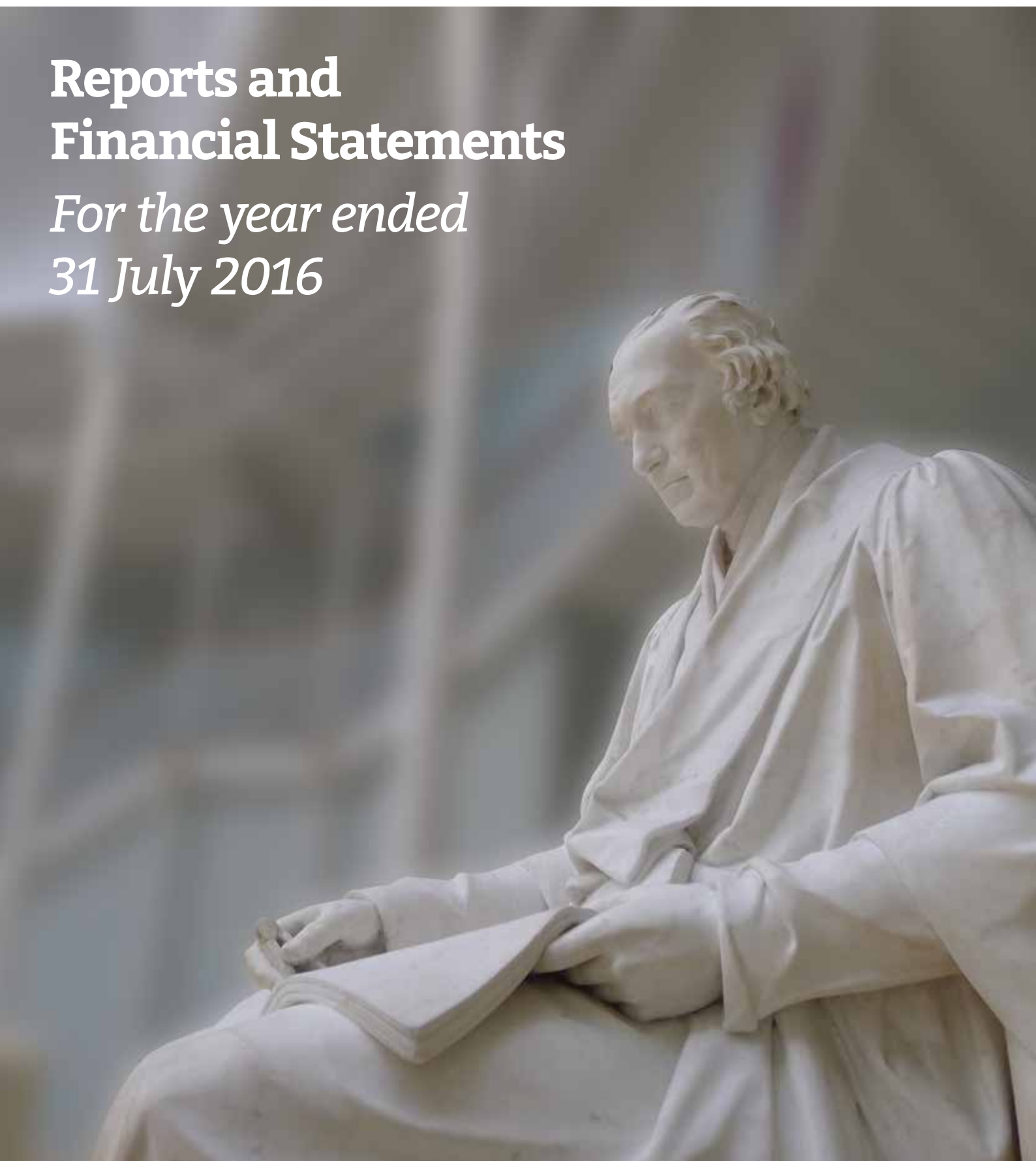


# **Reports and Financial Statements**

*For the year ended  
31 July 2016*





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# Introduction by Principal and Vice-Chancellor



***During the last year the University has continued to make major steps in advancing its strategic intent to grow educational quality, research depth, global reach and influence, during a particularly challenging period of significant external economic and organisational change in the UK and internationally.***

The overall impact of a slow-down in the global economy, notably from attenuation of the oil market, has begun to affect our income and some related programmes have, and may continue to, experience reduced demand.

The recent report from Audit Scotland flags the core governmental responsibilities that remain to be resolved around sustainability and we have been working hard to ensure we can address the challenges.

Furthermore, in Scotland the on-going 'flat settlements' in tuition funding and withdrawal of significant capital funding from the Scottish Funding Council continues to require efficiency and operational savings. Looking carefully and critically at all aspects of our cost base is an increasing priority as we seek to optimise the strategic and financial position of the University, in both the short and long term.

We value the strategic relationship we have with the Scottish Funding Council. The Outcome Agreement process provides an effective means of sharing our aspirations and planning; and of delivering our commitments to widening access.

The uncertainties associated with the future funding landscape, the UK position on student visas and the potential impacts of Brexit, on educational recruitment, research and our ability to attract and retain staff in the UK, are uppermost in our mind and plans.

Heriot-Watt's global outlook means that internationalism is the heartbeat of our organisation. We intend to grow our international activities, appeal and influence in the coming year. Our global positioning is critical to our future success and provides an advantageous position from which to attract students to study with us. In research it allows us to connect with key issues in developing nations that are contemporaneous with UK funding strategy around Global Challenges and the forthcoming Industrial Challenge Fund.

Heriot-Watt is a very entrepreneurial and increasingly nimble organisation and we are well positioned in the vanguard to lead on important areas of innovation, such as robotics and artificial intelligence, optics, sensors and medical imaging.

In the Edinburgh Business School, Heriot-Watt has a subsidiary institution of established global significance. We have been pleased to welcome Professor Heather McGregor CBE to become the new Head and Executive Dean of EBS and to announce the appointment of Lord Iain Vallance as Chair of the School from 1st January 2017. Our ability to attract such outstanding leadership to the School reflects its ambition for growth and the work and success of its founder, Professor Keith Lumsden, and the former Chair, Sir Bob Reid.

Major new facilities to enrich the student experience have been prioritised during the year in Edinburgh, Malaysia, Dubai and Galashiels, including student support offices, social space and study commons. Further capital developments are planned in the year ahead.

Heriot-Watt's success has been built on partnership and this continues to be a principal mode of operation. This has been evidenced most dramatically with the opening of Oriam, Scotland's National Performance Centre for Sport; a partnership between sportscotland, the City of Edinburgh Council and the University. The magnificent building, which was delivered on time and on budget, was opened by Scotland's First Minister in November. Oriam provides outstanding facilities for our students, staff and local community.

The second example is the Lyell Building, opened by Scotland's Deputy First Minister. This is a partnership with the British Geological Survey and the building forms a core part of the Lyell Centre, an interdisciplinary research hub to undertake fundamental and applied research in marine and geosciences relating to climate-change, energy and the environment. The UK Chancellor, Philip Hammond, visited the Lyell Centre in December to see an example of a University-industrial collaboration with global reach.

Partnership with industry and ensuring that across the whole University we support development of student and staff aspirations for enterprise and innovation will be key for the future.

In early December, we completed the most significant financing in the University's history, raising £112m through a Bond, placed privately with three leading UK and US institutional investors. We welcome the confidence they have shown in our positioning, strategy and management and look forward to working with them over the next 30 years. This investment will allow us to repay all our existing debt on favourable terms and provide us with new capital for infrastructure development. The immediate next phase of infrastructure development planned is the creation of specialist research laboratories and a discovery and innovation centre.

The Strategic Report, which follows, describes the detailed achievements during the year. I would like to acknowledge the expertise and commitment of all our staff across our five major physical locations, and other partners for their contribution to these achievements. The University Court and Senate have been robust and competent vehicles in supporting the Executive, senior management team and staff in this period. Their contribution to our success is valued.

We continue to place a priority on diversity and equality in our thinking and processes, and accept a responsibility to work to transform the societies and economies where we are based.

This year has marked the 50th Anniversary since we received our Royal Charter to become a University. There have been many celebrations of success and opportunities to meet alumni, students and staff in at each of our campus locations, and with key partners in China and North America. I was proud and privileged to meet so many alumni with stories of the transformative power of a Heriot-Watt education and to see their strong affinity for the University.

The future offers both opportunity and challenge. We have a strong team, a clear strategy and a sound financial position; and as we look ahead and start planning to refresh our Vision and Strategy in 2017, we do so with confidence and optimism.

**Professor Richard A. Williams**

Principal and Vice-Chancellor  
19 January 2017

# Strategic Report

## HISTORY

The University's history began in 1821 when the School of Arts of Edinburgh was established, the world's first Mechanics Institute, which revolutionised access to education in science and technology for ordinary people. Its purpose was to "address societal needs by incorporating fundamental scientific thinking and research into engineering solutions". As the institution developed, changing its name in 1852 to the Watt Institution & School of Arts, and again in 1855 to Heriot-Watt College, its focus on "the practical application of knowledge and learning for the betterment of society" remained a defining characteristic, delivered via an academic curriculum with a strong emphasis on the needs of industry.

In 1966 the College became Heriot-Watt University, established by Royal Charter, and continued to develop the University's approach, responding to the needs of business and industry. In 1989 the University's Orkney campus opened as part of the International Centre for Island Technology, recognised as a world leader in research, teaching & consultancy with particular expertise in managing the resources of the marine environment. 1992 saw the last Heriot-Watt's Edinburgh departments locate to its current purpose built Edinburgh campus where, amid 380 acres of parkland, it offers a unique environment for its staff and students. The Scottish Borders campus was born of the merger with the Scottish College of Textiles in 1998, leading to the creation of the School of Textiles and Design which, today, offers learning facilities, specialised workshops, spacious studios, a library and a gallery in Galashiels.

Heriot-Watt first established a campus overseas when, in 2005, it was the first UK university to create an overseas campus in Dubai's International Academic City. In 2014, Heriot-Watt opened its state-of-the-art campus in Putrajaya, Malaysia; serving the South East Asia region and beyond.

Today, the University remains true to its heritage of creating and exchanging knowledge for the benefit of society, delivering teaching that is professionally relevant and careers-focused, and developing world leading, innovative research that provides practical solutions to contemporary issues. It has grown to encompass three campuses in Scotland (Edinburgh, Borders, and Orkney); two overseas (Dubai, Malaysia) and has a truly international outlook, delivering degree programmes across the globe. It provides a distinctive education and a high quality student experience. It is now a leading institution with an established reputation for high quality across both its teaching and research, and continues to grow as a university characterised by a commitment to excellence.

