening and closing deficit

	Year to 31-Jul-19	Year to 31-Jul-18
	£'000	£'000
Deficit at beginning of year	(8,860)	(18,184)
Current service cost	(2,127)	(2,207)
Past service cost	(418)	-
Employer contributions	1,153	954
Other finance income	(262)	(507)
Actuarial (loss)/gain	(6,741)	11,084
Deficit at end of the year	<u>(17,255)</u>	<u>(8,860)</u>

Projected pension expense for the year to 31 July 2020

UHI share of the LGPS

	Year to 31-Jul-20
	£'000
Service cost *	2,689
Interest cost	1,150
Return on assets	(772)
Total	<u>3,067</u>
Employer contributions	1,157

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

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

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

The monetary amount of the projected service cost for the period to 31 July 2020 may be adjusted to take account of actual pensionable payroll for the period.

# University of the Highlands and Islands

## Notes to the Accounts

for the year ended 31 July 2019

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### 29 Accounting estimates and judgements

#### Use of estimates and judgements

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

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

#### USS Pension Scheme

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

#### LGPS

The costs of defined benefit pension plans pension benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant judgement.

#### Service Concession arrangements

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

#### Impairment

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

Where there are indicators of impairment of individual assets, the University performs impairment test based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 years and do not include restructuring activities that the University is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

#### Turnover recognition

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

#### Revaluation of investment properties

The University carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. The University engaged independent valuation specialists to determine fair value at 31 July 2019. The valuer used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property. The determined fair value of the investment property is most sensitive to the estimated yields as well as the long term vacancy rate.