

# **University of the Highlands and Islands**

## **Report and Financial Statements For the year ended 31 July 2011**

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

The University of the Highlands and Islands (UHI) achieved university title in February 2011 following detailed scrutiny by the Quality Assurance Agency for Higher Education (QAA). This represented the culmination of much effort over many years and creates the first university headquartered in the Highlands and Islands of Scotland. It is, however, regarded as achievement of a hugely significant milestone rather than an endpoint in itself. Achievement of title represents the start of the next chapter of UHI's development.

The institution was previously named UHI Millennium Institute. It is a unique university in that 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.

The partnership is transforming the economic, social and cultural life of the Highlands and Islands by delivering a university for the region with national and international ambitions. The university will continue to develop general programmes for providing skills, training and education to the people of the Highlands and Islands. We will also continue to develop a range of degrees that 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 the university to research strength as a precondition to the achievement of research Degree Awarding Powers (rDAP).

We have continued to support 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 the university 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. 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 were proud to have achieved the status of Strategic Delivery Body (SDB) for the 2007-13 round of Structural Funds which 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 most welcome, but we still need to build up more recurrent income for our future sustainability and strength.

A copy of the Strategic Plan for the UHI partnership is available on our website. This plan is currently being revised with a view to publishing a five year strategy for 2012-17 early in 2012.

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

In the year, the greatest achievement was to secure university title. Work on this was at the forefront of our thinking and formed a key strategic programme of activity. Whilst we celebrate our success we continue to focus on achieving research degree awarding powers which are a prerequisite for a university in Scotland. We also continued to deliver our strategy in the areas of sustainable growth, Curriculum for the 21<sup>st</sup> Century and student experience.

### Sustainable Growth

The university continued to develop its strategy to diversify its income, focusing on developing an international centre at Perth College to market the University of the Highlands and Islands to potential students outwith the EU on behalf of the partnership with a view to increasing the number of international students studying on undergraduate and post-graduate courses. University title will broaden the appeal of our courses to a wider international and national market and focused marketing will be undertaken to achieve enhanced numbers.

The university continues to pursue its optimisation of the systems and services agenda, and continues to focus on planning shared provision of information technology services across the partnership. The majority of academic partners have agreed to progress this agenda and an application for funding was lodged with the Scottish Funding Council through their "Invest to Save" initiative to allow this project to be rolled out as quickly as possible.

The university's fundraising activities continued to succeed in the year, against a challenging economic environment. Donations totaling some £100,000 towards a range of projects were raised.

The university maintained its home student numbers with 4,484 full-time equivalents during the year, primarily from within the region. UHI continues to service the lifelong learning needs of the region with 53% of students part-time and 70% over 21 years of age at the start of their course. UHI has continued to grow its student population to address its regional mission and to ensure viable courses, and now delivers over 20% of its students on a fees-only basis. We have been successful in securing ESF funding to support funded student numbers from 2011/12 through to 2013/14 which will allow for further growth in our undergraduate population from within our region. With university title we anticipate our courses will attract a higher percentage of our school leavers who have traditionally left the area to study at universities elsewhere in Scotland.

### University Title and Research Capacity

The university continues to expand its research activities. The partnership continued to maintain its investment in its 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 make a major contribution to the profile required for the university to secure research degree awarding powers.

In the year the university continued to expand investment 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 remainder of the three year funding period which ends in December 2013.

The university continued to ensure staff development and capacity building, delivering the staff development programme established in 2009 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.

The university has further developed its quality enhancement, assurance and monitoring processes, and this work continues with particular emphasis on monitoring the student experience and embedding learning from student feedback.

#### Curriculum for the 21<sup>st</sup> Century (C21C)

The university 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 continues to 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, identified and agreed a structured approach to implementation across the partnership and has continued to transfer curricular materials for the blended learning approach.

#### Student Experience

During the year the university has continued to focus on ways of enhancing our student experience and progressed the implementation of agreed plans to improve retention of students and student support, respond to feedback and enhance employability on graduation. A revised student charter was agreed and a new student complaints procedure was implemented to ensure a fair and timeous process.

### **Resources and Principal Risks**

The university's most significant source of income continues to be Scottish Funding Council grants for teaching and research, which rose from £27.8m to £28.3m over the year.

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 has continued to plan prudently on that basis. We welcome the ministerial guidance to the Scottish Funding Council for 2012/13 which is supportive of higher education and recognises the need for further development of UHI including additional degree level provision. As a new university we continue to be heavily dependent on public funding with well over 90% of our income being derived from Scottish Funding Council (SFC) and grants from the European Union (EU) and Highlands and Islands Enterprise (HIE). The university is in a unique position in helping to regenerate the economy of the Highlands and Islands and its resultant geographic wider access provision creates a high cost of delivery across a sparse and socio-economically vulnerable population.

Whilst continuing to make a strong case to the Scottish Government for increased resources to help us build a university which has both academic and financial strength we are, in parallel, pursuing plans to diversify our income base to help secure long term financial sustainability. We have commissioned a major review of the university's operating model with support from the Scottish Funding Council. The review will focus on the most effective and efficient model for the university to deliver an excellent student experience in all parts of the Highlands and Islands, responding to local needs, seizing opportunities from emerging industries, being a credible and competitive player in the national and international marketplace whilst significantly reducing the high administration and support costs associated with our current structure. This review may well result in radical change, implementation of which may increase risk to the university in the short term.