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*Today, the University remains  
true to its heritage of creating  
and exchanging knowledge  
for the benefit of society.*

## STUDENT NUMBERS AND LOCATIONS

Heriot-Watt has 30,292 students: 9,300 students based on its Scottish campuses, 5,064 students attending overseas campuses and 15,928 students studying on its international programmes across the world. On its Scottish Campuses 50% of students come from Scotland, 20% from elsewhere in the UK, 11% from the European Union and 19% from overseas. Across all campuses, the student figures break down into 11,806 foundation and undergraduate students, 17,088 postgraduate taught students and 1,398 postgraduate researchers.

Beyond its campuses, Heriot-Watt University has an unsurpassed international in-country presence delivering degree programmes to more than 8,000 independent distance learning students and through an innovative Approved Learning Partner network where more than 7,800 students study in a network of 55 institutions in 39 countries.

## INSTITUTIONAL STRUCTURE

The University has structured its teaching and research into six academic schools and one postgraduate institute:

- > *School of Engineering and Physical Sciences*
- > *School of Energy, Geoscience, Infrastructure and Society*
- > *School of Life Sciences\**
- > *School of Management and Languages\*\**
- > *School of Mathematical and Computer Sciences*
- > *School of Textiles and Design*
- > *Edinburgh Business School*



HERIOT-WATT STUDENTS:

**30,292**

STUDENTS BASED ON ITS  
SCOTTISH CAMPUSES:

**9,300**

STUDENTS ATTENDING OVERSEAS CAMPUSES:

**5,064**

STUDENTS STUDYING ON ITS INTERNATIONAL  
PROGRAMMES ACROSS THE WORLD

**15,928**

\*From 1 August 2016, the School of Life Sciences has been disestablished and its activities spread among the Schools of Engineering and Physical Sciences; Energy, Geoscience, Infrastructure and Society; and the School of Management and Languages.

\*\*In October 2016, the School of Management and Languages was renamed the School of Social Sciences.

# Strategic Plan



## VISION AND MISSION

Heriot-Watt's vision is to be "world-leading within all its specialist areas of science, engineering, technology and business". This vision requires the University to be at the forefront of research and research-intensive education in the UK and internationally, and to deliver world-class innovative research and high quality teaching and learning, relevant to economic growth and development across business and industry.

To achieve this vision, Heriot-Watt's mission focuses on strengthening research intensity in the fields of economic and societal benefit, providing truly global education, delivering an excellent student experience and highly employable graduates. Although its ambitions are far reaching and its approach is globally focused, Heriot-Watt is committed to its Scottish roots and to playing an essential role locally and nationally.

## STRATEGIC DIRECTION

The characteristics of global recognition and professional relevance are defining distinctions of the University and are the bedrock of its strategic direction. Maintaining this distinctiveness will require the University and its academic staff to:

- > **Exploit the synergy between excellent teaching and research in a global and professional context; and**
- > **Perform at internationally competitive levels of creativity in research, scholarship and teaching as synergistic activities.**

Underpinning this strategic direction is the University's operational focus on continuing to be a high performing, rapidly growing and financially sustainable institution.

## STRATEGIC PLAN

The Strategic Plan 2013-2018 presents the University's direction and priorities for the five year period. The plan defines the University's ambitions, aims and objectives, and the pattern and scale of activities that will underpin its achievement. There are four defined areas of focus in the strategic plan:

- > **Learning, teaching and student experience;**
- > **Research intensification;**
- > **Internationalisation; and**
- > **Enabling strategies.**

Each one of these has clearly articulated aims and a number of key performance indicators which are discussed in the following sections.

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*Underpinning this strategic direction is the University's operational focus on continuing to be a high performing, rapidly growing and financially sustainable institution.*

## Learning, Teaching and the Student Experience



Heriot-Watt University has a longstanding reputation for providing highly employable graduates who have a distinctive professional orientation. It is also establishing an excellent reputation for the quality of student experience that it offers. This achievement has undoubtedly been influential in generating demand from students to study at Heriot-Watt. A distinctive feature of Heriot-Watt's provision is the diversity of locations and modes of study, underlining the importance of a key principle of the University's provision as one of "Identical academic standards; diversity of learning experiences".

At the core of the University's Learning and Teaching strategy is the vision to deliver world-leading research-informed education and to be recognised globally for the high quality of our graduates. That vision will be fulfilled through four strategic objectives of enhancing student learning, reshaping the learning environment, developing staff and growing and diversifying the student population; each with a key aim and a set of priority areas for development.

Key to achieving the vision and the strategic objectives are four operational enablers: integration of research, teaching and internationalisation; development of an academic planning process; alignment of professional services and school strategies with the learning and teaching strategy; and strengthening the University's quality enhancement culture; each characterised by a series of Key Changes.

The strategy is delivered through a partnership approach between students and staff in all locations and with external stakeholders such as employers and professional bodies.

The University perceives a major risk to its learning and teaching strategy as the impact on the student experience that might arise from the failure of its student facilities to keep pace with the growth in student numbers. In response, informed both by our Learning and Teaching strategy and by our review of estate efficiency and utilisation, the University has set out an ambitious portfolio of capital programmes. While the portfolio of capital investment addresses a range of estate's needs, the earliest is related to the enhancement and expansion of teaching, learning and study space on our Edinburgh Campus. 2016 brought early progress in the form of enhancement and expansion of learning and study space, both in the James Watt centre and through the major development of "Learning Commons" space that, in a convenient, central, accessible location, complements and supplements the Cameron Smail Library by providing over 200 seats offering a variety and choice of learning and study settings; with state-of-the-art digital learning and study facilities; and a focus on collaborative learning facilities with advanced collaboration and communication technologies.



2016 also saw the opening of Oriam, Scotland's National Performance Centre for Sport, on our Edinburgh Campus. Here, Scotland's top sportsmen and women will access facilities and support services pivotal for successful performance on the international stage. In addition, Oriam will provide extensive access for both students and the local community to the £33m world-class facilities, inspiring them to take part in sport, improve their fitness or enjoy a more active lifestyle. This year also saw the opening of new residences on our Edinburgh Campus, providing 450 beds in a mix of five person flats and studio apartments, all with en-suite rooms.

Our enhancement of facilities to support the student experience will continue into the future, with the impending re-purposing of the remainder of the James Watt Conference Centre for term-time teaching and the expansion of specialist science and engineering teaching facilities within the University's planned Discovery and Innovation centre. Our future plans also provide for a rolling programme of refurbishment of existing student residences as well as the enhancement of Student Union facilities.

Beyond the physical environment, during 2015/16, the University learning and teaching activities placed a special emphasis on the areas of retention and articulation of graduate attributes. Working through its already established Retention Working Group, the University has developed an institutional approach to retention outlined in a University Retention Strategy. With indications of a deterioration in performance in regard to student retention and progression, the University established a more managed approach to retention. Specific actions and plans include the recent major overhaul of Personal Tutoring; the development of processes and technology for identifying and managing "at risk" students; an acceptance across the University that there shall be no unnecessary impediment to students seeking to change programmes; and improvements in our approach to student transition and induction. Retention will continue to receive close scrutiny through 2016/17 through a framework of quarterly reporting.

The University had identified Heriot-Watt Graduate Attributes early in its current strategic planning cycle as:

- > **Specialist;**
- > **Creative;**
- > **Professional; and**
- > **Global.**

During 2015/16, we developed key principles about their use, including that:

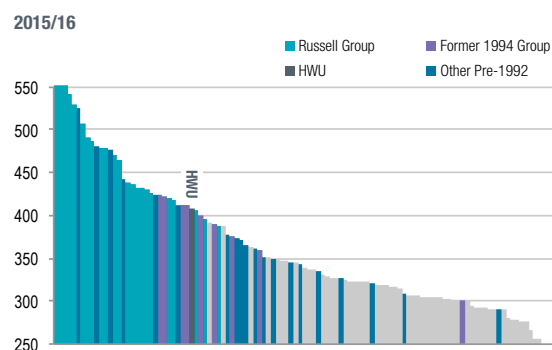
- > Their successful implementation should be dependent on a shared vision across the institution; all staff sharing responsibility for supporting the Graduate Attributes; and all students taking ownership for their own individual development towards the Graduate Attributes;
- > There should be a framework within which Schools/campuses can contextualise according to location, mode or discipline, recognising that one size does not fit all;
- > Their acquisition and development of Graduate Attributes should occur throughout the student lifecycle; and that Graduate Attributes need to be embedded.

Graduate Attributes will continue to be a key area of activity in 2016/17, and initial developments will focus on an awareness-raising and engagement campaign for students.

In relation to international students at our UK campuses, the University continues to work hard to maintain compliance with all UK Visas and Immigration (UKVI) regulations and requirements such that the likelihood of substantive exceptions is rare. This minimises the risks around maintenance of the University's "Highly Trusted" sponsor status. Whilst not affecting the sponsorship of students on our main UK campuses, compliance with revised "Sites and Partnerships" guidance issued by UKVI forced the University to discontinue its sponsorship of new students studying for our degrees at West London College. Whilst the existing students were unaffected, they will be the last cohorts of these students.

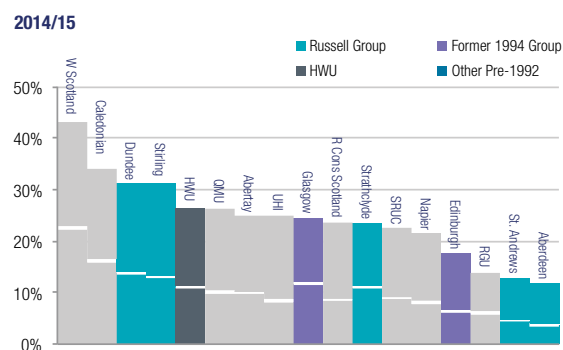
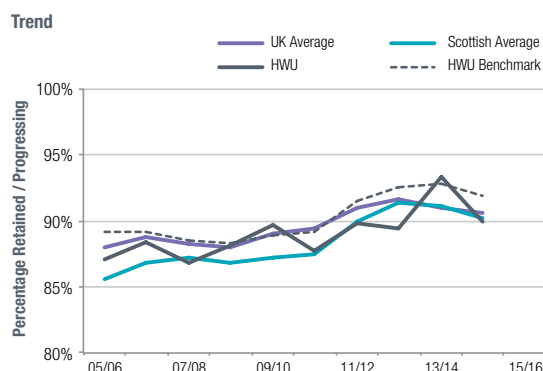


The implementation of our Learning and Teaching strategy is monitored and evaluated annually through the University's Key Academic Performance Indicators:



#### KPI: Entry Scores (Undergraduate Students)

The UCAS tariff of UK university entrants is widely recognised as a means for equating various entry qualifications and grades on a single scale, providing an indication of demand for places from well qualified candidates. Following the start of a steep upward trend in 2009, from well below the average of scores for pre-1992 universities. Our target to move from the second quartile of UK universities to the first quartile was achieved in 2012, but has been eroded marginally over the last year, currently sitting on the tail of the Russell Group, but still congruent with the pre-1992 university average. In an increasingly competitive market it seems likely that the University may have to trade marginal deviation from our target to secure growth, particularly from rest-of-UK students and from wider-access backgrounds.



