UHI MILLENNIUM INSTITUTE

Report and Financial Statements
For the year ended 31 July 2008

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

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Operational Overview

UHI is a unique Higher Education Institution. It is a partnership of fourteen 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.

UHI 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 which reflect the distinctive environment, history, linguistic identity and culture of the area. The knowledge economy needs a university that is active in carrying out research, and that has a programme for bringing intellectual products to the marketplace and for knowledge transfer. We will carry out an increasing amount of research, and work with other institutions – especially with the universities of Aberdeen, Edinburgh and Strathclyde. We have signed an agreement with these universities through which they mentor UHI to research strength as a precondition of university title before the achievement of rDAP.

We have achieved significant increases in student numbers over the past five years without a corresponding increase in funding. We have set ambitious growth targets looking ahead to 2015. 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 an increase in the SFC 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 new round of Structural Funds. This will allow for the possibility of up to £50m to be used over seven years. This is welcome, but we still need to build up more recurrent income for our future sustainability and strength.

UHI 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”. UHI is already making a major contribution to this future for the Highlands and Islands and for Scotland as a whole. We will continue to press for UHI to become a university as a matter of urgency, and this will add to our ability to deliver these objectives.

The UHI Millennium Institute is a company limited by guarantee incorporated on 24th 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).

In spring 2008 UHI terminated its Associated Institution Agreement with the Ness Foundation; this meant that the UHI Partners became 13 full Academic Partners and 1 rather than 2 Associated Institutions. Further details can be found in the Financial Statements in note 26.

Review of Financial Activities

UHI's income rose by £2.7 million or 7.6% in the year. This reflects a significant increase in Funding Council Grants and tuition fees.

The increase in funding council income was reflected in an increase in payments to Academic Partners for delivery and development of UHI's academic and research programmes. Staff costs rose from £3.8m to £5.2m, as UHI continued its investment in Health related faculty and research staff with support through funding from HIE.

The outturn surplus is on target with UHI's financial strategy of investing its incoming resources in delivering and developing its academic resources. The outturn is lower than the previous year as a result of the increase in staff costs and project expenditure.

As required by GAAP, UHI continued to implement FRS 17. As a result UHI is required to disclose a liability relating to current commitments of £0.7m (prior year £0.3m) on its balance sheet, reducing net assets to £5.5m (prior year £5.8m). The Actuarial loss on the pension scheme in the year of £392k (prior year gain of £695k) is dealt with in the Statement of Total Recognised Gains and Losses.

Funding

UHI is funded for teaching by annual grant-in-aid allocated by the Scottish Funding Council (SFC) and for research by SFC and other research funders. In addition to funding from the SFC UHI has received funding from a diverse range of sources including HIE (Highlands and Islands Enterprise), European funding including Structural Funds, Interreg programmes and others, and donations.

Risks and Uncertainties

A revised process for risk identification and management was introduced during the year and approved by the Board of Governors in March 2008. The underlying objective of the new risk management framework is to ensure that it can be seamlessly integrated into working practices utilising organisational governance frameworks.

The highest degree of uncertainty and risk relates to the continuation of the funding steams noted above and the impact that this may have on the delivery of UHI’s mission. The delivery of the SDB programme, began in the financial year, but uncertainties remain of the availability of full match funding. The changes to HIE’s mission and remit have been clarified and we are working with HIE to ensure strategic alignment for bids to their fund. There are significant uncertainties arising from the implementation of the *New Horizons Task Force* report relating to the future role and funding of Scotland’s Higher Education Institutions which will continue to be clarified over the coming months.

Payment of Suppliers

UHI 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 UHI's policy is that its trade creditors at the year-end represent 2 days purchases (2007 - 7 days) which is 0.4% of invoices (2007 2%).

Equal Opportunities and Widening Participation

UHI 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 their 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 UHI, James M Fraser, is also the Company Secretary.

Colin MacKay CBE
Chairman
Ness Walk
INVERNESS
IV3 5SQ

16 December 2008

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 and 27 March 2007 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 five times in the period from August 2007 – July 2008.

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 2007-08 consisted of the following persons; changes throughout the period are shown in italics.