The university continues to rely heavily on grant funding from HIE and the EU for investment projects as it has insufficient core funding for major developments. Over the past three years, the university has benefited from the first phase of EU funding through our Strategic Delivery Body

(SDB) status. The second phase of this funding runs from 2011-2014 but will be significantly reduced from the earlier period. The focus of development in this second phase will be to progress our strategic curriculum development programme, Curriculum for the 21<sup>st</sup> Century through our Educational Development Unit, further increase our research capacity and capability, in particular increasing our number of PhD students and developing research on the new Inverness Campus. The university recognises that funding from bodies such as HIE and EU will be much more restricted in the current financial climate and alternative mechanisms for investment require to be developed.

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 develop its capability and capacity to secure research degree awarding powers. The university recognises that research activity carries significant risk to the organisation and seeks to mitigate these risks by working with our academic partners to optimise our position in the forthcoming Research Excellence Framework (REF) exercise, 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.

### **Value for Money**

The University of the Highlands and Islands has continued to deliver its Value for Money Strategy, implementing actions identified from the 2010-12 zero based budgeting exercise, ongoing benchmarking to reduce costs and a number of initiatives to share services and costs across the partnership whilst improving efficiency.

### **Review of Financial Activities**

UHI's income reduced by £1.6 million or 3% in the year. This reflects a small increase in Funding Council Grants, tuition fees and research grants amounting to £0.8m which was more than offset by a number of externally funded project activities coming to an end with a consequent reduction in income of £2.4m.

Staff costs remained relatively constant rising by some £0.2m over the year. Operating expenses reduced by £3.3m in the year (8%) reflecting efficiency savings made and project expenditure ceasing.

The outturn for the year ended 31<sup>st</sup> July 2011 was effectively a breakeven position with a small surplus of £0.3m. This was an improvement on the previous year and on budget forecasts and was achieved by a continued focus on reducing cost. The higher depreciation charge of £0.5m compared to the previous year is as a result of major IT infrastructure investment.

As required by Generally Accepted Accounting Practice (GAAP), the university continues to implement FRS 17. As a result the university is required to disclose a liability relating to current commitments of £3.7m (prior year £2.6m) on its balance sheet, reducing net assets to £4.5m (prior year £5.8m). The actuarial loss on the pension scheme in the year of £1m (prior year loss of £0.3m) is dealt with in the Statement of Total Recognised Gains and Losses (STRGL).

### **Payments to Suppliers**

The University of the Highlands and Islands complies with the CBI Prompt Payment Code and has a policy of paying its suppliers at the end of the month following the month of invoice, or on the

suppliers' terms, if earlier. The effect of the university's policy is that its trade creditors at the year-end represent 0.2 days purchases (2010 - 3 days) which is 0.06% of invoices (2010 - 0.85%).

## **Constitution**

The University of the Highlands and Islands (previously 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 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**

There were no significant changes to the leadership team during the year.

## **Equal Opportunities and Widening Participation**

The University of the Highlands and Islands is particularly focused on improving access to higher education opportunities for people living in dispersed and sparsely populated areas of the Highlands and Islands. In 2005 UHI completed an equality charter, which provides the overarching ethos of promoting equality and diversity for the whole organisation. The Race, Disability and Gender Equality Duties are strong drivers to ensure that these values are mainstreamed into the policies and processes of the organisation, and the implementation of the action plans flowing from the equality duties is overseen by the Equal Opportunities Committee. There is now a group of senior managers from each of the academic partners who are taking forward the design, structure and implementation of a single equality framework, for the partnership. There is an established group of the Equal Opportunities Committee who undertake impact assessment of university policies, procedures and practices. The university has a programme of staff training, to cover all the strands of discrimination, which is compulsory for all staff, and subject to regular review and monitoring.

## **Professional Advisors**

External auditors: Ernst & Young LLP  
Bankers: Clydesdale Bank plc  
Solicitors: 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 the University of the Highlands and Islands, Fiona M Larg, is also the Company Secretary.

**Professor Matt Maclver CBE**  
**Chairman**  
Ness Walk  
INVERNESS  
IV3 5SQ

13 December 2011

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

## Corporate Governance and Internal Control

### Introduction

The University Court (formerly Board of Governors) 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 and 15 February 2011 pursuant to Sections 4 and 381A of the Companies Act 1985. The University Court is committed to exhibiting best practice in all aspects of corporate governance. The Court is also the Board of Directors of the University of the Highlands and Islands. The Court conforms to the principles and practice set out in the Committee of University Chairmen (CUC) Guide for Members of Higher Education Governing Bodies in the UK and has included in its Articles of Association the seven principles of public life. In the opinion of the Court, the university complies with all the provisions of the UK Corporate Governance Code in so far as they relate to the Higher Education sector.

### Governance Structure

The University Court is responsible for the strategic direction of the university, for the university's system of internal controls, approval of major developments and capital projects, health and safety, and human resources matters, and receives reports from senior managers on the operation of the day-to-day business of the university. The Court is required to meet at least three times per year and met five times in the period from August 2010 – July 2011.