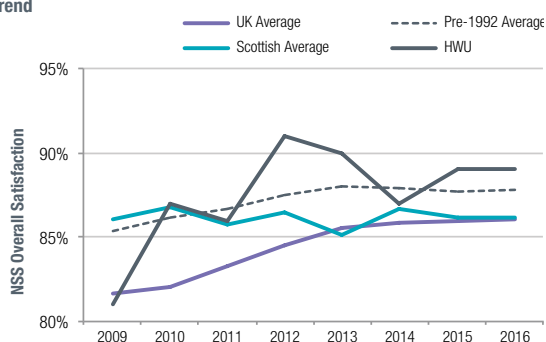
#### KPI: Widening Access – SIMD1-40 Student Recruitment

In Scotland, wider access is generally measured as the fraction of entrants from SIMD1-40 areas (the 40% most deprived areas as measured by the Scottish Index of Multiple Deprivation) which provides an indication of the social diversity of the student population. The University set itself the target of achieving at least 25% of Scottish entrants from SIMD1-40 areas. That target was exceeded in 2014/15 with a step change in entrants that year, an achievement that has been maintained since then. The concentration of SIMD1-40 population in the conurbations of the West of Scotland and in Dundee creates an underlying regional catchment variation that makes Heriot-Watt's relative performance against other Scottish Universities particularly creditable.

#### KPI: Retention / Progression (Undergraduate Students)

The fraction of university entrants continuing or progressing in the same university in the year after their entry is an indication of the institution's effectiveness in engaging and supporting new students and meeting their expectation. The trend shows a very gradual long-run improvement across the sector, but with Heriot-Watt barely tracking this improvement and seldom achieving our own 93% target. While performance is disappointing, it is considered, through the concerted actions outlined above, to be recoverable.

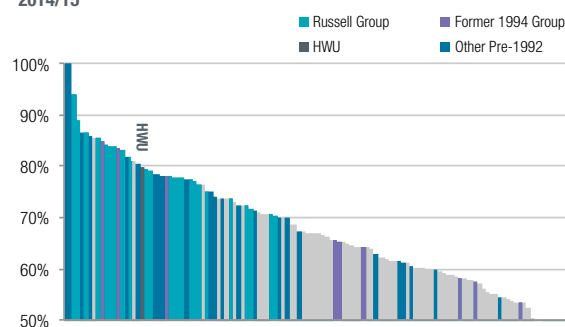
### Trend



### KPI: Student Satisfaction – Overall Satisfaction

The University gathers students' reflections on their learning experience by monitoring both overall satisfaction, as measured by the proportion of positive responses to the question on overall satisfaction in the National Student Survey (NSS); and by averaging students' analytical reflections on 22 NSS questions, covering their experience of learning & teaching delivery, course structure & organisation, assessment & feedback, support & learning facilities, and personal development. Both measures reflect a trend of improvement, achieving a position ahead of sectoral benchmarks. Overall satisfaction rose three places in 2016, Heriot-Watt being placed 25th of the 123 institutions who participate. The most recent results show the slowly rising sector averages converging on Heriot-Watt's recently levelling performance, prompting the University to utilise the granularity of the responses, to develop detailed subject by subject action plans, which it is confident will deliver further improvement.

### 2014/15



### KPI: Graduate Employment #2 – Graduate-level Employment

While the fraction of UK university first degree graduates in employment or further study/training six months after graduation indicates an institution's effectiveness in preparing graduates for a successful future, Heriot-Watt places an emphasis on benchmarking its performance where that employment is 'graduate level'. On this measure, Heriot-Watt's graduates regularly perform better than the sector average, with results of above 82% placing it 17th in the UK, up 3 places on last year and 8 places on the year before. This improvement places the University firmly within the upper quartile of UK universities, and fractionally short of its upper decile target; a target that the trend of improvement indicates is achievable and sustainable.

## Research intensification



The UK university sector is now characterised by increasing stratification, with the primary characteristics associated with perceived quality being research intensity and scale. Thus, fundamental strategic targets are those associated with growth in research income (as a proxy for research intensity). The University's strategic plan sets very ambitious targets for the growth in research income from under £23m earned in 2011/12, to a target of £40m per annum by the end of 2018. This target for research grant and contract income was set to be consistent with the performance of our benchmark group, the small and medium-sized research intensive universities that formerly constituted the '1994 Group'.

Research at Heriot-Watt spans the fundamental to the applied, through an interdisciplinary approach to knowledge creation and enterprise. To meet the target set for 2018 the University will:

- > Promote new interdisciplinary fields of research, emphasising economic and societal benefit in order to generate high impact outputs and attract significant research funding to increase critical mass;
- > Develop further strategic collaborations through national and international academic and industrial research alliances;
- > Take advantage of our international campuses and worldwide learning partnerships to extend research opportunities;
- > Facilitate research management through research-led institutes and interdisciplinary research centres, providing focus and identity to enhance research opportunities, performance and funding;

- > Support innovation and entrepreneurship in the creation of new enterprise; and
- > Increase the number of research students commensurate with an expanded research landscape.

The University's outstanding performance in the Research Excellence Framework (REF) 2014 was one of the most significant signs that our Research Intensification strategy has begun to bear fruit. The highlights of that performance were:

- > 82% of Heriot-Watt's research being assessed as either 4\* (world-leading) or 3\* (internationally excellent), ranking the University 22nd among UK universities and 3rd in Scotland for 4\* and 3\* research.
- > Heriot-Watt ranking 9th in the UK and 1st in Scotland for 'Research Impact' i.e. demonstrating the benefit that our research makes for society at large.
- > In our joint submissions with the University of Edinburgh, on the basis of 'Research Power', together we were ranked 1st for General Engineering among UK universities; 2nd in Architecture, Built Environment and Planning; and 5th in Mathematical Sciences.
- > The Scottish Funding Council's subsequent announcement of the indicative funding impact of the REF signalled a headline increase in the University's Research Excellence Grant of £2.2m per annum, from £9.9m to £12.1m. This increase was the biggest of any of the mainstream Scottish Universities. The implementation of the change will be staged over three years from 2015/16 to 2017/18.

Achieving our target of £40m research grant and contract income by the end of 2018 strategic plan will be challenging, but crucial if the University is to fulfil its strategic ambition. At £41.8m, this year's new research awards exceeded last year's record level of £40.6m; an encouraging sign that, if the awards 'pipeline' were to be sustained, we are well on our way to achieving our target of £40m income each year. There inevitably remain risks associated with our Research Intensification ambitions, notably the pressures on industry funding coupled with continued constraint on the public budget for research. These make it likely that we will need to win a larger slice of a potentially shrinking cake. Our response will continue to be centred on:

### > Academic staff recruitment:

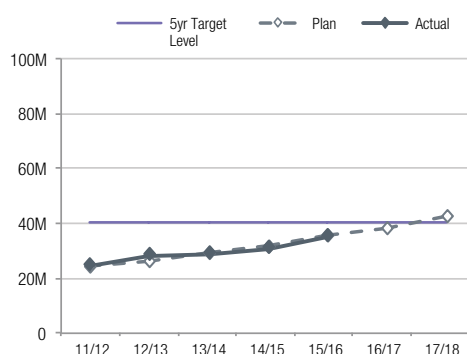
Our academic recruitment strategy has seen us meet our target of 20 new academic appointments per annum, since the inception of our Global Platform initiative in March 2012. This undoubtedly contributed significantly to our success in the 2014 Research Excellence Framework. The growth in staff numbers has contributed not only in a growth in both quality and in research income, but has allowed us to develop new areas of research that are complementary to existing strengths, bringing a nascent diversification of our income sources, including broadening our interaction with the range of Research Councils. If we are to continue to grow the quantity and quality of our research, the pace of recruitment must continue. This pace is evident in our current international recruitment drive in the Sir Charles Lyell Centre for Earth and Marine Science.

### > Co-ordination of strategic-scale research proposals:

Increasingly, as a matter of strategy, Research Councils are seeking to concentrate their portfolio on a smaller number of larger research projects, often interdisciplinary and collaborative in nature. They seek to do so in order to be able to make real and demonstrable impact on research problems of real significance. They wish to do so not least in order to be able to demonstrate strategic intent in spending round negotiations. Conversely, the strength of Heriot-Watt's research portfolio has traditionally been in large numbers of small grants. Over the last few years, the University's Research and Knowledge Exchange Board has begun to develop a role in co-ordinating larger scale, collaborative bids. The consequence is an upward trend in the average size of our research grants, again often involving our newer recruits.

The effectiveness of our strategic plan in relation to research intensification is monitored and evaluated through the University's Key Research Performance Indicators:

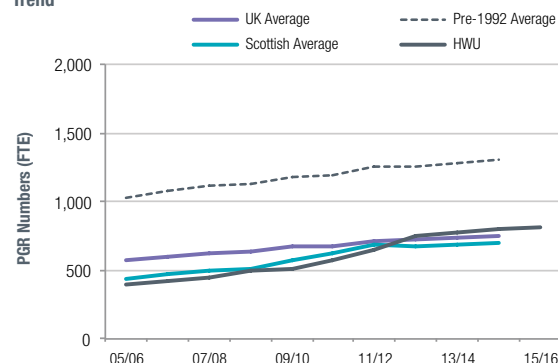
#### Target



#### KPI: Income from Research Grants and Contracts

A good primary indication of the volume and scale of research projects being undertaken is the value of annual income from Research Grants and Contracts (excluding Funding Council Grants). Unsurprisingly, the Russell Group of research intensive universities sits in the top 15% of institutions with income levels between £93m and £600m. Heriot-Watt's performance over the strategic plan period has seen appreciable income growth and an improvement in its relative position, as one of the better performers of the remainder of the pre-1992 institutions. Our target, set in a context where previous accounting practice allowed for matching of revenues with expenditure, was to exceed annual income of £40m by the end of 2017/18. The likely fluctuation in our reported revenue makes this difficult to assess, however, the pipeline for future income, represented by the value of new research awards reached £40m, for the first time, in 2014/15 and has remained above that level in 2015/16, a positive indicator of our prediction that our target will be met.