	Period of Office	**Date of Appointment**	**Date of Cessation**	
Ex Officio				
Principal of UHI	N/A			Robert Cormack
President - Students' Association	N/A	01-07-06	*28-07-08*	*Amy Allan*
Elected				
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	19-12-06 29-02-07		Janet Hackel *Fiona Skinner*
Appointed				
7 Chairs of Boards of Management of Academic Partners	3 years	07-09-04 19-12-06 19-12-06 19-12-06 19-12-06 01-12-07 07-01-08 03-03-08	21-12--07	*Lews Castle College: Kenneth Murray* HTC: Alex Murray Moray: Robin MacLeod SAMS: John Arbuthnott Lochaber: Michael Foxley *Shetland: Andrew Hughson* *NAFC: Iris Hawkins* *NHC: Philip Arthur*

Independent				
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 05-11-03 05-11-03 28-09-04 20-02-06		Colin MacKay Philip MacKenzie Calum MacLeod Lord Prosser Anne Clark Jean Urquhart Jack Watson Hugh Morison Bill Bound
2 members appointed by Highlands & Islands Enterprise	3 years (renewable)	01-03-04 01-06-07-		Andrew Rogers Mary Campbell
3 members appointed by Foundation	3 years	07-09-04 07-09-04 07-09-04 06-12-07	11-09-07	*Muriel Jones* Geoff Payne Thomas Prag *Derek Bedford*
Sponsor Universities				
		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. As part of a review of UHI governance and in the interests of eliminating overlap and duplication the Student Affairs Committee has been abolished. Student issues are dealt with adequately within the rest of UHI's governance and any issues arising in this area which require Board attention are either taken directly to the Board or through the Finance and General Purposes Committee to the Board.

Colin MacKay (Chair)	Remuneration, Nominations, Finance & General Purposes, Equal Opportunities.
Philip Mackenzie	Finance & General Purposes, Remuneration
Calum MacLeod	Finance & General Purposes, Remuneration
William Prosser	Nominations
Hugh Morison	Finance & General Purposes, Health & Safety
Anne Clark	Equal Opportunities
Jean Urquhart	Equal Opportunities, Remuneration
Jack Watson	Finance & General Purposes

Bill Bound	
Philip Arthur	
Alex Murray	
Robin MacLeod	Nominations
John Arbuthnott	Nominations
Michael Foxley	
Andrew Hughson	
Iris Hawkins	
Mary Campbell, HIE[1]	Audit
Andy Rogers, HIE	Finance & General Purposes
Derek Bedford, Fdn[2]	Audit
Thomas Prag,Fdn	Audit, Development Trust
Geoff Payne, Fdn	Audit, Equal Opportunities

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 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

[1] HIE – Highlands and Islands Enterprise
[2] Fdn – UHI Foundation

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 5 and 6. 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.

Colin MacKay CBE
Chairman

Professor Robert Cormack
Principal

16 December 2008

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

Colin MacKay CBE
Chairman

Professor Robert Cormack
Principal

16 December 2008

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's *Audit Code of Practice*. 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.

Colin MacKay CBE
Chairman

Professor Robert Cormack
Principal

16 December 2008

Independent Auditors' Report to the Board of Governors of UHI Millennium Institute

We have audited the Institute's financial statements for the year ended 31 July 2008 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. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's Board of Governors, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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

The Board of Governors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of the Responsibilities of the Board of Governors.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Board of Governors Report is consistent with the financial statements.

We also report to you if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Board of Governors remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board of Governors, the Corporate Governance Statement and the Statement on the System of Internal Control. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the UHI Millennium Institute's web site is the responsibility of the members of the Board of Governors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

Basis of Our Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Governors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Institute's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Institute's affairs at 31 July 2008 and of its income and for the year then ended;

- The financial statements have been properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions and the Institute'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;

- 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; and

- The information given in the Board of Governors' Report is consistent with the financial statements

Ernst & Young LLP
Registered Auditor
Inverness

Date: 17 December 2008

UHI Millennium Institute
Income and Expenditure Account for the year ended 31 July 2008