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

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

### University Court – Membership

The Board of Governors was renamed the University Court following the achievement of university title on 2<sup>nd</sup> February 2011. During 2010-11 the Court consisted of the following persons.

	Period of Office	Date of Appointment	Date of Cessation	
<b>Ex Officio</b>				
Principal and Vice Chancellor of the university	N/A			James Fraser
President - Students' Association	N/A			Nathan Shields

	Period of Office	Date of Appointment	Date of Cessation	
<b>Elected</b>				
Two members of staff from amongst the Staff Register of the university of whom one is a teaching member and one a non-teaching member	3 years	19.12.09 25.01.10		Janet Hackel Fiona Skinner

<b>Appointed</b>				
7 Chairs of Boards of Management of Academic Partners	3 years	19.12.09 19.12.09 01.07.11  19.12.10 19.12.09 19.12.09 10.05.10 22.03.11 12.05.11	30.06.11  19.12.10  20.04.11	Argyll: Wilma Campbell Inverness: Maureen Shepherd Inverness: A Garry Sutherland Orkney: Doris Hutchison Orkney: John Eccles Perth: Penny Brodie SMO: Aideen O'Malley LCC: Ken Kennedy Shetland: Andrew Hughson Shetland: Allan Wishart

<b>Independent</b>				
9 members appointed by the University Court	3 years (renewable)	05-11-03 05-11-03 05-11-03 05-11-03 28-09-04 28.04.09 01.10.09 15.12.09	08.08.11  18.11.11	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 23.01.11		Andrew Rogers Donald MacRae
3 members elected by Foundation	3 years	07-09-04 06-12-07 07-04-09 06.12.10	06.12.10	Thomas Prag Derek Bedford Joe Moore Anton Edwards

<b>Sponsor Universities</b>				
		07-01-08 07-01-08 07-01-08 20.12.10	30.09.10	Alistair Mair Melvyn Cornish Kenneth Miller Bruce Nelson

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.

## Sponsor Universities

Under the arrangements set in place for UHI's process towards the receipt of university title and subsequently, research degree awarding powers, a contract was signed with the universities of Aberdeen, Edinburgh and Strathclyde, the "sponsor universities" setting out their role. As part of these arrangements the university's articles of association includes the three sponsor universities as members of the company and permits the three sponsor universities to appoint one director from each to the Court of the University of the Highlands and Islands.

## 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 Audit Committee, the Equal Opportunities Committee, the Finance and General Purposes Committee, the Health & Safety Committee, the Nominations Committee, and the Remuneration Committee. The remit of each of these committees is set out below together with a list of Court members who are on the committees.

In addition to its standing committee structure, the University Court has established an Academic Partner Chairs Committee to improve engagement between the University Court and the individual boards of management of academic partners. The Committee was set up in May 2011 and will be reviewed in May 2013.

The Court has also constituted a Post Title Working Group to examine the strategic issues facing the university on the attainment of title, the effectiveness of the current constitutional model and governance structure and to make recommendations to the Court.

Matthew MacIver - Chair	Remuneration, Finance & General Purposes, Nominations, Academic Partner Chairs Committee, Foundation
Philip Mackenzie	Audit (until 8.8.11)
William Prosser	Nominations
Hugh Morison	Finance & General Purposes, Health & Safety, Remuneration, Nominations, Post Title Working Group
Anne Clark	Equal Opportunities, Audit, Foundation (until 18.11.11)
Jean Urquhart	Remuneration, Post Title Working Group
Jack Watson	Finance & General Purposes, Remuneration, Academic Partner Chairs Committee, Foundation
Eileen Mackay	Finance & General Purposes, Post Title Working Group
Donald MacRae	Finance and General Purposes (from 30.8.11)
Mo Shepherd	Finance & General Purposes (until 30.06.11)
Allan Wishart	Finance & General Purposes Committee (from 30.8.11)
Andy Rogers	Finance & General Purposes
Thomas Prag	Audit, Foundation, University of the Highlands & Islands Development Trust
Janet Hackel	Equal Opportunities
Fiona Skinner	Equal Opportunities, Nominations
Alistair Mair	Title Management Group
Joe Moore	Foundation
Anton Edwards	Foundation, Nominations Committee (from 4.10.11)
Bruce Nelson	Title Management Group
Norman Sharp	Post Title Working Group
Wilma Campbell	Academic Partner Chairs Committee
A Garry Sutherland	Academic Partner Chairs Committee

Kenneth Kennedy	Academic Partner Chairs Committee
John H Eccles	Academic Partner Chairs Committee
Penny Brodie	Academic Partner Chairs Committee, Post Title Working Group
Aideen O'Malley	Academic Partner Chairs Committee, Post Title Working Group
Kenneth Miller	Title Management Group

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

The Finance and General Purposes Committee is chaired by the Vice Chair of the Court. The Committee meets on a regular basis (usually once every six weeks) to advise the Court on a range of financial and related matters, to oversee the system of financial control and administration, to approve budgets, monitor progress against these, approves activities within its delegated authority from the Court and advises the Court on all employment industrial relations and personnel issues.