#### Trend

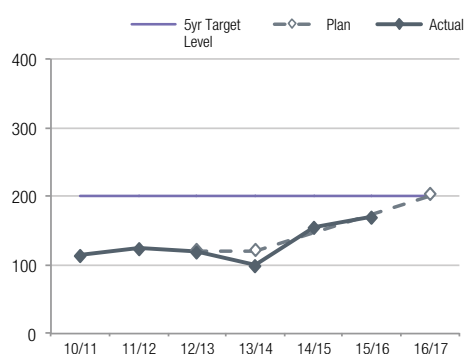


#### KPI: Research Student Numbers

Measuring the number of registered Research Postgraduate students is another significant indication of the volume of research being undertaken. While in absolute terms, Heriot-Watt ranks 36th, similar to our research income ranking; normalised to academic staff numbers, Heriot-Watt has seen an appreciable improvement in its performance to 1.8 PGRs per academic staff a creditable performance over the range of Cambridge's 3.3 postgraduate research students per academic staff to Aston's 0.6. The University currently has 810 active doctoral degree students, and is optimistic that we will reach the target of sustaining 900 students by the end of our strategic planning period.

*The University's outstanding performance in the Research Excellence Framework (REF) 2014 was one of the most significant signs that our Research Intensification Strategy has begun to bear fruit.*

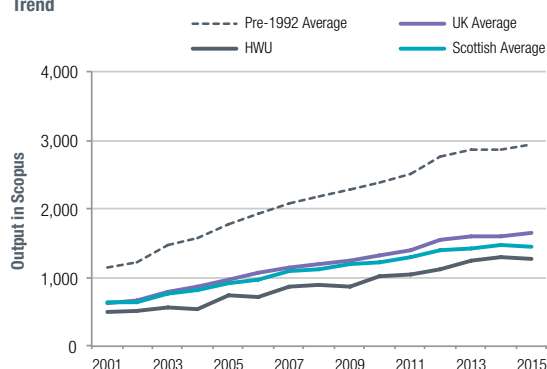
Target



### KPI: Doctoral Degree Awards

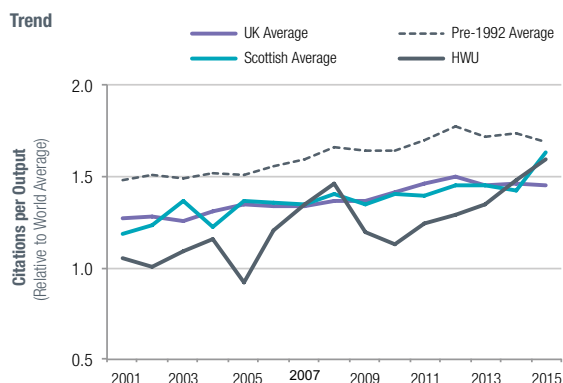
The number of doctoral degree awards is significant as an indication of the scale of outputs from research in the form of trained researchers. Similar to the leading indicator of postgraduate research student numbers, the lagging indicator of doctoral degree awards indicates convergence of Heriot-Watt with the more slowly rising Scottish and UK averages. 2014/15 showed earlier growth in student numbers starting to feed through to sharply increase doctoral output, and this has continued in 2015/16. Progress towards target shows the latest year keeping us on track, and with further actions in hand to promote timely PhD completions, it seems likely that we will achieve the target of 200 annual doctoral awards ahead of 2017/18.

Trend



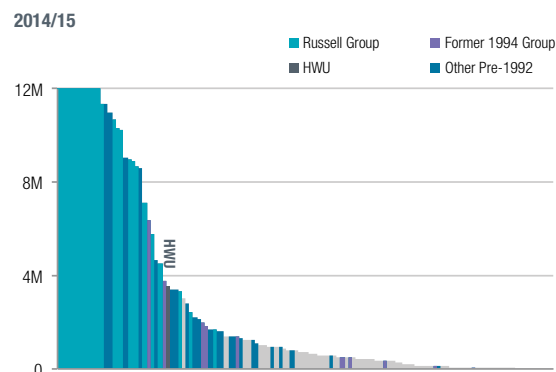
### KPI: Research Output (Publications)

Contributions to knowledge through peer-reviewed journal articles, conference papers and other publications, measured here as the number of publications recorded as authored at Heriot-Watt University in the Elsevier "Scopus" data base of world "scholarly output", is significant as an indication of the scale of the major output of academic research. The trend shows modest but sustained increases by Heriot-Watt from the mid-2000s, tracking the rising UK and Scottish averages, but falling gradually further behind the faster rising pre-1992 university average. This underlines the theme of increasingly marked stratification and the predominant position of the Russell Group. Again, if normalised, Heriot-Watt's 2.81 per academic and research staff compares favourably with the UK median of 1.05 and would rank the University within the top 30. Consistent with the objective to enhance Heriot-Watt's position in international rankings, in which publications and citations metrics are critical, a target is set of 2,000 outputs pa by 2017/18. While some of that growth will undoubtedly come from planned growth in our active academic research staff, current performance and the prevailing trend lead to a low expectation of achievement of the 2017/18 target.



#### KPI: Research Impact (Citations)

An indication of the impact of published research output can be gained from a measurement of the number of citations in subsequent publications by others in the field, measured here in the widely recognised Scopus “Field-weighted Citation Index”. The trend shows a significant step up by Heriot-Watt with highly positive advances in recent years. Consistent with the objective to enhance the University’s position in international rankings, to which the citations metric is particularly critical, our target is set to increase the value of the Field-weighted Citation Index for Heriot-Watt to 1.7 by 2017/18, i.e. comparable to the current UK pre-1992 university average. Positive, sustained, performance over the last three years shows Heriot-Watt exceeding the UK university average and coming close to reaching the 2017/18 target.



#### KPI: Research Income from Industry

The value of annual income from Research Grants & Contracts from private sector industry and commerce including UK and international businesses provides an indication of the value placed on the research by industry and commerce, and thus its potential in relation to commercial knowledge exchange. Heriot-Watt maintains a high level of performance in absolute terms, the position in the university sector shows Heriot-Watt ranked 29th, just in the tail of the Russell Group and ahead of many other UK universities. However, an adverse trend over recent years reflects the extent of our dependence on the oil sector and the severity of current challenges for that sector. When we set out on our strategic plan, we set ourselves a target of growing this source of income from just under £7m pa to £10m pa, on the basis of maintaining research income from private sector business and industry as a constant proportion of the rising level of total research income. With revenues now below £4m pa, there is low expectation of a regaining lost ground until there is a recovery in oil prices.

## Internationalisation



*The University's award winning "Go Global" scheme, promoting inter-campus transfers for undergraduate students is becoming an important feature of internationalisation at Heriot-Watt.*

For more than a decade, the University's rate of growth of income from international student fees, being very much faster than any UK or Scottish benchmark; coupled with the breadth of its international presence and the number of international students; has set it apart from other UK Higher Education Institutions.

Heriot-Watt has a history of supporting students to achieve its degrees outside the UK, mainly through International Distance Learning and partnerships with overseas institutions which deliver the University's accredited learning programmes. The addition of the Dubai (2005) and Malaysia (2013) campuses has strengthened the University's international presence. The University has set an ambitious target of doubling the scale of its international activities over the five years of its strategic plan, doubling its income from £45m to £90m.

Given the size of the project in Malaysia, we are particularly attuned to the range of risks that the project presents, including those relating to student recruitment, programme accreditation and the provision of facilities to meet student needs. The University maintains risk registers in relation to the general international environment as well as those relating to Dubai and Malaysia in particular. We identify, review and manage risks on a regular basis in relation to key projects, as well as taking a view across the whole strategy. This includes 'horizon scanning' of the political and economic environments in key markets of interest to Heriot-Watt.

The University has set out to develop Heriot-Watt as an international university with Scottish roots. Key among the aims in support of that target are:

### SECURING THE SUCCESS OF THE NEW MALAYSIAN CAMPUS:

The Malaysia Campus continues to grow and has become well established with 150 staff employed, over 1,000 students and a portfolio of programmes from Foundation to Postgraduate level. Growth remains challenging, but the University's brand and reputation for quality is becoming well recognised in the region; Heriot-Watt University Malaysia is well respected as a university and is regularly asked by the British High Commission and other institutions to host visitors and events as an exemplar success story.

Malaysia is proving a popular choice for 'Go Global' students – these are students taking part in Heriot-Watt's inter-campus transfers as part of their experience of studying at an international university. In 2015/16, 30 students from the Edinburgh Campus went to study in Malaysia. This is not only beneficial in terms of experiencing other cultures and studying and working in inter-cultural teams, but also in terms of developing the graduate attributes that are highly valued by employers and developing skills for future careers. The Malaysian government is highly supportive of the University's success in this area. Earlier in the year, Heriot-Watt University Malaysia hosted the launch of the British High Commission "Education is GREAT" campaign in Asia. The event attracted a large number of dignitaries, officials and educators.

### **BUILDING ON SUCCESS IN DUBAI:**

The Dubai campus was established in 2005 and has grown to almost 4,000 students, with a growing number of PhD students as well as undergraduate and postgraduate students across all disciplines. Marking our first decade in Dubai and looking to the future, the University commissioned an economic impact report which identified three main areas where Heriot-Watt University is making significant impact in the region to a total annual economic impact valued at £94m. These are:

- > Direct employment, spending by employees on goods and services and capital investments – making a contribution to the economy of c.£43m and 518 jobs in the UAE – the majority in Dubai.
- > Student spending is estimated to make a contribution to the economy of c.£44m and 581 jobs in the UAE.
- > The tourism and travel impact of students, staff, friends and family attending university and related events were estimated to contribute £6.4m and 116 jobs.
- > At this stage, the University is working on plans to build on the success of the campus, strengthening its research and other academic activities in the region.

### **ENHANCING THE INTERNATIONALISATION OF RESEARCH AND KNOWLEDGE EXCHANGE ACTIVITIES:**

The University continues to work in collaboration with universities around the world in delivering high impact research. The first major research grant in Malaysia was secured with the award of a major Newton Fund grant. The consortium is made up of Dearman, the clean cold technology company, Green Data Center LLP, Heriot-Watt University and Universiti Teknologi Malaysia. The project brings together innovative technologies developed in Malaysia and the UK, aiming to improve the sustainability of data centres by changing the way they are cooled. It is hoped that the project could reduce their energy consumption by up to 50%, improve energy security and reduce localised emissions caused by diesel powered backup generators.

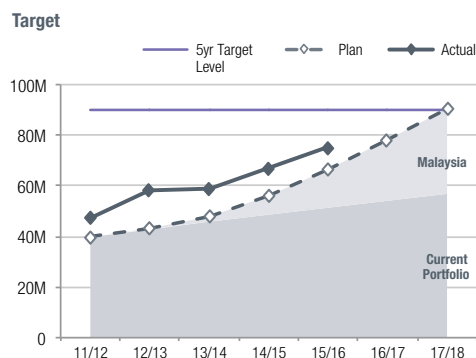
### **ENSURE THAT HERIOT-WATT UNIVERSITY QUALIFICATIONS ARE RECOGNISED AND RESPECTED INTERNATIONALLY, PROVIDING ENTRY TO JOBS WORLDWIDE:**

The University has always maintained strong connections to business and industry and has an excellent track record in graduate employment. A set of Heriot-Watt “Graduate Attributes” have been articulated as part of the overall learning and teaching strategy, following extensive consultation with students, staff and employers. These are now being built into the skills and attributes acquired through study at the University so that graduates are equipped to be specialist, global, creative and professional.