	Notes	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Income			
Funding Council Grants	2	25,267,470	23,074,985
Tuition fees and education contracts	3	5,607,367	4,829,233
Research Grants and Contracts	4	3,854,193	4,494,835
Other income	5	3,890,579	3,565,801
Endowment and Investment income	6	205,482	156,699
Pension Scheme Net Expected Return on Assets	10	76,000	46,000
Total Income		**38,901,091**	**36,167,553**
Expenditure			
Staff costs	7	5,228,378	3,756,927
Other operating expenses	9	33,037,974	31,448,258
Interest payable		-	-
Depreciation	13	352,589	316,802
Total Expenditure		**38,618,941**	**35,521,987**
Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets and disposal of assets and before tax		282,150	645,566
Taxation	11	-	-
Transfer from Development Reserve	18	-	-
Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve		**282,150**	**645,566**

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 2008

	Notes	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Surplus on continuing operations after depreciation of assets, disposal of assets and tax and transfer from development reserve		282,150	645,566
Actuarial (Loss)/Gain on Pension Scheme	23	(392,000)	695,000
Total Recognised Gains relating to the Period		(109,850)	1,340,566
Reconciliation			
Opening reserves		**3,099,674**	**1,759,108**
Total Recognised (losses)/gains for year		(109,850)	1,340,566
Closing reserves		**2,989,824**	**3,099,674**

UHI Millennium Institute
Balance Sheet as at 31 July 2008

	Notes	2008 £	2007 £
Fixed assets			
Tangible assets	13	**5,035,023**	**4,946,186**
Current assets			
Debtors	14	3,298,055	2,480,000
Cash at bank and in hand		2,998,961	2,885,362
		6,297,016	5,365,362
Creditors: amounts falling due within one year	15	(5,152,968)	(4,171,266)
Net current (liabilities)/assets		1,144,048	1,194,096
Total assets less current liabilities		**6,179,072**	**6,140,283**
Creditors: amounts falling due after one year		-	-
NET ASSETS EXCLUDING PENSION LIABILITY		**6,179,072**	**6,140,283**
Pension Liability	23	(656,000)	(307,000)
NET ASSETS INCLUDING PENSION LIABILITY		**5,523,072**	**5,833,283**
Deferred capital grants	16	2,453,900	2,510,615
Expendable Endowments		79,348	222,993
General reserve	18	2,919,824	3,029,674
Development Reserve	18	70,000	70,000
Total Reserves		**2,989,824**	**3,099,675**
TOTAL		**5,523,072**	**5,833,283**

The financial statements on pages 13 to 36 were approved by the governing body on and were signed on its behalf by: -

C MacKay CBE
Chairman

Prof R Cormack
Principal

UHI Millennium Institute
Cash Flow Statement for the Year ended 31 July 2008

	Notes	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Cash inflow from operating activities	19	236,356	754,711
Returns on investments and servicing of finance	20	205,482	156,699
Capital expenditure and financial investment	21	(328,239)	(95,206)
(Decrease)/Increase in cash in the period		**113,599**	**816,204**
Reconciliation of net cash flow to movement in net funds			
(Decrease)/Increase in cash in the period		113,599	816,204
Movement in net funds in period		113,599	816,204
Net funds at 1 August 2007		2,885,362	2,069,158
Net funds at 31 July 2008		**2,998,961**	**2,885,362**

UHI Millennium Institute

Notes to the Financial Statements for the Year ended 31 July 2008

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

1. Principle 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. To ensure compliance with the new SORP, certain prior year comparative information in the notes to the financial statements has been reclassified.

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 principle 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 institution 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 FRS 17 “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.

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 2008 £	Year ended 31 July 2007 £
SFC recurrent grant (including fee waiver)	19,713,000	18,691,000
SFC recurrent research grant	2,064,000	1,764,000
SFC non-recurrent research grant	391,373	796,388
LTIF grants	2,320,355	1,145,000
SRIF grants	420,741	418,387
Fee waiver	132,076	74,560
Other SFC grants	225,925	185,650
Total	**25,267,470**	**23,074,985**

3. Tuition Fees and Education Contracts

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
UK Higher Education students	4,520,073	4,130,024
EU Students	74,905	77,936
Non-EU students	565,405	471,078
Research Training Support	42,139	31,870
Education Contracts	404,845	118,325
Other Contracts		-
	5,607,367	**4,829,233**

4. Research Grants and Contracts

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Research Councils and Charities	23,638	-
Industry and Commerce	145,222	48,000
Governmental	2,406,605	2,640,389
EU	1,228,612	1,754,705
Other	50,116	51,741
	3,854,193	**4,494,835**