### **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.

### **Health and Safety Committee**

The Health and Safety Committee is chaired by an independent member of the Court and comprises staff members from each academic partner and senior staff from the university's executive office. The committee seeks to assure the Court that the university operates within health and safety legislation in relation to both its staff and students, promotes best practice in health and safety across the partnership and reports to the Court on an annual basis.

### **Equal Opportunities Committee**

The Equal Opportunities Committee is chaired by an independent member of the Court. It is responsible for formulating and maintaining an Equality Charter for the university to ensure compliance with legislation and ensures that the charter is implemented, monitored and reviewed regularly and forms part of the ethos underlying university policies and practices. The committee reports to the Court on an annual basis.

### **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.

## **Remuneration Committee**

The Remuneration Committee is chaired by the Chair of the Court. The Committee is entrusted with setting the salaries of senior staff and approving any changes thereto. The Committee also approves any general movements in staff salaries e.g. annual inflationary rises. In respect of the former task the Committee commissions external advice drawn both from the universities and college sector and elsewhere. In respect of the latter the Committee consider annual inflationary trends, national and local market forces and benchmarks including salary movements implemented by the university's academic partners.

## **Foundation**

The 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.

The 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, to appoint members as required to the University Court and held a further extraordinary meeting in December 2010 to approve the changes to the articles of association required to enable UHI Millennium Institute to become the University of the Highlands and Islands.

The Foundation elected Garry Coutts as the new Rector on 1<sup>st</sup> November 2010.

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

## **Title Management Group**

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

## **Executive Board**

The Executive Board comprises the Principal and Vice Chancellor (*ex officio*) and the Principal or Director of each of the university's academic partners.

Subject to the overall authority of the University Court (in respect of policy, strategy, and matters reserved to it), the personal responsibilities of the Principal and Vice Chancellor 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 the university.

The Executive Board ensures that there is a regular input into the strategy and operation of the university from the senior management of the academic partners.

The work of the Executive Board is supported by a number of practitioners' groups drawn from across academic partners and the university's executive office. These groups are consulted and invited to advise on areas such as finance, marketing, admissions, student records and human resources.

### **Going Concern**

The University Court is satisfied that the university 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 members of the University Court who were members at the time of approving the accounts are listed on pages 8 and 9. Having made enquiries of fellow University Court members and the university's auditors, each of these Court members confirms that:

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

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

**James M Fraser**  
**Principal and Vice Chancellor**

13 December 2011

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

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**

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

**James M Fraser**  
**Principal and Vice Chancellor**

13 December 2011

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

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

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

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

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

There is a process for identifying, evaluating and managing the university's significant risks. This has been formalised in line with the internal control guidance for Directors 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 University Court and the high level risk register of the university is regularly reviewed by a Risk Review Group, the Finance and General Purposes Committee and approved by the University Court.

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

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

**James M Fraser**  
**Principal and Vice Chancellor**

13 December 2011

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

We have audited the financial statements of UHI for the year ended 31 July 2011 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 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the University Court, 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 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 company and the University Court as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the University Court and auditors**

As explained more fully in the University Court Responsibilities Statement set out on page 14, the Court 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 Court; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2011 and of its surplus 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 Institution'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 University Court's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 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: 20 December 2011

**University of the Highlands and Islands**  
**Income and Expenditure Account for the year ended 31 July 2011**

	Notes	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
<b>Income</b>			
Funding Council Grants	2	28,254	27,760
Tuition fees and education contracts	3	7,325	7,054
Research grants and contracts	4	3,952	3,933
Other income	5	9,370	11,756
Endowment and investment income	6	4	4
<b>Total income</b>		<b>48,905</b>	<b>50,506</b>
<b>Expenditure</b>			
Staff costs	7	7,665	7,367
Other operating expenses	9	39,065	42,357
Interest payable	10	4	81
Depreciation	13	1,891	1,355
<b>Total expenditure</b>		<b>48,625</b>	<b>51,160</b>
Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets and disposal of assets and before tax	12	280	(654)
Taxation	11	-	-
<b>Surplus/(deficit) on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>		<b>280</b>	<b>(654)</b>

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

**University of the Highlands and Islands  
Statement of Total Recognised Gains and Losses  
for the year ended 31 July 2011**

	Notes	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
<b>Surplus/(deficit) on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve</b>	12	280	(654)
Actuarial loss on pension scheme	22	(1,016)	(348)
Gain on change of calculation from RPI to CPI		-	597
<b>Total recognised losses relating to the year</b>		<u>(736)</u>	<u>(405)</u>
<b>Reconciliation</b>			
<b>Opening reserves</b>	<b>17</b>	<b>848</b>	<b>1,253</b>
Total recognised losses for year		(736)	(405)
<b>Closing reserves</b>		<u><b>112</b></u>	<u><b>848</b></u>

