

# **UHI MILLENNIUM INSTITUTE**

## **Report and Financial Statements For the year ended 31 July 2010**

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

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

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

From August 2008 we have had the power to award degrees to the students we teach. Taught Degree Awarding Powers is a major step in establishing the University of the Highlands and Islands. We have achieved this through our commitment to academic quality and our record of producing around 1500 degree graduates by way of the Open University Validation Service and the first 191 by UHI. In September 2010 we were examined by the Quality Assurance Agency for our fitness to be awarded University Title, and we await the outcome of that review.

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

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

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

We are proud to have achieved the status of strategic delivery body (SDB) for the 2007-13 round of Structural Funds. This has allowed us to apply £16m of European funds, with £22m of match funding, to invest in specific projects in research, estates, infrastructure, and learning and teaching development, to help achieve the transformation of the Highlands and Islands economy. This funding is welcome, but we still need to build up more recurrent income for our future sustainability and strength.

UHIMI welcomes the Scottish Government's economic and skill strategies. The nature of the UHI partnership, the wide area we cover, our research ambitions and our blended learning-delivery system mean we are at the very heart of the strategy for a Scotland which is "wealthier and fairer, smarter, healthier, safer and stronger and greener". The UHI partnership is already making a major contribution to

this future for the Highlands and Islands and for Scotland as a whole. UHIMI's achievement of University Title would add to our ability to deliver these objectives.

UHIMI has developed strategic Key Performance Indicators to measure delivery of its Strategic Plan, and has implemented a process of strategic programme and performance management to help ensure its delivery.

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

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

In the year, UHIMI continued to deliver its strategy. We reviewed our strategic programmes to focus on four broad programmes of activity: Sustainable Growth, University Title, Curriculum for the 21<sup>st</sup> Century and Student Experience.

#### Sustainable Growth

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

The UHI partnership is reviewing its Post Graduate Taught offering to ensure that these remain academically excellent, relevant to the market, and financially viable, and will implement the restructured offering beginning academic year 2011-12.

The UHI partnership continues to pursue its optimisation of systems and services agenda, and in 2009-10 focused on planning shared provision of information technology services across the partnership.

UHIMI's fundraising activities continued to succeed in the year, against a challenging economic environment. Notable successes included donations totalling £95,200 and pledges of £224,000 towards a range of projects, including the Centre for History, the Scottish Ocean Explorer Centre SAMS, and additional PhD studentships.

UHI maintained its home student numbers with 4,808 full-time equivalents during the year, primarily from within the region. UHI continues to service the lifelong learning needs of the region with 62% of students part-time and 60% over 25 years of age. UHI has continued to grow its student population to address its regional mission and to ensure viable courses, and now delivers 23% of its students on a fees-only basis. The financial sustainability of this policy is under continuing review.

#### University Title

UHI continued to expand its research activities. The UHI partnership continued to maintain its investment in its eight Research Assessment Exercise (RAE) disciplines: Celtic studies, based at Sabhal Mòr Ostaig UHI on Skye; archaeology based at Orkney College UHI and Lews Castle College UHI, and earth systems sciences representing work at the Scottish Association for Marine Science UHI at Dunstaffnage and the Environmental Research Institute at North Highland College UHI. These provide UHI with a profile that a university needs to have.

In the year UHIMI continued to expand investment plans in Rural Health, Lipidomics, Marine Renewables and Energy Efficiency in the Built Environment, and continued to develop research support systems to ensure the quality and sustainability of the research. These investments will continue over the remaining two years of the three year funding period.

UHIMI continued to ensure staff development and capacity building, delivering the staff development programme established in the prior year to continue to embed scholarship and research across the partnership. Focused investment in staff development will continue to ensure the 'universitiness' of the student experience.

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

### Curriculum for the 21<sup>st</sup> Century

UHIMI delivers its mission of regional access to a broad HE curriculum by networking its academic delivery, sharing student learning across the partnership.

The C21C programme will implement a coherent and rationalised curriculum, delivering the breadth of provision across the region to maintain and enhance the student experience and the expectations of our stakeholders. In the year the programme has continued to deliver staff development in blended learning, a key component of the programme through the LEARN project, and has continued to transfer curricular materials for the blended learning approach.

### Student Experience

In-year UHI reviewed its many experiential enhancement projects in order to focus on the non-academic aspects of the student experience which are equally key to achievement and retention. The student experience programme is designed to meet the legitimate expectations of all UHI students in terms of both their support needs and wider opportunities, and to develop our reputation as a student-centred university that responds to, and continually enhances, our student experience.

In year the programme has developed performance indicators and feedback mechanisms for the student experience including the National Student survey and a 'red button' web-based feedback, analysed key issues, and developed an implementation plan for the next two years, monitored through the Learning, Teaching and Quality Committee.

### **Resources and Principal Risks**

UHI's most significant source of income continues to be Scottish Funding Council grants for teaching and research, which rose from £26.5m to £27.8m over the year.