5. Other Income

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Other income generating activities	1,023,905	1,084,263
Other grant income	2,049,682	1,861,914
Other income	647,087	467,144
Deferred capital grant release	169,905	152,480
	3,890,579	**3,565,801**

6. Endowment and Investment Income

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Other interest receivable	205,482	156,699
	205,482	**156,699**

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 2008 Number	Year ended 31 July 2007 Number
Administration and central services	83	65
Research grants and contracts	14	10
Academic/Teaching departments	8	31
Academic Services	32	
	137	**106**

Analysed as:	Year ended 31 July 2008	Year ended 31 July 2007
Staff on permanent contracts	120	77
Staff on short-term and temporary contracts	17	29
	137	**106**

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

Staff costs for the above persons:		Year ended 31 July 2008 £	Year ended 31 July 2007 £
Wages and salaries		4,289,289	3,115,761
Social security costs		330,129	270,144
Other pension costs - contributions		575,960	440,022
- current service cost in excess of contributions	22	33,000	109,000
- past service costs			(178,000)
		5,228,378	**3,756,927**
Administration and central services		2,974,887	2,083,679
Research grants and contracts		565,088	279,613
Academic/Teaching departments		1,688,403	1,393,635
Total		**5,228,378**	**3,756,927**

Included in the above analysis of wages and salaries are staff costs of £116,726 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 2008 Number	Year ended 31 July 2007 Number
£ 70,001 to £ 80,000	-	1
£ 80,001 to £ 90,000	1	-
£ 90,001 to £100,000	1	1
£110,001 to £120,000	-	1
£140,000 to £150,000	1	
	3	**3**

8. Senior Post-holders' Emoluments

	Number 2008	Number 2007
The number of senior post-holders including the principal was:	2	2
Senior post-holders' emoluments are made up as follows:	**£**	**£**
Salaries	245,979	210,079
Social security costs	27,761	23,474
Benefits in kind	5,481	5,270
Pension contributions	35,837	30,445
Total emoluments	**315,058**	**269,268**

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

	Year Ended 31 July 2008 £	Year Ended 31 July 2007 £
Salary	145,979	116,076
Benefits in kind	2,799	2,691
	148,778	118,767
Pension contributions	20,437	16,251

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 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 2008 £	Year ended 31 July 2007 £
Academic Departments	20,968,096	18,219,263
Academic Services	1,597,035	1,875,451
Administration and Central Services	3,566,359	4,089,641
Premises	493,360	292,340
Research Grants and Contracts	6,094,210	6,610,954
Other	318,914	360,609
Total	**33,037,974**	**31,448,258**

Other operating expenses include:	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Auditors' remuneration:		
external audit – Ernst & Young	20,375	19,301
internal and other audit services	23,068	63,716
Hire of plant and machinery - operating leases	16,236	16,217
Hire of other assets - operating leases	90,069	57,615

10. Pension Scheme Net Expected Return on Assets

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Expected return on pension scheme assets	508,000	403,000
Interest on pension liabilities	(432,000)	(357,000)
Net return	76,000	46,000

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 2008 £	Year ended 31 July 2007 £
Institute's surplus for the period	282,150	645,566
Total	**282,150**	**645,566**

13. Tangible Fixed Assets

	Freehold Land & Buildings	Celtica & Theological Collections	VC Equipment	Computer Equipment	Research Equipment	Office Equipment	Total
	£	£	£	£	£	£	£
Cost							
At 1 August 2007	4,658,418	81,962	1,674,976	4,258,547	388,903	152,198	11,215,004
Additions	-	-	71,944	250,800	118,683	-	441,427
At 31 July 2008	4,658,418	81,962	1,746,920	4,509,347	507,586	152,198	11,656,431
Depreciation							
At 1 August 2007	265,986	-	1,576,685	4,246,086	70,017	110,044	6,268,818
Charge for year	93,168	-	77,495	58,942	105,461	17,523	352,589
At 31 July 2008	359,154	-	1,654,180	4,305,028	175,478	127,567	6,621,407
Net book value At 31 July 2008	**4,299,264**	**81,962**	**92,740**	**204,319**	**332,108**	**24,631**	**5,035,024**
Net book value At 1 August 2007	**4,392,432**	**81,962**	**98,291**	**12,461**	**318,886**	**42,154**	**4,946,186**
Financed by capital grant	**1,999,498**	**81,962**	**-**	**63,034**	**290,231**	**19,175**	**2,453,900**
Other	**2,299,766**	**-**	**92,740**	**141,285**	**41,877**	**5,456**	**2,581,124**
Net book value At 31 July 2008	**4,299,264**	**81,962**	**92,740**	**204,319**	**332,108**	**24,631**	**5,035,024**