**University of the Highlands and Islands  
Balance Sheet as at 31 July 2011**

	<b>Notes</b>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Fixed assets</b>			
Tangible assets	13	<b>6,797</b>	<b>7,618</b>
<b>Current assets</b>			
Debtors	14	2,449	7,613
Cash at bank and in hand		4,203	2,843
Student support funds account		237	149
		<u>6,889</u>	<u>10,605</u>
<b>Creditors: amounts falling due within one year</b>	15	(5,481)	(9,802)
<b>Net current assets</b>		<u>1,408</u>	<u>803</u>
<b>Total assets less current liabilities</b>		<b>8,205</b>	<b>8,422</b>
<b>Creditors: amounts falling due after one year</b>		-	-
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		<u>8,205</u>	<u>8,422</u>
Pension Liability	22	(3,737)	(2,602)
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<u><b>4,468</b></u>	<u><b>5,820</b></u>
Deferred capital grants	16	4,356	4,972
General reserve prior to pension scheme adjustments	17	1,058	529
Pension scheme (loss)/gain	22	(1,016)	249
General reserve after pension scheme adjustments		42	778
Development reserve	17	70	70
<b>Total reserves</b>		<u>112</u>	<u>848</u>
<b>TOTAL</b>		<u><b>4,468</b></u>	<u><b>5,820</b></u>

The financial statements on pages 18 to 42 were approved by the University Court on 13 December 2011 and were signed on its behalf by: -

**Professor Matthew MacIver CBE**  
Chairman

**James M Fraser**  
Principal and Vice Chancellor

**University of the Highlands and Islands  
Cash Flow Statement for the Year ended 31 July 2011**

	<b>Notes</b>	<b>Year ended 31 July 2011 £000</b>	<b>Year ended 31 July 2010 £000</b>
<b>Cash inflow from operating activities</b>	18	1,533	-
Returns on investments and servicing of finance	6	4	4
Capital expenditure and financial investment	20	(89)	(382)
<b>Increase/(decrease) in cash in the period</b>		<u><b>1,448</b></u>	<u><b>(378)</b></u>
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase/(decrease) in cash in the period		<u>1,448</u>	<u>(378)</u>
Movement in net funds in period		1,448	(378)
Net funds at 1 August 2010		2,992	3,370
<b>Net funds at 31 July 2011</b>	21	<u><b>4,440</b></u>	<u><b>2,992</b></u>

## University of the Highlands and Islands

### Notes to the Financial Statements for the Year ended 31 July 2011

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 university 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 university is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, and therefore, as required by FRS17 "Retirement Benefits" accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

#### Tangible fixed assets

##### *Land and Buildings*

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

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

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

## **2. Funding Council Grants**

	<b>Year ended 31 July 2011 £000</b>	<b>Year ended 31 July 2010 £000</b>
SFC recurrent grant (including fee waiver)	21,125	20,847
SFC recurrent research grant	2,794	3,006
SFC non-recurrent research grant	680	306
LTIF/CIF grants	1,887	1,423
Release of deferred capital grants	105	68
Other SFC grants	1,663	2,109
	<b><u>28,254</u></b>	<b><u>27,759</u></b>

### 3. Tuition Fees and Education Contracts

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
UK and EU Fees	5,941	5,663
Non-EU students	1,288	1,114
Non-credit bearing course fees	-	4
Education contracts	84	244
Other contracts	12	29
	<b>7,325</b>	<b>7,054</b>

### 4. Research Grants and Contracts

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Research Councils and charities	229	388
Industry and commerce	37	136
Governmental	696	503
EU	2,362	1,834
Other	628	1,072
	<b>3,952</b>	<b>3,933</b>

### 5. Other Income

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Other income generating activities	519	632
EU grant income	2,815	4,435
Enterprise company grants	3,957	4,916
Other grant income	147	145
Other income	441	629
Deferred capital grant release	1,491	999
	<b>9,370</b>	<b>11,756</b>

### 6. Endowment and Investment Income

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Other interest receivable	4	4
	<b>4</b>	<b>4</b>

## 7. Staff Costs

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

	Year ended 31 July 2011 Number	Year ended 31 July 2010 Number
Administration and central services	118	126
Research grants and contracts	20	18
Academic/teaching departments	16	10
Academic services	34	34
	<u>188</u>	<u>188</u>
	Year ended 31 July 2011	Year ended 31 July 2010
Analysed as:		
Staff on permanent contracts	147	151
Staff on short-term and temporary contracts	41	37
	<u>188</u>	<u>188</u>

Most teaching staff are employed and paid by the university's academic partners.

### Staff costs for the above persons:

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Wages and salaries	6,207	6,003
Social security costs	487	465
Other pension costs - contributions	856	830
- current service cost in excess of contributions	74	(2)
- past service costs	-	-
- curtailments	41	71
	<u>7,665</u>	<u>7,367</u>
Administration and central services	4,436	4,764
Research grants and contracts	893	688
Academic/teaching departments	2,219	1,810
	<u>7,548</u>	<u>7,262</u>
Exceptional restructuring costs	117	105
	<u>7,665</u>	<u>7,367</u>

Included in the above analysis of wages and salaries are staff costs of £11,808 relating to staff seconded to Distance Lab for whom the university receive reimbursement in full which is reported in other income.