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

UHIMI is presently considering several scenarios to ensure that we can continue to deliver our mission of a transformational contribution to the educational, economic, social, cultural and environmental infrastructure of our region in the face of significantly reduced resources.

UHIMI, as a growing institution, cannot fund its significant development needs from core funded activity and is substantially dependent on HIE and EU funding for investment projects. Projects using these funds flows, totalling £9.5m in the year, will begin to reduce in calendar year 2011 and will be substantially complete by end 2012. The UHIMI will have an increased research base, an enhanced teaching and learning capability, and additional curriculum to offer across an improved IT infrastructure; but faces a real financial challenge to obtain a return on investment at a time when additional funded student numbers are not confirmed, fund flows are decreased and research funds flows from all sources are expected to decrease. This will add to an increasing downward pressure on operational surpluses at UHIMI.

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

### **Value for Money**

UHIMI has continued to deliver its Value for Money Strategy, implementing actions identified from the 2008 benchmarking of all of its activities and a review of the organisation. UHIMI has implemented Zero Based Budgeting for its financial forecasts 2010-13 in order to focus resources on strategic and operational priorities. The actions arising from these are being implemented in the strategic planning period to 2011.

### **Review of Financial Activities**

UHIMI's income rose by £9.5 million or 23% in the year. This reflects the rise in Funding Council Grants of £1.3m, tuition fees of £0.8m, research grants of £1.5m, and particularly externally-funded project activities particularly relating to the SDB of £6.0m.

Staff costs rose from £6.5m to £7.4m, as UHI delivered the externally funded projects referred to above.

The outturn deficit was planned and agreed with the SFC and the Board, and on target with UHI's financial strategy of investing its incoming resources in delivering and developing its academic resources. In particular, UHIMI invested £0.8m in year in IT infrastructure to support blended learning and the C21C programme. UHIMI also recorded a provision of £0.3m relating to potential funding restrictions on its EU funded contracts. The outturn is comparable to the previous year.

As required by GAAP, UHIMI continued to implement FRS 17. As a result UHIMI is required to disclose a liability relating to current commitments of £2.6m (prior year £2.7m) on its balance sheet, reducing net assets to £5.0m (prior year £5.0m). The Actuarial loss on the pension scheme in the year of £0.4m (prior year loss of £2.0m) is dealt with in the Statement of Total Recognised Gains and Losses (STRGL).

Additionally, it is this Government's policy to change Local Government Pension Scheme valuations of benefit to be linked to the Consumer Price Index rather than the higher Retail Price Index. The future reductions in revision benefit are reflected in an actuarial gain in the STRGL.

### Payment of Suppliers

UHIMI 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 UHIMI's policy is that its trade creditors at the year-end represent 3 days purchases (2009 - 4 days) which is 0.85% of invoices (2009 1.61%).

### **Constitution**

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

## **Leadership**

As noted in the previous year's Report, there were two significant changes in the leadership team in the year. Professor Matthew Maclver CBE was appointed Chair of the Board of Governors. He replaced Colin MacKay CBE who served the Board for more than seven years. James Fraser, formerly Deputy Principal and Secretary at UHIMI, was selected to take over from Professor Robert Cormack on his retirement as Principal. Mr Fraser's appointment became effective on 1 October 2009.

## **Equal Opportunities and Widening Participation**

UHIMI has a particular focus to improve access to higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. In 2005 UHI completed an equality charter, which provides the over-arching ethos of promoting equality and diversity for the whole organisation. The Race, Disability and Gender Equality Duties are strong drivers to ensure that these values are mainstreamed into the policies and processes of the organisation, and the implementation of the action plans flowing from the equality duties is overseen by the Equal Opportunities Committee. UHI has established links with Equality Forward, which provides advice and support for all Scotland's colleges and universities, and is funded directly by SFC. There is now a group of senior managers from each of the academic partners and associate institutions, who are taking forward the design, structure and implementation of a single equality scheme, for the whole UHI network. There is an established group of the equal opportunities committee undertaking impact assessment of all UHI policies, procedures and practices. UHI has a programme of staff training, to cover all the strands of discrimination, which is compulsory for all staff, and subject to regular review and monitoring. UHI Executive office has undertaken a survey of all staff to identify the profile of our staff in relation to all the recognised strands of discrimination, and also to identify areas of priority for the various statutory action plans.

## **Professional Advisors**

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

## **Elections**

The company has elected to:

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

## **Company Secretary**

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

## **Professor Matt Maclver CBE**

**Chairman**  
Ness Walk  
INVERNESS  
IV3 5SQ

9 December 2010

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

## Corporate Governance and Internal Control

### Introduction

The Board of Governors is the governing body of UHI Millennium Institute, and governs in accordance with the Articles of Association of UHI Millennium Institute, as amended by resolutions dated 6 March 1997, 21 September 1998, 23 March 2001, 4 November 2003, 23 June 2005, 27 March 2007 and 22 September 2009 pursuant to Sections 4 and 381A of the Companies Act 1985. The Board is committed to exhibiting best practice in all aspects of corporate governance. The Board is also the Board of Directors of the UHI Millennium Institute. The Board conforms to the principles and practice set out in the Committee of University Chairmen (CUC) Guide for Members of Higher Education Governing Bodies in the UK, issued in November 2004, and has included in its Articles of Association the seven principles of public life. In the opinion of the Board of Governors, UHI complies with all the provisions of the Combined Code in so far as they relate to the Higher Education sector.