14. Debtors: amounts falling due within one year

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Trade Debtors	1,661,275	501,749
Prepayments and accrued income	1,636,780	1,978,251
Total	**3,298,055**	**2,480,000**

15. Creditors: Amounts Falling Due Within One Year

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Payments received in advance	2,011,691	1,954,513
Trade creditors	142,738	650,752
Other taxation and social security	56,837	26,475
Accruals	2,830,824	1,468,421
Bursaries and Other Student Support Funds	110,878	71,105
	5,152,968	**4,171,266**

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 £
At 1 August 2007	**2,510,615**
Cash Received and assets donated	
Land & buildings	-
Equipment	113,188
Released to income and expenditure account	
Land and buildings (note 4)	(44,814)
Equipment (note 4)	(125,089)
Total	**2,453,900**
At 31 July 2008	
Land and buildings	1,999,498
Equipment	454,402
Total	**2,453,900**

17. Endowments

	Expendable Endowment £	Total £
Balances at 1 August 2007		
Capital	222,993	222,993
Accumulated income	-	-
	222,993	222,993
Expenditure	(143,645)	(143,645)
At 31 July 2008	**79,348**	**79,348**

The expendable endowment fund represents funding received in advance for the Lifescan Chair of Diabetes and the movement is dealt with in Other Research Income (note 4).

18. Movement on Reserves

	General Reserve £	Development Reserve £	Total £
Income and Expenditure Account Reserve			
At 1 August 2007	**3,029,674**	**70,000**	**3,099,674**
Surplus on continuing operations for the year to 31July 2008	282,150	-	282,150
Actuarial (Loss)/Gain on Pension Scheme	(392,000)	-	(392,000)
At 31 July 2008	**2,919,824**	**70,000**	**2,989,824**

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.

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

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Surplus on continuing operations after depreciation of assets at valuation	281,449	645,566
Depreciation (note 13)	352,589	316,802
FRS 17 Pension adjustment	(43,000)	(115,000)
Deferred capital grants released to income (note 16)	(169,903)	(152,480)
Decrease/(Increase) in debtors	(818,054)	(639,104)
Increase in creditors	982,402	855,626
Interest receivable (note 6)	(205,482)	(156,699)
Release of permanent endowment	(143,645)	-
Net cash inflow from operating activities	**236,356**	**754,711**

20. Returns on Investments and Servicing of Finance

	Year Ended 31 July 2008 £	Year Ended 31 July 2007 £
Other interest received	205,482	156,699
Net cash inflow from returns on investment and servicing of finance	**205,482**	**156,699**

21. Capital Expenditure and Financial Investment

	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Purchase of tangible fixed assets	(441,427)	(517,691)
Deferred capital grants received	113,188	422,485
Net cash (outflow) from capital expenditure and financial investment	**(328,239)**	**(95,206)**

22. Analysis of Changes in Net Funds

	At 1 August 2007 £	Cashflows £	Other changes £	At 31 July 2008 £
Cash at bank and in hand	2,885,362	113,599	-	2,998,961
Total	**2,885,362**	**113,599**	**-**	**2,998,961**

23. Pension and similar obligations

The Institute's employees belong to two principle 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 institution 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 FRS 17 "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 2005. The 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. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c=2020) for all retired and non-retired members

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:

Males	19.8 years
Females	22.8 years

23. Pension and similar obligations (continued)

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% 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. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% 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, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased from 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). On the FRS17 basis, using an AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was above 104%. An estimate of the funding level measured on a buy-out basis was approximately 78%.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The sensitivities regarding the principle 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 £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 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.