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

	Year ended 31 July 2011 Number	Year ended 31 July 2010 Number
£ 70,001 to £ 80,000	1	1
£ 80,001 to £ 90,000	1	1
£ 90,001 to £100,000	-	-
£100,101 to £110,000	-	-
£110,001 to £120,000	-	-
£140,001 to £150,000	-	1
£150,000 to £160,000	1	-
£160,000 to £170,000	-	-
	<u>3</u>	<u>3</u>

## 8. Senior Post-holders' Emoluments

	Number 2011	Number 2010
The number of senior post-holders including the Principal and Vice Chancellor was:	<u>2</u>	<u>2</u>
Senior post-holders' emoluments are made up as follows:	<b>£000</b>	<b>£000</b>
Salaries	241	287
Social security costs	27	32
Benefits in kind	5	5
Pension contributions	55	59
	<u>328</u>	<u>383</u>

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

	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000 Retiring Principal (5 months)	Year Ended 31 July 2010 £000 New Principal (10 months)
Salary	155	68	129
Benefits in kind	4	1	3
	<u>159</u>	<u>69</u>	<u>132</u>
Pension contributions	<u>37</u>	<u>10</u>	<u>30</u>

The pension contributions in respect of the Principal and Vice Chancellor 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 university, other than the Principal and Vice Chancellor and the staff member above, did not receive any payment from the university other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

## 9. Other Operating Expenses

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Academic departments	20,464	20,930
Academic services	2,678	2,533
Administration and central services	7,637	11,115
Premises	841	809
Research grants and contracts	6,550	6,000
Agency staff	148	224
Other	747	746
	<u>39,065</u>	<u>42,357</u>

### Other operating expenses include:

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Auditors' remuneration:		
external audit – Ernst & Young	30	24
internal and other audit services paid to external auditors	55	51
Hire of plant and machinery – operating leases	6	18
Hire of other assets – operating leases	393	397

## 10. Pension Scheme Net Expected Return on Assets

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Expected return on pension scheme assets	682	572
Interest on pension liabilities	(686)	(653)
Net return	<u>(4)</u>	<u>(81)</u>

## 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/(deficit) on Continuing Operations for the Year

The surplus/(deficit) on continuing operations for the year is made up as follows:

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
University's surplus/(deficit) for the year	280	(654)
	<u>280</u>	<u>(654)</u>

### 13. Tangible Fixed Assets

	Land & Buildings	Leasehold Improvements	Celtica & Theological Collections	Video-conference Equipment	Computer Equipment	Research Equipment	Office Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>								
As at 31 July 2010	4,658	407	82	4,303	5,720	604	254	16,028
Additions	-	62	-	97	65	829	17	1,070
As at 31 July 2011	4,658	469	82	4,400	5,785	1,433	271	17,098
<b>Depreciation</b>								
As at 31 July 2010	545	39	-	2,513	4,749	383	181	8,410
Charge for year	93	31	-	927	489	324	27	1,891
As at 31 July 2011	638	70	-	3,440	5,238	707	208	10,301
<b>Net Book Value</b>								
As at 31 July 2011	4,020	399	82	960	547	726	63	6,797
As at 31 July 2010	4,113	368	82	1,790	971	221	73	7,618
Financed by: capital grant	1,866	356	82	952	367	726	63	4,412
Other Net Book Value	2,154	43	-	8	180	-	-	2,385
At 31 July 2011	4,020	399	82	960	547	726	63	6,797

#### 14. Debtors: Amounts Falling Due Within One Year

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Trade debtors	231	705
Amounts due from Academic Partners and Sponsoring Universities	114	2,233
Prepayments and accrued income	2,104	4,675
	<u>2,449</u>	<u>7,613</u>

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

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Payments received in advance	3,021	6,081
Trade creditors	91	360
Other taxation and social security	25	310
Accruals	2,114	2,904
Bursaries and Other Student Support Funds	230	147
	<u>5,481</u>	<u>9,802</u>

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 2010</b>	<b>4,972</b>
Cash received and assets donated:	
Land & buildings	-
Equipment	981
Released to income and expenditure account:	
Land and buildings	(44)
Equipment	(1,553)
<b>Total (note 2/5)</b>	<b><u>4,356</u></b>
<b>At 31 July 2011</b>	
Land and buildings	1,866
Equipment	2,490
<b>Total</b>	<b><u>4,356</u></b>

## 17. Movement on Reserves

	General Reserve £000	Development Reserve £000	Total £000
<b>Income and Expenditure Account Reserve</b>			
<b>At 1 August 2010</b>	<b>778</b>	<b>70</b>	<b>848</b>
Surplus on continuing operations for the year to 31 July 2011	280	-	280
Gain due to change on pension scheme assumptions	-	-	-
Actuarial loss on pension scheme	(1,016)	-	(1,016)
<b>At 31 July 2011</b>	<b><u>42</u></b>	<b><u>70</u></b>	<b><u>112</u></b>

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 university's achievement of university title.