### Governance Structure

The Board of Governors is responsible for the ongoing strategic direction of UHI, for UHI's system of internal controls, approval of major developments and capital projects, health and safety, and human resources matters, and is in receipt of reports from senior managers on the operation of the day-to-day business of UHI. The Board is required to meet at least three times per year and in fact met six times in the period from August 2009 – July 2010.

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

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

### Board of Governors – Membership

The Board of Governors during 2009-10 consisted of the following persons; changes throughout the period are shown in italics.

	<b>Period of Office</b>	<b>Date of Appointment</b>	<b>Date of Cessation</b>	
<b>Ex Officio</b>				
Principal of UHI	N/A		<i>30.09.09</i>	<i>Robert Cormack</i>
		<i>01.10.09</i>		<i>James Fraser</i>
President - Students' Association	N/A		<i>01-07-10</i>	<i>Steven Jarmson</i>
		<i>01-07-10</i>		<i>Nathan Shields</i>
<b>Elected</b>				
Two members of staff from amongst the Staff Register of UHI of whom one is a teaching member and one a non-teaching member	3 years	19-12-09 29-02-10		Janet Hackel Fiona Skinner

<b>Appointed</b>				
7 Chairs of Boards of Management of Academic Partners	3 years	22.09.09  08.07.09	19.12.09 19.12.09 21.09.09 19.12.09 19.12.09 19.12.09 19.12.09	HTC: Alex Murray Moray: Jana Hutt SAMS: John Arbuthnott SAMS: Michael Gibson Lochaber: Michael Foxley Shetland: Andrew Hughson NAFC: Iris Hawkins NHC: William Bruce
		19.12.09 19.12.09 19.12.09 19.12.09 19.12.09 10.05.10	05.05.10	Argyll: Wilma Campbell Inverness: Maureen Shepherd Orkney: Doris Hutchison Perth: Penny Brodie SMO: Aideen O'Malley LCC: Ken Kennedy

<b>Independent</b>				
9 members appointed by the UHI Board	3 years (renewable)	05-11-03 05-11-03 05-11-03 05-11-03 05-11-03 28-09-04 28.04.09 01.10.09 15.12.09	30.09.09	Colin MacKay Philip MacKenzie Lord Prosser Anne Clark Jean Urquhart Jack Watson Hugh Morison Matthew MacIver Eileen Mackay Norman Sharp
2 members appointed by Highlands & Islands Enterprise	3 years (renewable)	01-03-04 01-06-07	31.05.10	Andrew Rogers Mary Campbell
3 members appointed by Foundation	3 years	07-09-04 06-12-07 07-04-09		Thomas Prag Derek Bedford Joe Moore
<b>Sponsor Universities</b>				
		07-01-08 07-01-08 07-01-08		Alistair Mair Melvyn Cornish Kenneth Miller

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

### **Sponsor Universities**

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

## Committees of the Board of Governors

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

Colin MacKay (Chair until 30.09.09)	<i>Remuneration, Nominations, Finance &amp; General Purposes, Equal Opportunities (until 30.09.09)</i>
Philip Mackenzie	<i>Audit (from 27.04.10)</i>
William Prosser	Nominations
Hugh Morison	<i>Finance &amp; General Purposes, Health &amp; Safety, Remuneration, Nominations (from 21.01.10)</i>
Anne Clark	Equal Opportunities, Audit
Jean Urquhart	Equal Opportunities, Remuneration
Jack Watson	Finance & General Purposes, Remuneration
Matthew MacIver (Chair from 01.10.09)	<i>Finance &amp; General Purposes, Remuneration, Nominations (from 01.10.09)</i>
Eileen Mackay	<i>Finance &amp; General Purposes (from 23.02.10)</i>
Jana Hutt	<i>Finance &amp; General Purposes (until 19.12.09)</i>
Mo Shepherd	<i>Finance &amp; General Purposes (from 23.02.10)</i>
Mary Campbell, HIE <sup>1</sup>	<i>Audit (until 31.05.10)</i>
Andy Rogers, HIE	Finance & General Purposes
Derek Bedford, Fdn <sup>2</sup>	<i>Finance &amp; General Purposes, Nominations (from 21.01.10)</i>
Thomas Prag, Fdn	Audit, Development Trust
Janet Hackel	Equal Opportunities
Fiona Skinner	Equal Opportunities, <i>Nominations (from 21.01.10)</i>

### Nominations Committee

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

### The Remuneration Committee

The Remuneration Committee is a sub-committee of the Board. The Committee is entrusted with setting the salaries of senior staff and approving any changes thereto. The Committee also approves any general movements in staff salaries e.g. annual inflationary rises. In respect of the former task the Committee commissions external advice drawn both from the universities and

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

<sup>2</sup> Fdn – UHI Foundation

college sector and elsewhere. In respect of the latter the Committee consider annual inflationary trends, national and local market forces and benchmarks including salary movements within UHI Academic Partners.