23. Pension and similar obligations (continued)

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. 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 31st March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost of the institution was £113,795 (2007 £103,926). This includes £0 (2007 £0) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% 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 2008 was £690,747 of which employers' contributions totalled £497,311 and employees' contributions totalled £193,436.

The following information is based upon pension expense calculation as at 31 July 2008.

Change in Accounting Methodology

The amendment to FRS 17 published in December 2006 changed the method in valuing the assets. Previously the "mid-market value" was disclosed but this has been amended to "current bid value". The net liability as at 31 July 2007 has been rebased and used as the starting figure for the year ending 31 July 2008.

Valuation Method

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

23. Pension and similar obligations (continued)

Demographic/Statistical Assumptions

A set of demographic assumptions has been adopted which is consistent with those used for the formal funding valuation as at 31 March 2005. The post retirement mortality tables adopted were the PA92 series projected to calendar year 2005 with a -1 year age rating for "officer members" and post 98 joiners, not age rating for female "manuals" and a +1 year age rating for male "manuals". The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	Manuals	Officers (and post 98)
Non-pensioners		
Males	19.32	21.03
Females	22.99	23.86
Pensioners		
Males	19.32	21.03
Females	22.99	23.86

Financial Assumptions

Assumptions as at	31 July 2008	31 July 2007	31 July 2006
Price Increases	3.9%	3.5%	3.1%
Salary Increases	4.9%	5.0%	4.6%
Pension Increases	3.9%	3.5%	3.1%
Discount Rate	6.4%	5.8%	5.1%

The discount rate is the yield on the Merrill Lynch Non Gilt Sterling AA Over 15 year Corporate Bond Index.

Expected Return on Assets

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 2007 for the year to 31 July 2008). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

Amounts for the current and previous four periods:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Fair value of scheme assets	6,959	6,653	5,603	3,828	2,857
Present value of defined benefit obligation	(7,615)	(6,959)	(6,720)	(5,143)	(3,865)
Deficit in the scheme	(656)	(306)	(1,117)	(1,315)	(1,008)
Experience adjustments arising on scheme liablilities	-	-	150	(12)	N/A
Experience adjustments arising on scheme assets	(1,162)	194	389	481	N/A

23. Pension and similar obligations (continued)

The following expected returns have been adopted:

Asset Class	Expected return at: 1 August 2008 % p.a.	1 August 2007 % p.a.	1 August 2006 % p.a.
Equities	7.8%	7.8%	7.7%
Gilts (1)	4.8%	4.8%	
Other Bonds	6.4%	5.8%	4.7%
Property	5.8%	5.8%	5.7%
Cash	5.0%	5.8%	4.8%

(1) Gilts included with Other Bonds at 2006

Net Pension Asset as at	**Year Ended 31 July 2008 £000**	**Year Ended 31 July 2007 £000**	**Year Ended 31 July 2006 £000**
Fair value of Scheme Assets	6,959	6,652	5,603
Present value of Funded Obligation	(7,615)	(6,959)	(6,720)
Deficit	(656)	(307)	(1,117)
Net Liability in Balance Sheet	(656)	(307)	(1,117)
Bid Value of Scheme Assets		6,643	
Net Liability in Balance Sheet		316	

Analysis of the amount charged to income and expenditure account	**Year Ended 31 July 2008 £000**	**Year Ended 31 July 2007 £000**
Current service cost	550	477
Interest on obligation	432	357
Expected return on Scheme assets	(508)	(403)
Past service cost	-	(178)
Total	475	252
Actual return on Scheme assets	(654)	597
Amount recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	(1,162)	194
Change in assumptions underlying the present value of the scheme liabilities	780	501
Change in asset valuation	(10)	-
Actuarial gain / (loss) recognised in STRGL	(392)	695

23. Pension and similar obligations (continued)

Asset and Benefit Obligation Reconciliation for the year to 31 July 2008

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	**Year Ended 31 July 2008 £000**	**Year Ended 31 July 2007 £000**
Opening Defined Benefit Obligation	6,959	6,720
Service cost	550	477
Interest cost	432	357
Actuarial losses (gains)	(780)	(501)
Estimated benefits paid (net of transfers in)	252	(67)
Past service cost	-	(178)
Contributions by Scheme participants	202	151
Closing Defined Benefit Obligation	7,615	6,959