### **FACILITATE INTERNATIONAL MOBILITY FOR HERIOT-WATT STUDENTS AND STAFF:**

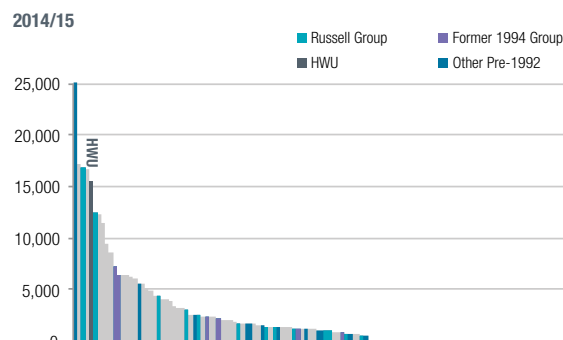
The University’s award winning “Go Global” scheme, promoting inter-campus transfers for undergraduate students is becoming an important feature of internationalisation at Heriot-Watt. Increasingly, students identify this opportunity as a reason for choosing Heriot-Watt as a place to study and participation in the scheme continues to increase, alongside European exchanges and other study abroad options with partner universities. The University won a Gold award from HEIST (which celebrate the excellence and innovation of everyone involved in education marketing) for its “Go Global” campaign.





#### KPI: Income from International Student Fees

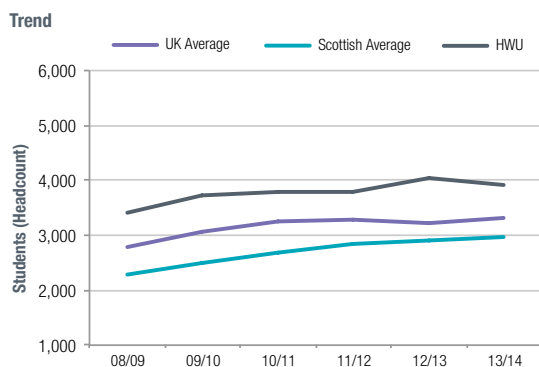
Performance currently sits well ahead of the trend required to achieve the growth in income from international student fees, strengthened in the most recent years as the new income stream from our Malaysia campus starts to build up. Heriot-Watt sits 21st in the UK, for the absolute value of this income stream, behind a pack of much larger and strongly branded Russell Group universities; and if normalised as a proportion of total income, Heriot-Watt's 33% would be placed 2nd among mainstream UK universities.



#### KPI: Transnational Education

Over the last two years, even with the growth in student numbers at our own international campuses, our overall transnational student numbers have remained static at 15,000; taking us from 3rd to 5th in terms of the number of students studying outside the UK. The University is undoubtedly facing competition from other large players and from a growth in the number of institutions participating in transnational activity. However, as indicated by the previous KPI, erosion of numbers has not been mirrored in terms of erosion of revenues; reflecting both the value of operating on our own campuses and a shift away from high volume-low revenue partnerships to more rewarding activity with accredited partners and particularly in International Distance Learning. Looking forward, the University has ambitious plans to maintain planned growth in international activity by strengthening the global nature of its postgraduate programmes, offering greater flexibility in subject choice, location and mode of study.

*Looking forward, the University has ambitious plans to maintain planned growth in international activity by strengthening the global nature of its postgraduate programmes offering greater flexibility in subject choice, location and mode of study.*



#### KPI: International Students Studying in the UK

The trend at Heriot-Watt in attracting students from abroad has recently seen a downward turn. This is primarily associated with changes to UK immigration policy which have forced the University to withdraw from its partnership with West London College, meaning the loss of students, mainly from overseas, from fashion and management undergraduate programmes and from the full time MBA programme.

The University has plans in place to invigorate the recruitment of overseas postgraduates to its UK campuses through the introduction of new and refreshed taught postgraduate programmes, including, for the first time at our Edinburgh campus, a full-time on-campus MBA.

It seems unlikely, particularly as the West London College students leave us at the conclusion of their studies this year and next, that international student numbers on our UK campuses will grow from the current sub-4,000 to our original target of 4,300 students by 2017/18.



# Financial Review



## FINANCIAL STRATEGY

The Strategic Plan's enabling strategy, set targets to develop income growth of over 50%, from £150m to £235m, over five years; and to achieve annual operating surpluses of at least 7% of income within the five year period of the strategic plan. The growth in total income is underpinned by growth in student numbers and in income from Research Grants and Contracts. Income growth will be supported by strong recruitment trends for fee paying students in Edinburgh, Dubai, and particularly Malaysia.

The University has a sound financial base in terms of diversified and growing income streams and effective control of costs. Historically it has been relatively conservative in its borrowing, however, its ambitious strategy will require a degree of risk, and further investment, particularly to create a physical environment that is capable of accommodating the growth in student numbers that we have planned for; of providing the quality of research environment that is consistent with our ambitions for research growth and intensification; and meeting the expectations and needs of students and staff going forward.

Investment in the University's estate and infrastructure is well underway. Before this year we had already completed the development of a new Malaysian Campus and the first phase of student residences renewal at the Scottish Campuses. During 2016, we saw; the completion and the opening of Oriam, Scotland's National Performance Centre for Sport, the main funding coming from a grant from sportscotland; and the opening of the Sir Charles Lyell Centre, a new centre for earth and marine science and technology, jointly funded by UK and Scottish funders, Natural Environment Research Council (NERC), Scottish Funding Council (SFC) and Heriot-Watt University, which will house researchers from the University and from the British Geological Survey and will create a world-leading research cluster bringing science and technology together to tackle major issues of natural resource and energy supply in a responsible and sustainable way.

This year also marked the start of the first stage of an ambitious capital programme, which gives early priority to the enhancement and expansion of teaching, learning and study space. 2015/16 saw further study space made available in the James Watt centre and the delivery of the "Learning Commons" space, which provided over 200 seats offering a variety and choice of supported learning and study settings. In addition, we completed the first phase of improvements and refurbishment of a range of learning & teaching spaces across the Edinburgh campus; the redevelopment of our Psychology teaching laboratories; began a programme of interim improvements to provide more and better study spaces within the Cameron Smail Library; and the developed expanded facilities for postgraduate research students in the School of Energy Geoscience, Infrastructure and Society. This year also saw the first significant inroads into the development of laboratory facilities to support our research growth and to accommodate global platform appointments, notably in the School of Engineering and Physical Sciences. As well as completing a further 450 bed student residence in Edinburgh, we also began our rolling programme of refurbishment of existing student residences.

The University has also continued to invest in its core information systems, the main elements this year being an estates information management system and the beginning of a project, which will continue into next year, to revitalise a broad suite of student administration and support systems.

During this year, the strategy has developed to reflect the requirement for around £60m of further borrowing to support provision of the physical capacity to accommodate the student numbers and quantity and quality of research that underpin the University's Strategic Plan.

While there are inevitable risks associated with the execution of such a significant scale of capital investment, we will continue to ensure that appropriate project management, resource and financial planning will be directed to ensure that projects can be delivered within an overall programme. More critical is likely to be the delivery against a financial plan that relies on strong income growth and generation of surplus, which, in turn, are subject to risks associated with the success in international activity and on broader risks around government funding, student fees and research concentration. However, our financial plans contain significant contingency and discretionary elements to provide resilience and flexibility, including explicit contingency against failure to achieve planned tuition fee and net research income; discretionary elements in potential capital investments; and gateway reviews to maintain future flexibility over decisions to commit capital expenditure across the planning period in the event that financial circumstances or risk profiles change. We have traditionally employed interest rate hedging to achieve certainty over debt servicing costs and looking ahead, will gain the same certainty when we refinance those loans and add to borrowing, by use of fixed interest bonds.

## SCOPE OF THE FINANCIAL STATEMENTS

The financial statements which have been approved by the Court for the year-ended 31 July 2016 comprise the consolidated results of the University and its subsidiary undertakings, together the "Group". These accounts have been prepared, for the first-time in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015; and in accordance with Financial Reporting Standards (FRS 102).

*The University has a sound financial base in terms of diversified and growing income streams and effective control of costs.*

## RESULTS FOR YEAR

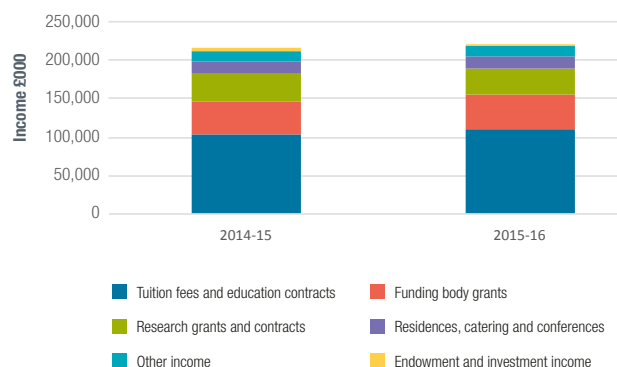
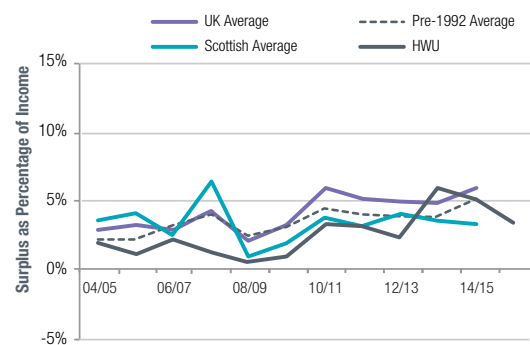
The group reported a surplus before other gains and losses of £3.1m. After other gains and losses; taxation and actuarial loss in respect of pension schemes, the total comprehensive income for the year was £(1.6)m.

Historical surplus as a percentage of total income is a significant indication of an institution's ability to generate a surplus proportionate to its size. The University's financial strategy includes plans to grow operating surplus, as measured in the Income & Expenditure statements prepared under the 2007 Statement of Recommended practice, from 3% to 7% of total income. Given the transition to FRS 102, there is no direct comparison of this year's total comprehensive expenditure with the pre-existing target or the historic trend. For the purposes of such comparison, however, this year's equivalent underlying surplus of £5.8m (2.6% of total income) is disclosed in the table below; a detailed explanation of each item being included in note 30.