### **The Foundation**

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

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

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

### **Executive Board**

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

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

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

### **Going Concern**

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

### **Disclosure of information to Auditors**

The governors who were members of the Board of Governors at the time of approving the accounts are listed on pages 7 and 8. Having made enquiries of fellow governors and the institute's auditors, each of these governors confirms that:

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

**Professor Matthew Maclver CBE**  
**Chairman**

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

9 December 2010

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

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

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

In preparing the financial statements, UHI is required to:

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

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

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

### **Signed on behalf of the Institute**

**Professor Matthew MacIver CBE**  
**Chairman**

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

9 December 2010

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

It is the responsibility of the Director of Finance and Planning to ensure that an effective system of internal financial control is maintained and operated by UHI Millennium Institute. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

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

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

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

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

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

**Professor Matthew Maclver CBE**  
**Chairman**

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

9 December 2010

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

We have audited the financial statements of UHI Millennium Institute for the year ended 31 July 2010 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

As explained more fully in the Board of Governors' Responsibilities Statement set out on page 11, the Board of Governors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2010 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the financial statements:

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

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

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

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

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

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

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

**UHI Millennium Institute**  
**Income and Expenditure Account for the year ended 31 July 2010**

	Notes	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
<b>Income</b>			
Funding Council Grants	2	27,760	26,504
Tuition fees and education contracts	3	7,054	6,290
Research Grants and Contracts	4	3,933	2,354
Other income	5	11,756	5,757
Endowment and Investment income	6	4	83
Pension Scheme Net Expected Return on Assets	10	-	-
<b>Total Income</b>		<b>50,506</b>	<b>40,988</b>
<b>Expenditure</b>			
Staff costs	7	7,367	6,558
Other operating expenses	9	42,357	33,672
Interest payable	10	81	17
Depreciation	13	1,355	434
<b>Total Expenditure</b>		<b>51,160</b>	<b>40,681</b>
(Deficit)/Surplus on continuing operations after depreciation of tangible fixed assets and disposal of assets and before tax		(654)	307
Taxation	11	-	-
<b>(Deficit)/Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>		<b>(654)</b>	<b>307</b>

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

**UHI Millennium Institute**  
**Statement of Total Recognised Gains and Losses**  
**for the year ended 31 July 2010**

	Notes	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
<b>(Deficit)/Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>		(654)	307
Actuarial (Loss) on Pension Scheme	22	(348)	(2,044)
Gain on change of calculation from RPI to CPI	22	597	-
<b>Total Recognised (Losses) relating to the Period</b>		<u>(405)</u>	<u>(1,737)</u>
<b>Reconciliation</b>			
<b>Opening reserves</b>		<b>1,253</b>	<b>2,990</b>
Total Recognised (losses) for year		(405)	(1,737)
<b>Closing reserves</b>		<u><b>848</b></u>	<u><b>1,253</b></u>

**UHI Millennium Institute  
Balance Sheet as at 31 July 2010**

	Notes	2010 £000	2009 £000
<b>Fixed assets</b>			
Tangible assets	13	7,618	6,246
<b>Current assets</b>			
Debtors	14	7,613	4,067
Cash at bank and in hand		2,843	3,300
Student Support Funds account		149	70
		10,605	7,437
<b>Creditors: amounts falling due within one year</b>	15	(9,802)	(6,036)
<b>Net current (liabilities)/assets</b>		803	1,401
<b>Total assets less current liabilities</b>		8,422	7,647
<b>Creditors: amounts falling due after one year</b>		-	-
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		8,422	7,647
Pension Liability	22	(2,602)	(2,701)
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		5,820	4,946
Deferred capital grants	16	4,972	3,693
General reserve	17	778	1,183
Development Reserve	17	70	70
<b>Total Reserves</b>		848	1,253
<b>TOTAL</b>		5,820	4,946

The financial statements on pages 15 to 39 were approved by the governing body on and were signed on its behalf by: -

**Professor Matt MacIver CBE**  
Chairman

**James M Fraser**  
Principal

**UHI Millennium Institute**  
**Cash Flow Statement for the Year ended 31 July 2010**

	Notes	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
<b>Cash inflow from operating activities</b>	18	-	466
Returns on investments and servicing of finance	19	4	83
Capital expenditure and financial investment	20	(382)	(178)
<b>Increase in cash in the period</b>		<u>(378)</u>	<u>371</u>
 <b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/Increase in cash in the period	21	(378)	371
Movement in net funds in period		(378)	371
Net funds at 1 August 2009		3,370	2,999
<b>Net funds at 31 July 2010</b>		<u><u>2,992</u></u>	<u><u>3,370</u></u>

## **UHI Millennium Institute**

### **Notes to the Financial Statements for the Year ended 31 July 2010**

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

#### **1. Principal Accounting Policies**

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

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

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

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

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

The Institute had no subsidiary undertakings during the period.