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

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Surplus/(deficit) on continuing operations after depreciation of assets at valuation	280	(654)
Depreciation (note 13)	1,891	1,355
FRS 17 pension adjustment	119	150
Deferred capital grants released to income (note 16)	(1,597)	(1,067)
Decrease/(increase) in debtors	5,164	(3,546)
(Decrease)/increase in creditors	(4,320)	3,765
Interest receivable (note 6)	(4)	(4)
<b>Net cash inflow from operating activities</b>	<b><u>1,533</u></b>	<b><u>-</u></b>

## 19. Returns on Investments and Servicing of Finance

	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Other interest received	4	4
<b>Net cash inflow from returns on investment and servicing of finance</b>	<b>4</b>	<b>4</b>

## 20. Capital Expenditure and Financial Investment

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Purchase of tangible fixed assets	(1,070)	(2,727)
Deferred capital grants received	981	2,345
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(89)</b>	<b>(382)</b>

## 21. Analysis of Changes in Net Funds

	At 1 August 2010 £000	Cashflows £000	Other changes £000	At 31 July 2011 £000
Cash at bank and in hand	2,992	1,448	-	4,440
Total	<b>2,992</b>	<b>1,448</b>	<b>-</b>	<b>4,440</b>

## 22. Pension and Similar Obligations

The university'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 university 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 trustee 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 university is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, and therefore, as required by FRS17 "Retirement Benefits" accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest triennial 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 2011 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 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
Males (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 an 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. 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 university 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 university 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 as at 31 March 2011 the market's assessment of inflation has increased slightly. The government has also announced a change to the inflation measure used in determining the "Official Pensions Index" from the Retail Prices Index to the Consumer Prices Index. The actuary has taken this all into account in his funding level estimates at 31 March 2011 by reducing the assumption for pension increases from 3.3% pa to 2.9% pa. The actuary has estimated that the funding level as at 31 March 2011 under the scheme specific funding regime had fallen from 103% to 98% (a deficit of circ £700 million). Over the past 12 months, the funding level has improved from 91%, as at 31 March 2010 to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the three years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). The next formal valuation is at 31 March 2011 and this will incorporate updated assumptions agreed by the trustee company.

With effect from 1 October 2011, new joiners to the scheme will join the new revalued benefits section rather than the existing final salary section. This change will have an impact, expected to be positive, on the future funding levels.

## 22. Pension and Similar Obligations (continued)

On the FRS17 basis, using AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of the funding level measured on a buy out basis at that date was approximately 54%.

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

<b>Assumption</b>	<b>Change in assumption</b>	<b>Impact on scheme liabilities</b>
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 major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment 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 what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. 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 is due as at 31<sup>st</sup> March 2011 and will incorporate allowance for scheme benefit changes, and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

## 22. Pension and Similar Obligations (continued)

At 31 March 2011, USS had over 142,000 active members and the university had 17 active members participating in the scheme.

The total pension cost of the university was £115,230 (2010 £111,756). This includes £0 (2010 £0) outstanding contributions at the balance sheet date. The contribution rate payable by the university was 16% of pensionable salaries.

### 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 2011 was £1,093,640 of which employers' contributions totalled £740,587 and employees' contributions totalled £353,053.

The following information is based upon pension expense calculation as at 31 July 2011.

#### 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
Retiring Today:	
Males	18.9
Females	21.9
Retiring in 20 years:	
Males	19.9
Females	23.0

#### Financial Assumptions for the Scheme

Assumptions as at	31 July 2011		31 July 2010		31 July 2009	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.5%	-	3.2%	-	3.6%	-
CPI Increases	2.7%	-0.8%	2.7%	-0.5%	n/a	-
Salary Increases	4.5%	1.0%	4.2%	1%	4.6%	1%
Pension Increases	2.7%	-0.8%	2.7%	-0.5%	3.6%	-
Discount Rate	5.3%	1.7%	5.4%	2.1%	6.0%	2.3%

## 22. Pension and Similar Obligations (continued)

These assumptions are set with reference to market conditions at 31 July 2011. 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 gilt 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 3.5%. 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 0.8% 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 2010 for the year to 31 July 2011). 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 2011 % p.a.	1 August 2010 % p.a.	1 August 2009 % p.a.
Equities	7.0%	7.3%	7.5%
Gilts	4.0%	4.3%	4.5%
Other Bonds	5.3%	5.4%	6.0%
Property	5.0%	5.3%	5.5%
Cash	3.0%	3.0%	3.0%
<b>Expected Return on Assets</b>	<b>6.5%</b>	<b>6.8%</b>	<b>7.0%</b>

### **UHI share of the amounts for the current and previous four periods:**

	31 July 2011 £000	31 July 2010 £000	31 July 2009 £000	31 July 2008 £000	31 July 2007 £000
Defined Benefit Obligation	(15,298)	(12,132)	(10,307)	(7,615)	(6,959)
Scheme assets	11,561	9,530	7,607	6,959	6,653
<b>Deficit</b>	<b>(3,737)</b>	<b>(2,602)</b>	<b>(2,701)</b>	<b>(656)</b>	<b>(306)</b>
Experience Adjustment on Scheme Assets	253	184	(827)	(1,162)	194
Percent of Assets	2.2%	1.9	-10.9%	-16.7%	2.9%
Experience Adjustment on Scheme Liabilities	-	-	(996)	-	-
Percent of Liabilities	-	-	-9.7%	-	-
<b>Cumulative Actuarial Gains and Losses</b>	<b>(3,100)</b>	<b>(2,084)</b>	<b>(1,736)</b>	<b>308</b>	<b>690</b>