### 2015/16 Total comprehensive expenditure for the year under 2015 SORP

|                                                                        | £m<br>(1.6) |
|------------------------------------------------------------------------|-------------|
| Investment property valuation                                          | 0.3         |
| Increase in holiday pay accrual                                        | 0.2         |
| Increase in Lothian Pension Fund liability                             | 2.0         |
| Increase in the provision for institution's share of USS recovery plan | 2.0         |
| Research income                                                        | 0.1         |
| Increase in valuation of interest rate swap liability                  | 2.8         |
| <b>Total effect of transition to FRS 102</b>                           | <b>7.4</b>  |
| <b>2015/16 Surplus for the year under 2007 SORP</b>                    | <b>5.8</b>  |

### Trend



### KPI: Operating surplus

For the purposes of comparison with target and with previous years, this £5.8m surplus approximates to an operating surplus of 2.6%. The trend shows sector averages modestly rising up to 2014/15, with Heriot-Watt matching these improved sector averages for the first time in 2013/14 and 2014/15. The University's target is to achieve and sustain a surplus of at least 7% by 2017/18, which is particularly demanding in relation to its ambitious income growth target. It now seems unlikely that target will be met. By way of mitigation, the University's financial plans contain both discretion and provision for contingency against the non-achievement of challenging income targets.

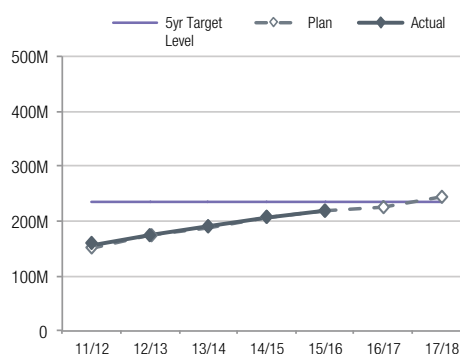
### Income

In 2015/16 the Group achieved income growth of 3% with total income increasing by £6.5m to £219.5m (2015: £213.1m).

### KPI: Total income

The aim of growing income by more than 50% over the five year strategic planning period established a target total income of £235m by 2017/18, which, depending on competitor growth rates, could move the University well into the sector's second quartile. The University's Financial Plan projects meeting that target in 2016/17 and predicts significant above inflation growth (averaging 8% pa). Encouragingly, at £220m, actual performance in 2015/16 lies slightly ahead of this forecast; although new financial reporting standards may inhibit effective comparison of reported performance with the target that was set under a different regimen of accounting practice. At £206m in 2014/15 (the most recently available sectoral figures), Heriot-Watt moved the University into 54th place in the UK rank order, up from £191m (58th) in 2013/14 and £176m (63rd) in 2012/13. When normalised to total staff numbers (to give a measure of the efficiency of income generation), the University's £101k per staff FTE ranks 18th in the UK.

Target



|                                                                                 | 2014/15       | Change       | 2015/16       |
|---------------------------------------------------------------------------------|---------------|--------------|---------------|
| <b>Scottish Campuses</b>                                                        |               |              |               |
| Undergraduates                                                                  | 6,493         | 3.1%         | 6,695         |
| Taught Postgraduates                                                            | 1,538         | -1.7%        | 1,512         |
| Research Postgraduates                                                          | 1,044         | 4.7%         | 1,093         |
|                                                                                 | 9,075         | 2.5%         | 9,300         |
| <b>Dubai Campus</b>                                                             |               |              |               |
| Undergraduates                                                                  | 2,506         | -0.6%        | 2,492         |
| Taught Postgraduates                                                            | 1,314         | 4.0%         | 1,366         |
| Research Postgraduates                                                          | 5             |              | 7             |
|                                                                                 | 3,825         | 1.0%         | 3,865         |
| <b>Malaysia Campus</b>                                                          |               |              |               |
| Undergraduates                                                                  | 447           | 116.1%       | 966           |
| Taught Postgraduates                                                            | 194           | 20.1%        | 233           |
|                                                                                 | 641           | 87.1%        | 1,199         |
| <b>TOTAL ON-CAMPUS</b>                                                          | <b>13,541</b> | <b>6.1%</b>  | <b>14,364</b> |
| <b>Independent Distance Learners and Students at Approved Learning Partners</b> |               |              |               |
| Undergraduates                                                                  | 3,093         | -46.6%       | 1,653         |
| Taught Postgraduates                                                            | 14,933        | -6.4%        | 13,977        |
| Research Postgraduates                                                          | 318           | -6.3%        | 298           |
|                                                                                 | 18,344        | -13.2%       | 15,928        |
| <b>GRAND TOTAL</b>                                                              | <b>31,885</b> | <b>-5.0%</b> | <b>30,292</b> |

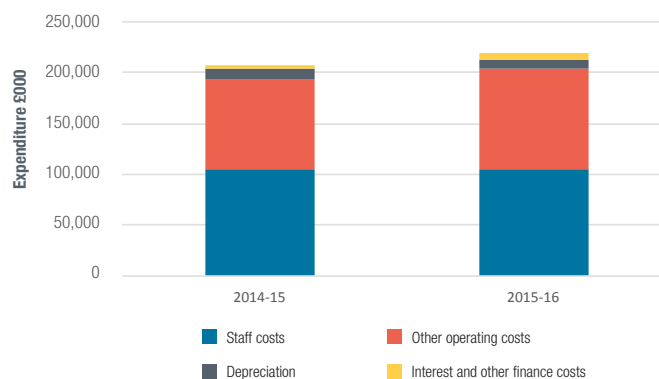
The continuing upward trend in overall income comes mainly from continued growth in student numbers and associated tuition fees and education contracts, up by £8.1m over the year to £110.6m (2015: £102.5m):

- > £2.8m of the growth relates to home and EU student numbers on Scottish campuses.
- > £2.7m of the growth relates to the addition of a further cohort of fee paying students from England Wales and Northern Ireland.
- > £5.1m of the growth can be attributed to the growth in fees from international students, notably from the addition of the second cohort of students at our new Malaysia campus.
- > The reduction in Higher Education contract income, in large part, reflects the fortunes of the Edinburgh Business School which saw economic conditions – including currency fluctuations, conflicts and keen competition across several key markets – put sales under pressure. The new management of the Business School have plans to halt and reverse that trend.

The recent trend of generally increasing funding body grants continued this year, with Scottish Funding Council grants reaching £45.5m (2015: £44.7m); boosted by continued support for additional funded places to widen access and for strategically important subjects in undergraduate and postgraduate programmes and by the first of three stages of an increase in the Research Grant, from £9.9m to £12.1m, as a result of the University's success in the Research Excellence Framework 2014.

This year saw an increase of £1.4m in research grant and contract income to £33.2m (2015: £31.8m). This income line is one in which our comparative results are most distorted by the implementation of FRS 102, because of the significant impact in 2013/14 of the change in accounting policy that saw the immediate recognition of the full income for research grants that have no performance conditions attached (note 30).

Having had the benefit, in recent years of a one-off boost to other income associated with the proceeds of the sale of our investment in spin-out companies and the positive impact on our residences catering and conferences income associated with activity related to the 2014 Commonwealth games; the University's other income has fallen to £27.8m (2015: £30.9m). The biggest reduction has been that associated with commercial income.



## EXPENDITURE

At £105.1m (2015: £104.4m), an apparently modest 0.7% increase on staff costs compared to the previous year is distorted by the 2014/15 charge associated with a large increase in the provision for the institution's share of the USS recovery plan. In fact, underlying salary costs grew by 7% in the year, with 1.0% being attributable to the pay award in 2015, but the bulk of the increase being attributable to growth in staff numbers; reflecting the investment in new active research academics and the growth in our overseas campuses; and to automatic increments in pay scales. 2015/16 saw 14% growth in social security costs, exceeding the rate of growth of the underlying salaries because of the impact of the loss of relief on Employers' National Insurance Contributions for staff contracted out of the additional state pension scheme. Detailed disclosures are shown in note 7 to the financial statements.

Reaching £99.5m (2015: £89.8m), the 10.7% increase in other operating expenditure reflects the general growth in activity associated with a growing student population at home and abroad; and with growth in the University's research activity.

At £3.1m (2015: £1.2m) interest and other finance costs are up on last year, the underlying interest cost associated with bank borrowing remained static at around £1.8m. The overall increase in financing costs reflects a swing from last year's net return on pension assets of £0.6m to a net charge on the pension scheme of £1.3m.

## NET ASSETS

The transition to FRS 102, which included a restatement of our 2015 Financial Statements, brought significant change to the shape of the balance sheet; most significant of which was the migration of deferred capital grants from reserves to creditors; diluting the value of net assets. Other changes reflected changes to accounting policy in relation to land valuation; established an accrual for untaken leave; recognised the University's share of a USS deficit reduction scheme; released previously deferred income that lacked performance conditions; and recognised the market value of the interest rate swap liability. These are characterised by the changes shown below, and set out in detail in note 30, with accompanying explanations.

|                                                                   | £m            |
|-------------------------------------------------------------------|---------------|
| <b>31 Jul 2015 Total net assets under 2007 SORP</b>               | <b>95.8</b>   |
| Reclassify deferred capital grants and release of deferred income | (42.5)        |
| Revaluation of Edinburgh campus                                   | 5.0           |
| Revaluation of Research Park                                      | 10.6          |
| Holiday pay accrual                                               | (3.0)         |
| Provision for institution's share of USS recovery plan            | (17.8)        |
| Research income                                                   | 11.5          |
| Release of deferred income that has no performance conditions     | 2.8           |
| Valuation of interest rate swap                                   | (5.2)         |
| <b>Total effect of transition to FRS 102</b>                      | <b>(39.2)</b> |
| <b>31 Jul 2015 Total net assets under 2015 SORP</b>               | <b>56.6</b>   |

At the end of the year, the Group had net assets of £54.5m (2015: £56.6m), a reduction of £2.1m on the previous year. The net increase in fixed assets of £38.1m reflects the significant capital works that are underway on our Edinburgh campus, including the National Performance Centre for Sport, the Sir Charles Lyell Centre and new student residences. To fund that investment, this is offset, in large part, by the consumption of short term investments and cash, together down £24.8m, as well as utilisation of £3m of short term borrowings. Long-term creditors grew by £5.8m in the year, reflecting the addition of new deferred capital grants, an increase in the valuation of the interest rate swap liability; set off, to some extent, by repayment of bank term loans.

## CREDIT AND LOANS

The University entered the year having fully drawn both its £25m term loan from the Clydesdale Bank and the £20m term loan from Barclays. By the end of the year, with capital repayments, the term debt had reduced to £42.4m (2015: £44.1m). To protect the University from the revenue impact of financial market volatility, there are interest rate swaps in place for 50% of the Clydesdale loan value and for 100% of the value of the Barclay's term loan, that liability having been reflected in the balance sheet at £5.2m, for the first time on transition to FRS 102. During the year, the University drew £3m of its revolving credit facility from Barclays.

During this year, the University's strategy has developed to reflect the requirement for approximately £60m of further borrowing to support provision of the physical capacity to accommodate the student numbers and quantity and quality of research that underpin the University's Strategic Plan.