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

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

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

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

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

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

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

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

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

arising from the passage of time are included in income and expenditure. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The USS Scheme is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the 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 FRS17 "Retirement Benefits" accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

## **Tangible fixed assets**

### *Land and Buildings*

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

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

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

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

### *Equipment*

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

Assets are depreciated over their useful economic life as follows:

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

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

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

## Leased assets

### Operating Leases

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

## Foreign currency translation

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

## Taxation

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

Accordingly, the Institute is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

## Provisions

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

## 2. Funding Council Grants

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
SFC recurrent grant (including fee waiver)	20,847	20,244
SFC recurrent research grant	3,006	2,747
SFC non-recurrent research grant	306	1,816
LTIF/CIF grants	1,423	1,077
Release of Deferred Capital Grants	68	-
Other SFC grants	2,109	619
<b>Total</b>	<b>27,759</b>	<b>26,504</b>

### 3. Tuition Fees and Education Contracts

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
UK and EU Fees	5,663	5,240
Non-EU students	1,114	638
Non-credit bearing course fees	4	-
Education Contracts	244	340
Other Contracts	29	72
	<u>7,054</u>	<u>6,290</u>

### 4. Research Grants and Contracts

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Research Councils and Charities	388	264
Industry and Commerce	136	85
Governmental	503	1,011
EU	1,834	873
Other	1,072	121
	<u>3,933</u>	<u>2,354</u>

### 5. Other Income

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Other income generating activities	632	915
EU Grant Income	4,435	1,700
Enterprise Company Grants	4,916	1,477
Other Grant Income	145	583
Other income	629	854
Deferred capital grant release	999	228
	<u>11,756</u>	<u>5,757</u>

### 6. Endowment and Investment Income

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Other interest receivable	4	83
	<u>4</u>	<u>83</u>

## 7. Staff Costs

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

	Year ended 31 July 2010 Number	Year ended 31 July 2009 Number
Administration and central services	126	100
Research grants and contracts	18	21
Academic/Teaching departments	10	9
Academic Services	34	35
	<u>188</u>	<u>165</u>
	Year ended 31 July 2010	Year ended 31 July 2009
Analysed as:		
Staff on permanent contracts	151	136
Staff on short-term and temporary contracts	37	29
	<u>188</u>	<u>165</u>

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

### Staff costs for the above persons:

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Wages and salaries	6,003	5,426
Social security costs	465	423
Other pension costs - contributions	830	725
- current service cost in excess of contributions	22 (2)	(58)
- past service costs	22 -	42
- curtailments	71	-
	<u>7,367</u>	<u>6,558</u>
Administration and central services	4,764	3,849
Research grants and contracts	688	761
Academic/Teaching departments	1,810	1,822
	<u>7,262</u>	<u>6,432</u>
Exceptional restructuring costs	105	126
Total	<u>7,367</u>	<u>6,558</u>

Included in the above analysis of wages and salaries are staff costs of £124,000 relating to staff seconded to Distance Lab for whom the Institute receive reimbursement in full which is reported in other income.

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

	Year ended 31 July 2010 Number	Year ended 31 July 2009 Number
£ 70,001 to £ 80,000	1	1
£ 80,001 to £ 90,000	1	-
£ 90,001 to £100,000	-	-
£100,101 to £110,000	-	1
£110,001 to £120,000	-	-
£140,001 to £150,000	1	-
£150,000 to £160,000	-	-
£160,000 to £170,000	-	1
	<u>3</u>	<u>3</u>

## 8. Senior Post-holders' Emoluments

	Number 2010	Number 2009
The number of senior post-holders including the Principal was:	<u>2</u>	<u>2</u>
Senior post-holders' emoluments are made up as follows:	<b>£000</b>	<b>£000</b>
Salaries	287	272
Social security costs	32	31
Benefits in kind	5	6
Pension contributions	59	42
<b>Total emoluments</b>	<u><b>383</b></u>	<u><b>351</b></u>

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

	Year Ended 31 July 2010 £000 Retiring Principal (5 months)	Year Ended 31 July 2010 £000 New Principal (10 months)	Year Ended 31 July 2009 £000
Salary	68	129	165
Benefits in kind	<u>1</u>	<u>3</u>	<u>3</u>
	69	132	168
Pension contributions	<u>10</u>	<u>30</u>	<u>23</u>

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

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

## 9. Other Operating Expenses

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Academic Departments	20,930	20,489
Academic Services	2,533	2,370
Administration and Central Services	11,115	4,186
Premises	809	563
Research Grants and Contracts	6,000	5,245
Agency Staff	224	257
Other	746	562
<b>Total</b>	<b>42,357</b>	<b>33,672</b>

### Other operating expenses include:

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Auditors' remuneration:		
external audit – Ernst & Young	24	25
internal and other audit services paid to external auditors	51	57
Hire of plant and machinery – operating leases	18	16
Hire of other assets – operating leases	397	272