## 22. Pension and Similar Obligations (continued)

UHI net pension assets as at	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Fair Value of Scheme Assets	11,561	9,530	7,607
Present Value of Funded Obligation	(15,298)	(12,132)	(10,307)
Deficit	<u>(3,737)</u>	<u>(2,602)</u>	<u>(2,701)</u>
Net Liability in Balance Sheet	<u>(3,737)</u>	<u>(2,602)</u>	<u>(2,701)</u>

### Analysis of the amount charged to UHI income and expenditure account

	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Current service cost	834	792
Interest on obligation	686	653
Expected return on scheme assets	(682)	(572)
Past service cost	-	-
Losses on curtailments and settlements	41	71
Total	<u>879</u>	<u>944</u>
Actual return on scheme assets	936	756

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

Actual return less expected return on pension scheme assets	253	184
Change in assumptions underlying the present value of the scheme liabilities	(1,269)	(532)
Change in asset valuation	-	597
Actuarial (loss)/gain recognised in STRGL	<u>(1,016)</u>	<u>249</u>

### Sensitivity analysis to UHI obligations and service costs

	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	14,809	15,298	15,803
Projected service cost	932	977	1,024
Adjustment to mortality rating assumption	+1 year	None	-1 year
Present value of total obligation	14,703	15,298	15,898
Projected service cost	926	977	1,028

## 22. Pension and Similar Obligations (continued)

### Asset and benefit obligation reconciliation for the year to 31 July 2011 UHI share of the LGPS

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Opening defined benefit obligation	12,132	10,308
Service cost	834	792
Interest cost	686	653
Actuarial losses	1,269	532
Losses on curtailments	41	71
Estimated benefits paid (net of transfers in)	(15)	34
Past service gain from change from RPI to CPI	-	(597)
Contributions by scheme participants	351	339
Closing defined benefit obligation	<u>15,298</u>	<u>12,132</u>

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

Opening fair value of scheme assets	9,530	7,607
Change in asset valuation	-	-
Expected return on scheme assets	682	572
Actuarial gains	253	184
Contributions by employer including unfunded benefits	760	794
Contributions by scheme participants	351	339
Estimated benefits paid (net of transfers in)	(15)	34
Fair value of scheme assets at end of period	<u>11,561</u>	<u>9,530</u>

### Reconciliation of opening and closing surplus

Deficit at beginning of year	(2,602)	(2,701)
Change in asset valuation	-	-
Current service cost	(834)	(792)
Employer contributions	760	794
Past service gain from change from RPI to CPI	-	597
Other finance income	(4)	(81)
Settlements/curtailments	(41)	(71)
Actuarial gain/loss	(1,016)	(348)
Deficit at end of the year	<u>(3,737)</u>	<u>(2,602)</u>

## 22. Pension and Similar Obligations (continued)

### Projected pension expense for the year to 31 July 2012 UHI share of the LGPS

Projections for Year to 31 July 2012	Year to 31 July 2012 £000
Service cost	977
Interest cost	845
Return on assets	(785)
Total	<u>1,037</u>
Employer contributions	707

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 July 2011. These projections are based on the assumptions as at 31 July 2011.

## 23. Financial Commitments

Annual rentals under operating lease commitments are as follows:

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
<b>Land and Buildings</b>		
Expiring within one year	-	35
Expiring within two and five years inclusive	-	-
Expiring in over five years	225	220
	<u>225</u>	<u>255</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, with the remainder surrendered in June 2011.

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

## 24. Capital and Other Commitments

Provision has not been made for the following capital commitments at 31 July 2011:

	Year ended 31 July 2011 £000	Year ended 31 July 2010 £000
Commitments contracted for	-	750
Authorised but not contracted for	-	-
	<u>-</u>	<u>750</u>

## 25. 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 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 2011 £000	Amounts due from Partners at 31 July 2011 £000
Argyll College	8	242	4	-
Highland Theological College	1	219	-	44
Inverness College	176	4,299	32	16
Lews Castle College	17	2,425	27	3
West Highland College	7	324	(7)	-
Moray College	84	3,252	6	6
North Atlantic Fisheries College	5	210	-	4
North Highland College	54	5,694	-	4
Orkney College (OIC)	16	1,044	-	1
Perth College	135	5,276	3	12
SAMS	7	5,390	-	-
Shetland College (SIC)	16	461	-	1
Sabhal Mor Ostaig	6	973	-	4
Aberdeen University	21	89	-	17
Edinburgh University	32	28	-	2
Strathclyde University	31	22	-	-
	<u>616</u>	<u>29,948</u>	<u>65</u>	<u>114</u>

Provisions totalling £53,745 (2010 - £46,184) 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>37</b>	<b>28</b>
Adjustment to B/F balances	(15)	(1)
Funds received in year	287	386
Expenditure	(254)	(220)
Repayable to funding body (clawback)	(46)	(172)
Virements	20	(20)
	<hr/>	<hr/>
Balance C/Fwd	<b>29</b>	<b>1</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.

## 27. Contingent Liability

The University of the Highlands and Islands receives funding from SFC for distribution to academic partners for the furtherance of Higher Education activities. The university 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 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 output and the review of the above information that no such refund will be required.

## 28. Securities

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

## 29. Post Balance Sheet Events

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

## 30. Losses and Special Payments

There were no losses or special payments during the year.