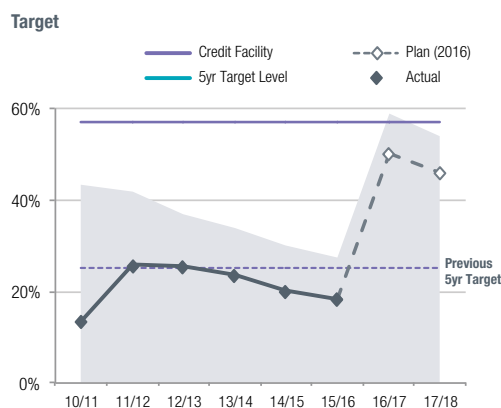
In December 2016, the University benefited from receiving the proceeds of long-term debt funding through a private placement with three UK and US institutional investors. The net proceeds of the £112m investment, have been used to repay all existing borrowings, and to contribute £63.5m towards the funding of the campus development already described in this document, including:

- > Creation of a new flexible academic building that as well as enhancing teaching and research capacity will create facilities for discovery, innovation and incubation;
- > Redevelopment and modernisation of existing facilities to create high quality teaching laboratories and highly serviced research facilities;
- > Continual improvements to the existing residential estate.

The University has committed to this further borrowing solely to raise capital that will supplement internally generated surpluses and endowment funds for the development of its estate. It does this to:

- > Generate capacity in its teaching and learning environment that will accommodate its planned growth in on-campus student numbers; and to
- > Create the facilities required to continue to grow and intensify its research, and only to do so where there is a demonstrable return on capital investment.

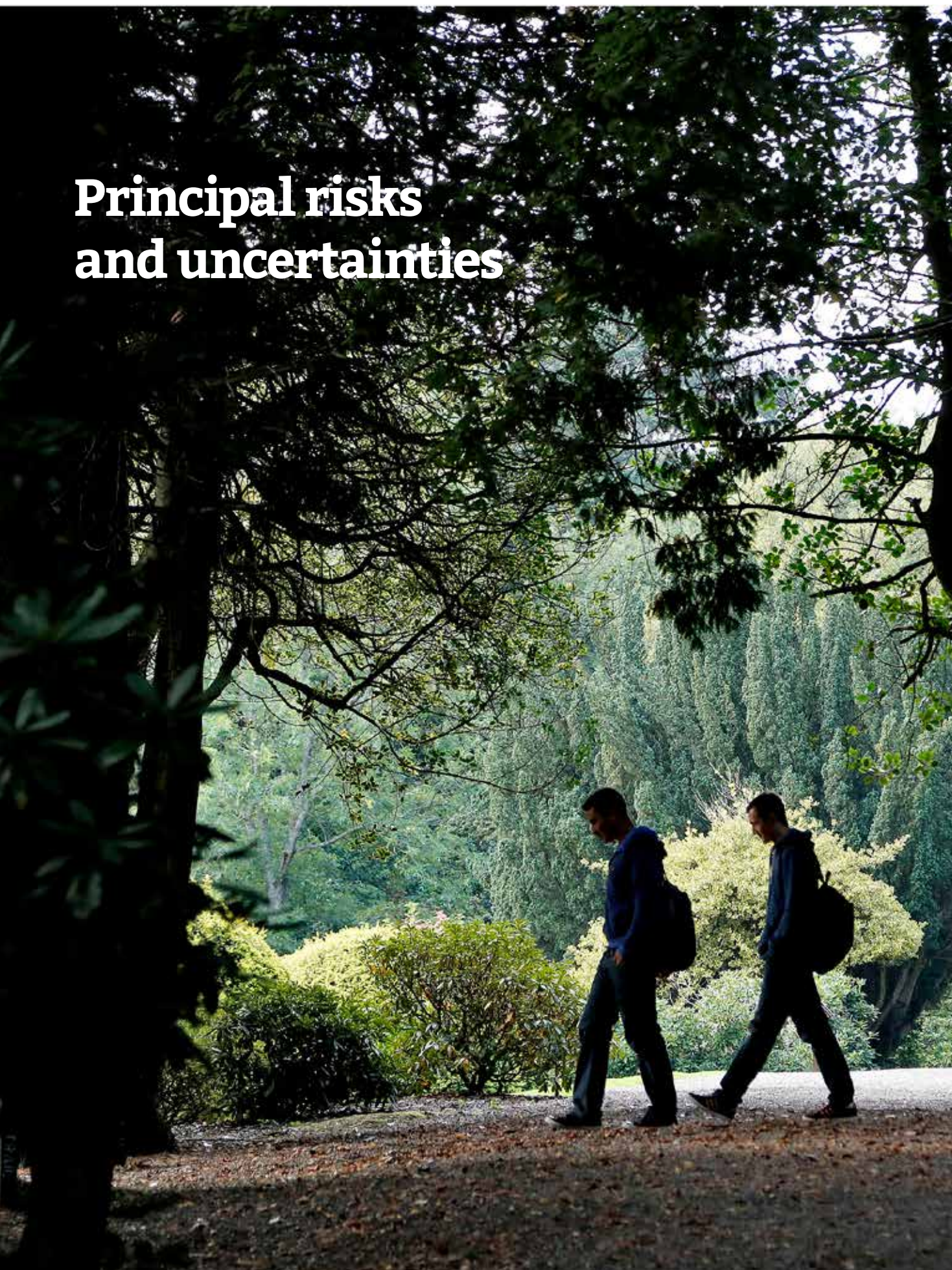
The University currently has no plans to borrow beyond this private placement.



## KPI: Gearing

Measuring long-term borrowings as a percentage of income gives an indication of the level of borrowings relative to the size of the institution and gives an indication of both the institution's exploitation of its potential to support development and the risks associated with servicing repayments and interest on such debt. With borrowings of £42m, representing 20% of the University's total income, Heriot-Watt currently sits below the sectoral median target. In the coming years, that proportion will grow, as we reflect the addition of the new borrowing that comes from our private placement; but with rising income, the proportion will dilute over the longer term.

# Principal risks and uncertainties



In the foregoing sections, we have recorded the main operational risks associated with delivery of the key elements of the strategic plan. There are, however, two overarching significant strategic risks that the University currently faces:

- > The first of these is the risk that we fail to achieve our income targets. The source of that risk is diverse, but includes risks around Scottish Funding Council funding, the impact of government immigration policy on our recruitment of overseas students to Scotland, the global economic downturn in key functional and geographic markets, uncertainty relating to Brexit and acute competition in overseas markets. We have sought to mitigate these risks by ensuring that our student offering remains attractive, by ensuring that our programmes remain attractive, for example through strengthening the global nature of our programmes; offering greater flexibility in subject choice, location and mode of study; and the introduction of new and refreshed taught postgraduate programmes, including, for the first time at our Edinburgh campus, a full-time on-campus MBA.

In addition, our financial plans contain significant contingency and discretionary elements to provide resilience and flexibility, including explicit contingency against failure to achieve planned tuition fee and net research income; a rolling process of financial performance review of individual academic programmes; interest rate hedging to give greater certainty over debt servicing costs; discretionary elements in potential capital investments; and gateway reviews to maintain future flexibility over decisions to commit capital expenditure across the planning period in the event that financial circumstances or risk profiles change.

- > The second of these is the broader uncertainty arising from the UK's decision to leave the European Union. The consequences of that risk are varied, ranging from the risk to income from EU students and EU Research; through human capital risks associated with the large number of EU nationals employed by the University and financial risks arising from economic uncertainty and currency fluctuation; through to risks arising from regulatory compliance (Trade regulations, taxation, procurement, Health & Safety). The University has sought to manage and mitigate those risks through close monitoring of all available sources of information by a recently formed "Brexit Group" and the development of a consequential Brexit Action Plan.

On page 34, as part of the Corporate Governance Statement, there is a more general description of the University's approach to risk and the framework of risk management.

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*The University has sought to manage and mitigate the risks of Brexit through a recently formed "Brexit Group" and the development of a consequential Brexit Action Plan.*

# Corporate issues



## OUTCOME AGREEMENT

In 2011, the Scottish Funding Council acted on advice from the Scottish Government to establish Outcome Agreements with Scottish universities. From 2012/13, the agreements, which are negotiated individually between the Funding Council and institutions, have been framed to ensure improved outcomes would be delivered by Scottish universities in specific areas, including notably widening access to increase the number of students from deprived areas of Scotland entering the University; new pathways for increased numbers of students to progress from Scottish further education colleges to the University; increasing skills training in various topics; increasing various aspects of equality and diversity in the University; increasing Scottish universities' global research competitiveness; increasing university/industry collaboration in Scotland; and increasing Scottish universities' contributions to environmental sustainability.

The University has welcomed this opportunity to demonstrate alignment of its activities with Government priorities and, through the negotiation of Outcome Agreements since 2012/13, has secured additional resources from SFC to advance the targeted outcomes.

## EMPLOYEE COMMUNICATION

Staff have been kept up-to-date during the year with strategy development, implementation and financial and academic performance through a variety of communication channels.

Through a variety of channels, regular internal communication activities are undertaken to ensure staff are kept informed about institutional progress, and encouraged to engage with the implementation of the University's Strategic Plan. The Principal and Vice-Chancellor hold annual staff meetings where progress from the preceding year is presented. In order to include all campus staff, the meetings are timed to coincide with the Vice-Chancellor's visits to overseas Campuses. Podcasts are also made available for those not able to attend a meeting near them. These occasions give all staff an opportunity to ask the Principal and Vice-Chancellor questions in person.

In addition, there is a series of written communications provided for staff on the University website, detailing progress at the University's various committees. An electronic newsletter is produced on average twice a week and an on-line magazine is produced twice every year. Urgent messages are distributed through an all-staff e-mail. Face to face communication takes place between managers and staff, with a team briefing system in place to ensure the cascade of relevant information.

Opportunities are available for staff to ask general questions or make comments through both electronic means or by the more traditional method of posting questions.

## EQUALITY AND DIVERSITY

Heriot-Watt University embraces a positive attitude towards the promotion of equality and diversity and takes pride in its efforts to create a working, educational and social atmosphere which is inclusive of everyone. The University takes a holistic approach to equalities, looking to establish and maintain an open and accessible working and learning environment where students and staff are able to reach their full potential.

Our Equality Outcomes cover the period 2013-2017 and are articulated in four overarching outcomes created to have impact across the entire equality and diversity agenda. The Outcomes are an ambitious statement of where the University will be in 2017. The Outcomes impact across all those protected characteristics prescribed by the Equality Act 2010.

The Equality Outcomes are to:

- > Create improved measures;
- > Enhance reporting;
- > Increase awareness and skills; and
- > Deliver a culture of inclusion for all.