## 10. Pension Scheme Net Expected Return on Assets

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Expected return on pension scheme assets	572	562
Interest on pension liabilities	(653)	(578)
Net return	(81)	(16)

## 11. Taxation

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

## 12. Surplus on Continuing Operations for the Period

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

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Institute's (deficit)/surplus for the period	(654)	307
Total	<u>(654)</u>	<u>307</u>

## 13. Tangible Fixed Assets

	Land & Buildings	Leasehold Improvements	Celtica & Theological Collections	Videoconference Equipment	Computer Equipment	Research Equipment	Office Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>								
As at 31 July 2009	4,658	346	82	2,641	4,767	566	241	13,301
Additions		61		1,662	953	38	13	2,727
As at 31 July 2010	<u>4,658</u>	<u>407</u>	<u>82</u>	<u>4,303</u>	<u>5,720</u>	<u>604</u>	<u>254</u>	<u>16,028</u>
<b>Depreciation</b>								
As at 31 July 2009	452	15	-	1,739	4,423	270	156	7,055
Charge for Year	93	24	-	774	326	113	25	1,355
As at 31 July 2010	<u>545</u>	<u>39</u>	<u>-</u>	<u>2,513</u>	<u>4,749</u>	<u>383</u>	<u>181</u>	<u>8,410</u>
<b>Net Book Value</b>								
As at 31 July 2010	<u>4,113</u>	<u>368</u>	<u>82</u>	<u>1,790</u>	<u>971</u>	<u>221</u>	<u>73</u>	<u>7,618</u>
As at 31 July 2009	<u>4,206</u>	<u>331</u>	<u>82</u>	<u>902</u>	<u>344</u>	<u>296</u>	<u>85</u>	<u>6,246</u>
Financed by capital grant	1,910	326	82	1,728	636	219	70	4,972
Other	2,203	42	-	62	335	2	3	2,647
Net book value At 31 July 2010	<u>4,113</u>	<u>368</u>	<u>82</u>	<u>1,790</u>	<u>971</u>	<u>221</u>	<u>73</u>	<u>7,618</u>

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

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Trade Debtors	705	500
Amounts due from Academic Partners and Sponsoring Universities	2,233	750
Prepayments and accrued income	4,675	2,817
<b>Total</b>	<b>7,613</b>	<b>4,067</b>

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

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Payments received in advance	6,081	2,816
Trade creditors	360	430
Other taxation and social security	310	273
Accruals	2,904	2,443
Bursaries and Other Student Support Funds	147	74
	<b>9,802</b>	<b>6,036</b>

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

#### 16. Deferred Capital Grants

	Total £000
<b>At 1 August 2009</b>	<b>3,693</b>
Cash Received and assets donated	
Land & buildings	-
Equipment	<b>2,345</b>
Released to income and expenditure account	
Land and buildings	(45)
Equipment	(1,022)
<b>Total</b> (note 2/5)	<b>(1,067)</b>
<b>At 31 July 2010</b>	
Land and buildings	1,910
Equipment	3,062
<b>Total</b>	<b>4,972</b>

## 17. Movement on Reserves

	General Reserve £000	Development Reserve £000	Total £000
<b>Income and Expenditure Account Reserve</b>			
<b>At 1 August 2009</b>	<b>1,183</b>	<b>70</b>	<b>1,253</b>
(Deficit) on continuing operations for the year to 31 July 2010	(654)	-	(654)
Gain due to change on Pension Scheme assumptions	597	-	597
Actuarial (Loss) on Pension Scheme	(348)	-	(348)
<b>At 31 July 2010</b>	<u><b>778</b></u>	<u><b>70</b></u>	<u><b>848</b></u>

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

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

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
(Deficit)/Surplus on continuing operations after depreciation of assets at valuation	(654)	307
Depreciation (note 13)	1,355	434
FRS 17 Pension adjustment	150	1
Deferred capital grants released to income (note 16)	(1,067)	(228)
(Increase) in debtors	(3,546)	(769)
Increase in creditors	3,765	804
Interest receivable (note 6)	(4)	(83)
<b>Net cash inflow from operating activities</b>	<u><b>-</b></u>	<u><b>466</b></u>

## 19. Returns on Investments and Servicing of Finance

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Other interest received	4	83
<b>Net cash inflow from returns on investment and servicing of finance</b>	<b>4</b>	<b>83</b>

## 20. Capital Expenditure and Financial Investment

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Purchase of tangible fixed assets	(2,727)	(1,645)
Deferred capital grants received	2,345	1,468
<b>Net cash (outflow) from capital expenditure and financial investment</b>	<b>(382)</b>	<b>(178)</b>

## 21. Analysis of Changes in Net Funds

	At 1 August 2009 £000	Cashflows £000	Other changes £000	At 31 July 2010 £000
Cash at bank and in hand	3,370	(378)	-	2,992
<b>Total</b>	<b>3,370</b>	<b>(378)</b>	<b>-</b>	<b>2,992</b>

## 22. Pension and similar obligations

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

### Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

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

Because of the mutual nature of the scheme, the 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 FRS17 "Retirement Benefits" accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carried out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

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

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

Standard mortality tables were used as follows:

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

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

## 22. Pension and similar obligations (continued)

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

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

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

The technical provisions relate essentially to past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

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

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 91% (a deficit of £3,065 million). This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy out basis at that date was approximately 57%.