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

Opening fair value of Scheme assets	6,653	5,603
Change in asset valuation	(10)	-
Expected return on Scheme assets	508	403
Actuarial gains and (losses)	(1,162)	194
Contributions by employer	517	368
Contributions by Scheme participants	202	151
Estimated benefits paid (net of transfers in)	252	(67)
Fair value of Scheme assets at end of period	6,959	6,653

Reconciliation of opening and closing balance of the net pension asset

Surplus/(Deficit) at beginning of year	(306)	(1,117)
Change in asset valuation	(10)	-
Service cost	(550)	(477)
Employer contributions	517	368
Past service costs	-	178
Other finance income	76	46
Actuarial gain/loss	(383)	695
Surplus/(Deficit) at end of the year	(656)	(306)

23. Pension and similar obligations (continued)

Projected Pension Expense for the year to 31 July 2009

Projections for Year to 31 July 2009	**Year to 31 July 2009 £000**
Service Cost	485
Interest Cost	519
Return on assets	(530)
Total	475
Employer Contributions	550

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 July 2008. A number of changes to the Local Government Pension Scheme have been proposed which will come into effect on 1 April 2009. The changes relate to benefits accruing and scheme member contributions from 1 April 2009 and so do not have any impact on this year's disclosures.

24. Financial Commitments

Annual rentals under operating lease commitments are as follows:

	Year ended 31 July 2008 £	**Year ended 31 July 2007 £**
Land and Buildings		
Expiring within one year	78,893	30,039
Expiring within two and five years inclusive	-	-
Expiring in over five years	30,478	30,478
	109,371	**60,517**
Other		
Expiring within one year		-
Expiring between two and five years inclusive	16,290	16,217
Expiring in over five years	-	-
	16,290	**16,217**

The lease on the storage unit in Nairn expired in May 2005. UHI have issued notice of termination effective 10 October 2008.

A lease for units in the Greenhouse expired on 15th June 2007 and UHI have issued notice of termination effective 31 October 2008.

A lease on property at Fairways commenced in July 2007, for a period of 10 years, with an option to terminate after 5 years.

During the year, a lease was assigned from the Ness Foundation to UHI for premises at Dochfour which expires on 31 January 2009.

25. Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2008:

	Year ended 31 July 2008	Year ended 31 July 2007
	£	£
Commitments contracted for	78,096	-
Authorised but not contracted for	-	-
	78,096	**-**

26. 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 14 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 Ness Foundation during the financial period are outlined below:

Partner	Invoiced to Partners	Payments to Partners	Amounts due to Partners at 31 July 2008	Amounts due from Partners at 31 July 2008
	£	£	£	£
Argyll College	20,738	190,846	227	1,551
Highland Theological College	963	323,697	463	31,412
Inverness College	143,335	4,088,320	3,210	25,599
Lews Castle College	44,837	1,763,117	12,464	1,634
Lochaber College	30,125	237,154	16,921	11,164
Moray College	112,308	3,528,194	1,598	83,681
North Atlantic Fisheries College	6,907	283,859	-	1,209
North Highland College	82,604	4,344,861	296	10,954
Orkney College (OIC)	15,143	1,096,829	-	1,298
Perth College	137,435	4,914,689	-	24,407
SAMS	9,993	3,042,183	-	937
Shetland College (SIC)	18,254	482,301	-	2,125
Sabhal Mor Ostaig	8,927	633,394	2,635	9,135
Ness Foundation	341	247,957	-	526
SDRC	250	91,907	36	1,156
	632,160	**25,269,308**	**37,850**	**206,788**

Provisions totalling £44,402 (2007 - £15,017) have been made in respect of these balances.

During the period, the Ness Foundation, a constituent partner, became insolvent. Certain assets were sold to the Institute for consideration of £80,000. Additional previously grant funded assets were transferred for nil consideration. The leasehold premises occupied by the Ness Foundation were assigned to the Institute for nil consideration and further details can be found in note 24.

27. Hardship Funds and Childcare Funds

	Hardship	Childcare
Balance B/Fwd	**22,328**	**23,444**
Funds received in year	247,802	260,485
Expenditure	(249,577)	(192,343)
Repayable to funding body (clawback)	(12,501)	(50,077)
Virements	16,000	(16,000)
Balance C/Fwd	**24,052**	**25,509**

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.