The USS Trustees have approved changes to the Scheme Rules, subject to a consultation ending December 2010. These changes would reduce the Scheme deficit by increasing employee contributions and reducing employee benefits, but would have minimal impact on the costs to UHIMI.

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

## 23. Pension and similar obligations (continued)

requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

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

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund’s liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level of the scheme’s technical provisions close to or above 100% thereby minimising the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme’s cash flow is likely to remain positive for the next ten years or more.

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

At 31 March 2010, USS had over 130,000 active members and the institution had 13 active members participating in the scheme.

The total pension cost of the institution was £111,756 (2009 £109,328). This includes £0 (2007 £0) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 16% of pensionable salaries.

## 22. Pension and similar obligations (continued)

### Local Government Pension Scheme

The Highland Councils LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2010 was £1,069,909 of which employers' contributions totalled £725,865 and employees' contributions totalled £344,044.

The following information is based upon pension expense calculation as at 31 July 2010.

#### Changes to the LGPS

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

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

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

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

The Government has announced that it plans to increase future pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index. The change will affect all pension benefits earned to date (and future benefits). This gain has been recognised in the Statement of Total Recognised Gains and Losses.

#### Valuation Method

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

#### Demographic/Statistical Assumptions for the Scheme

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

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

## 22. Pension and similar obligations (continued)

### Financial Assumptions for the Scheme

Assumptions as at	31 July 2010		31 July 2009		31 July 2008	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.2%	-	3.6%	-	3.9%	-
CPI Increases	2.7%	-0.5%	n/a		n/a	
Salary Increases	4.2%	1%	4.6%	1%	4.9%	1%
Pension Increases	2.7%	-0.5%	3.6%	-	3.9%	-
Discount Rate	5.4%	2.1%	6.0%	2.3%	6.4%	2.4%

These assumptions are set with reference to market conditions at 31 July 2010. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of FRS17. The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked yields at the accounting date using data published by the Bank of England. This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.2%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.5% below RPI i.e. 2.7%. Salary increases are then assumed to be 1.0% above RPI, as last year.

### 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 2009 for the year to 31 July 2010). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The following expected returns have been adopted:

Asset Class	Expected return at:		
	1 August 2010	1 August 2009	1 August 2008
	% p.a.	% p.a.	% p.a.
Equities	7.3%	7.5%	7.8%
Gilts	4.3%	4.5%	4.8%
Other Bonds	5.4%	6.0%	6.4%
Property	5.3%	5.5%	5.8%
Cash	3.0%	3.0%	5.0%
<b>Expected Return on Assets</b>	<b>6.8%</b>	<b>7.0%</b>	<b>7.1%</b>

### **UHIMI Share of the Amounts for the current and previous four periods:**

	31 July 2010	31 July 2009	31 July 2008	31 July 2007	31 July 2006
	£000	£000	£000	£000	£000
Defined Benefit Obligation	(12,132)	(10,307)	(7,615)	(6,959)	(6,720)
Scheme assets	9,530	7,607	6,959	6,653	5,603
<b>Surplus/Deficit</b>	<b>(2,602)</b>	<b>(2,701)</b>	<b>(656)</b>	<b>(306)</b>	<b>(1,117)</b>
Experience Adjustment on Scheme Assets	184	(827)	(1,162)	194	389
Percent of Assets	1.9	-10.9%	-16.7%	2.9%	6.9%
Experience Adjustment on Scheme Liabilities	-	(996)	-	-	150
Percent of Liabilities	-	-9.7%	-	-	2.2%
<b>Cumulative Actuarial Gains and Losses</b>	<b>(2,084)</b>	<b>(1,736)</b>	<b>308</b>	<b>690</b>	<b>(5)</b>

## 22. Pension and similar obligations (continued)

UHIMI Net Pension Assets as at	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000	Year Ended 31 July 2008 £000
Fair value of Scheme Assets	9,530	7,607	6,959
Present value of Funded Obligation	(12,132)	(10,307)	(7,615)
Deficit	<u>(2,602)</u>	<u>(2,701)</u>	<u>(656)</u>
Net Liability in Balance Sheet	<u>(2,602)</u>	<u>(2,701)</u>	<u>(656)</u>

Analysis of the amount charged to UHIMI income and expenditure account	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Current service cost	792	583
Interest on obligation	653	578
Expected return on Scheme assets	(572)	(562)
Past service cost	-	42
Losses/(gains) on curtailments and settlements	71	1
Total	944	642
Actual return on Scheme assets	756	(743)

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

Actual return less expected return on pension scheme assets	184	(1,305)
Experience Gains and Losses	-	(518)
Change in assumptions underlying the present value of the scheme liabilities	(532)	(221)
Change in asset valuation	597	-
Actuarial gain / (loss) recognised in STRGL	<u>249</u>	<u>(2,044)</u>

### Sensitivity Analysis to UHIMI Obligations and Service Costs

	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of Total Obligation	11,843	12,132	12,429
Projected Service Cost	808	838	869
Adjustment to mortality rating assumption	+1 year	None	-1 year
Present Value of Total Obligation	11,659	12,132	12,610
Projected Service Cost	793	838	884

## 22. Pension and similar obligations (continued)

### Asset and Benefit Obligation Reconciliation for the year to 31 July 2010 UHIMI Share of the LGPS

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Opening Defined Benefit Obligation	10,308	7,615
Service cost	792	583
Interest cost	653	578
Actuarial losses (gains)	532	1,217
Losses/(gains) on Curtailments	71	1
Estimated benefits paid (net of transfers in)	34	5
Past service cost	-	42
Past service (gain) from change from RPI to CPI	(597)	-
Contributions by Scheme participants	339	267
Closing Defined Benefit Obligation	<u>12,132</u>	<u>10,308</u>

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

Opening fair value of Scheme assets	7,607	6,959
Change in asset valuation	-	-
Expected return on Scheme assets	572	562
Actuarial gains and (losses)	184	(827)
Contributions by employer including unfunded benefits	794	641
Contributions by Scheme participants	339	267
Estimated benefits paid (net of transfers in)	34	5
Fair value of Scheme assets at end of period	<u>9,530</u>	<u>7,607</u>

### Reconciliation of opening and closing surplus

Surplus/(Deficit) at beginning of year	(2,701)	(656)
Change in asset valuation	-	-
Current service cost	(792)	(583)
Employer contributions	794	641
Past service costs	-	(42)
Past service gain from change from RPI to CPI	597	-
Other finance income	(81)	(16)
Settlements/Curtailments	(71)	(1)
Actuarial gain/loss	(348)	(2,044)
Surplus/(Deficit) at end of the year	<u>(2,602)</u>	<u>(2,701)</u>

## 22. Pension and similar obligations (continued)

### Projected Pension Expense for the year to 31 July 2011 UHIMI Share of the LGPS

Projections for Year to 31 July 2011	Year to 31 July 2011 £000
Service Cost	838
Interest Cost	687
Return on assets	(684)
Total	841
Employer Contributions	699

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 July 2010. These projections are based on the assumptions as at 31 July 2010.

## 24. Financial Commitments

Annual rentals under operating lease commitments are as follows:

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
<b>Land and Buildings</b>		
Expiring within one year	35	52
Expiring within two and five years inclusive	-	-
Expiring in over five years	220	220
	<u>255</u>	<u>272</u>
<b>Other</b>		
Expiring within one year	-	16
Expiring between two and five years inclusive	-	-
Expiring in over five years	-	-
	<u>-</u>	<u>16</u>

The lease on property at Fairways commenced in July 2007, for a period of 10 years, with an option to terminate after 5 years. A further lease for additional space at Fairways commenced on 1 June 2009 for one year, with a three month notice period thereafter. Part of this lease was surrendered in September 2010.

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

Leased photocopiers have now been replaced with purchased machines.

## 25. Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2010:

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Commitments contracted for	750	2,064
Authorised but not contracted for	-	-
	<u>750</u>	<u>2,064</u>

## 25. Related Party Transactions

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

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

Partner	Invoiced to Partners £000	Payments to Partners £000	Amounts due to Partners at 31 July 2010 £000	Amounts due from Partners at 31 July 2010 £000
Argyll College	61	824	2	662
Highland Theological College	1	228	4	43
Inverness College	144	4,311	8	53
Lews Castle College	41	2,307	3	5
Lochaber College	6	295	2	-
Moray College	75	3,671	3	8
North Atlantic Fisheries College	8	134	-	1
North Highland College	54	4,523	19	8
Orkney College (OIC)	14	1,008	1	2
Perth College	146	5,298	2	16
SAMS	8	4,370	17	1,392
Shetland College (SIC)	13	423	7	2
Sabhal Mor Ostaig	5	696	3	5
Aberdeen University	14	150	6	-
Edinburgh University	50	13	-	36
Strathclyde University	64	175	-	-
	<u>703</u>	<u>28,424</u>	<u>77</u>	<u>2,233</u>

Provisions totalling £46,184 (2009 - £6,412) have been made in respect of these balances, which are shown above gross of any provision.

## 26. Hardship Funds and Childcare Funds

	<b>Hardship £000</b>	<b>Childcare £000</b>
Balance B/Fwd	<b>21</b>	<b>25</b>
Funds received in year	369	281
Expenditure	(265)	(227)
Repayable to funding body (clawback)	(89)	(50)
Virements	1	(1)
Balance C/Fwd	<b>37</b>	<b>28</b>

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

## 28. Contingent Liability

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

## 29. Securities

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

## 30. Post Balance Sheet Events

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

## 31. Losses and special payments

There were no losses or special payments during the year.