Consistent with our requirements under the Equality Act 2010, in April 2013 the University also published the Heriot-Watt University Pay Gap information and Equal Pay Statement and a Mainstreaming Equality Report. These can all be accessed at [www.hw.ac.uk/services/equality-diversity/legal-requirements.htm](http://www.hw.ac.uk/services/equality-diversity/legal-requirements.htm).

We published our interim position in April 2015 alongside an update of progress toward our Equality Outcomes and a Mainstreaming Report. We are currently focusing on producing a new set of Equality Outcomes for 2017 alongside a new Equal Pay Statement and Mainstreaming Report. All information about equality and diversity at Heriot-Watt can be found at [www.hw.ac.uk/equality](http://www.hw.ac.uk/equality).

One of our main areas of equality activities is around gender equality, specifically progressing through the Athena SWAN Charter Awards. The Athena SWAN Charter recognises commitment to advancing women's careers in higher education. Heriot-Watt University was a founding member of the Charter in 2005. The University was awarded our current Bronze status in September 2013. We are currently rolling-out Athena SWAN principles across all our Schools and Professional Services with a view to submitting award applications at the disciplinary level. Three of our Schools now hold Bronze Athena SWAN Awards, the School of Mathematical and Computer Sciences, The School of Engineering and Physical Sciences and the School of Energy, Geoscience, Infrastructure and Society. We are currently preparing our University-wide submission for a Bronze Award renewal.

*The University has welcomed this opportunity to demonstrate alignment of its activities with Government priorities and, through the negotiation of Outcome Agreements since 2012/13, has secured additional resources from SFC to advance the targeted outcomes.*

## EMPLOYMENT OF DISABLED PERSONS

The University is a Two-Tick accredited employer. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. The University has a policy for the employment of people with disabilities. The main elements are:

- > The University is committed to ensuring that disabled people receive full and proper consideration throughout the whole recruitment process.
- > Candidates who meet the minimum criteria will be guaranteed an interview.
- > Subject to available resources, the University will provide or obtain, through grants or aid from the Disability Employment Service, any practical equipment or modification which will enable disabled people to undertake full employment.

In the event of existing employees becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the recruitment, training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. The Two-Tick Scheme is currently being migrated into the new Disability Confident scheme and we will shortly be displaying the new accreditation.

## PENSIONS

The Group's employees are members of one of four pension schemes: the Universities Superannuation Scheme (USS), the Lothian Pension Fund (LPF) the Scottish Teachers Superannuation Scheme (STSS) and Heriot-Watt Services Limited defined contribution pension scheme

Both USS and LPF published their latest triennial valuation reports, for which the reference date is 31 March 2014, in December 2015 and February 2015 respectively. Valuation of the Scottish Teachers' Superannuation Scheme was completed by the Government Actuary's Department on behalf of the Scottish Government on 27 February 2015, based on scheme data as at 31 March 2012.

Details of accounting policies are set out on Pages 48-50 and further disclosures are set out in note 26. Other than the Heriot Watt Services defined contribution pension scheme, the schemes provide benefits to members based on final pensionable pay.

For USS, the institution has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, and so recognises, as a provision in its balance sheets, a liability for net present value of the future contributions payable that arise from the agreement. During the year that provision grew by £2.1m to £19.9m (note 18).

For the Lothian Pension Fund the net value of the underlying assets and liabilities of the University's share of the fund are identifiable as a provision in the University's balance sheet. During the year that provision grew by £3.7m to £26.8m (note 18).

The Group continues to operate its Pension+Plus arrangement for employees who are members of USS. Those participating in this arrangement no longer pay employee pension contributions in the usual way. They have instead agreed to a reduction in their salaries equal to their pension contributions and the Group has, in turn, agreed to increase its own pension contributions to cover both the employee and the employer elements. Both sides have benefited from this arrangement, with reductions in employee and employer National Insurance contributions. The Group has reinvested the savings it has made in new initiatives and the employees involved have benefited from an increase in take home pay.

## ENVIRONMENTAL SUSTAINABILITY

The University is committed to operating its facilities in a responsible way with concern for the environment and for the communities in which it operates. In order to achieve this objective the University considers environmental issues within investment and business decisions and plans sustainability improvement initiatives across key areas including:

## UTILITIES AND CLIMATE CHANGE

- > Reduce energy consumption and related greenhouse gas emissions by promoting effective and efficient reduction methods, throughout the whole estate.
- > Reduce water consumption by promoting conservation methods throughout the whole estate, aspiring towards best practice through effective monitoring and targeting systems.

## RESOURCE EFFICIENCY

- > Minimise waste and ensure that there is effective control, which promotes reuse and recycling where possible and provides responsible disposal elsewhere.
- > Avoid the use of non-replaceable resources wherever possible.

## SUSTAINABLE PROCUREMENT

- > Influence our suppliers and contractors to ensure that goods and services procured support our environmental policy and, in turn, that all suppliers and contractors progressively improve their own environmental performance.

## CAMPUS, LANDSCAPE AND COMMUNITY

- > Continue to recognise the value of biodiversity and the importance of protecting and enhancing the diverse range of species and habitats present on campus.
- > Involve and inform staff, students, visitors and other stakeholders to develop their awareness of environmental issues.
- > Liaise with local communities and their representatives where the University operates on environmental matters.

## TRAVEL

- > Develop and implement green transport plans for business and commuter travel.
- > Promote modal shift from single occupancy private car use by encouraging and facilitating car sharing, better use of public transport and the provision of facilities for pedestrians and cyclists.

The University also promotes enhanced environmental sustainability via a significant proportion of its teaching and research. To establish the best framework in which to continue to improve sustainability performance, the University will work towards the development of Environmental and Energy Management Systems consistent with the ISO 14001 and ISO 50001 standards. During 2017 we plan to undertake a detailed gap analysis leading to the creation of an action plan towards full certification.

During 2015-16 the University's environmental sustainability initiatives and achievements included:

- > The establishment of an energy efficiency recycling fund (with Salix Finance) which will facilitate the delivery of future energy performance improvement projects across the estate.
- > Implementation of a range of carbon reduction projects including boiler replacements, LED lighting projects and control improvements to mitigate greenhouse gas emissions.
- > Achievement of Cycling Scotland's "Cycle Friendly Campus Award" with Distinction for the Edinburgh Campus, in recognition of work by Transition Heriot-Watt and the University to support, develop and promote cycling as a means of sustainable travel.
- > The development of a new Carbon Management Plan (to 2019-20) which describes the University's targets and plans in relation to climate change action and identifies the key mechanisms via which the University aims to reduce carbon emissions.

## PAYMENT OF SUPPLIERS

Unless special terms are agreed, it is Group policy to pay valid invoices at the end of the month following the month in which the invoice is dated. At 31 July 2016 there were 13 days (2015: 30 days) of purchases in trade creditors. No interest was payable under the terms of the Late Payment of Commercial Debts (Interest) Act 1998.

## MINORITY INVESTMENTS

For a number of years the Group has had a policy for the commercialisation of its research base, in some cases through the creation of "spin-out" companies, in which it retains a minority investment. As at 31 July 2016 there were 12 investments (2015: 12) in a range of different companies. The market value of these investments is not reflected in the Group's financial statements.



# Corporate Governance Statement

## INTRODUCTION

The University aims to achieve best practice in all aspects of its governance. This statement describes the principal governance provisions which are currently in place in support of this aim. The University Court keeps these provisions under review to take account of evolving best practice, and to remain responsive to the needs and expectations of its stakeholders. Throughout the financial year 2015/16, the Court has been observant of the Scottish Code of Good Higher Education Governance (the Scottish Code).

The University seeks to ensure that it conducts its business in accordance with the seven principles identified by the Committee on Standards in Public Life: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The commitment of the University Court to these principles is explicit in the Court's Statement of Primary Responsibilities and in advice provided to prospective and new members of the Court and its committees.

The powers of the University and the Court, as its governing body, derive from the University's Charter and Statutes. These are the University's primary constitutional documents. The Charter defines the objects, powers and responsibilities of the University, its principal officers, and the functions of the Court and the Senate of the University. The Statutes prescribe the supporting requirements for enactment: the membership, powers and functions of the Court and the Senate; the appointment, powers, duties and conditions of service of officers and members of staff; and provisions for the formation and approval of the Ordinances and Regulations.

According to the University Charter, subject to the terms of the Charter and the Statutes, and to the powers reserved to the Court, the Court delegates to the Senate all of its powers in relation to academic work and standards. The Senate is therefore the executive body responsible for the academic work and standards of the University. In 2015 the Court approved new developments in the supporting Ordinances to the Charter and Statutes which further clarified the responsibilities delegated by the Court to each of the following: the Chair of Court; the Principal; and the Secretary of the University.

In the reporting year, the University, led by the Court, has undertaken a range of new developments, and implemented changes in support of its objective to achieve the highest possible standards in governance. Examples of recent developments are described below. A significant development in the reporting year has been the enactment of new Charter and Statutes following a substantial review completed in 2014. The new Charter and Statutes reflect the character of the University's as a complex international body, they are cognisance of the requirements of the Scottish Code, as well as with relevant legislation such as the Charities and Trustee Investment (Scotland) Act 2005, and they provide a high degree of clarity around the respective powers, functions and responsibilities of the Court and the Senate. Further developments of note include:

- > Establishment in post of the new Principal & Vice-Chancellor, Professor Richard A Williams OBE FREng, FTSE;
- > Mid-Point Effectiveness Reviews of the Court and the Senate were undertaken (the reviews are described in more detail below);
- > A Global Student Liaison Committee was established and met for the first time in 2015 as a new standing committee of the Court, chaired by an independent lay member of Court. This committee incorporates multi-campus representation, including strong student representation. Its primary focus is on the achievement of an excellent student experience and strong student representation across all campuses of the University;
- > The Court approved and implemented new Standing Orders for the Court in December 2015, in compliance with the Scottish Code;
- > The agendas, papers and minutes relating to each meeting of the Court are included in the University's Freedom of Information Publication Scheme and are available on request to any member of staff, student or member of the public, subject to any legitimate exemptions that might apply to the information they contain.

- > In autumn 2015, the Court established a programme of evening dinner meetings for Court members. These themed discussion events normally take place on the evening before the regular business or strategy discussion meetings of the Court and have been led by an invited guest with expertise in the chosen topical area for discussion. These events are designed to enhance Court members' engagement with and knowledge and understanding of issues of importance and relevance to the University. Topics discussed in 2015/16 have focused on: redefining and repositioning of the University's brand; driving growth and reputation through the University's institutional development programme; alternative modes of delivery to enhance the student learning and teaching experience; Court Effectiveness Review 2015; International Rail Centre industry partnership project; and the University's global research agenda.
- > At the end of 2015, the Court approved a new Policy on Court and Court Committee membership. This stipulates requirements in relation to making new appointments, induction, training and development arrangements for members, and procedures relating to review, renewal and removal of members. This new policy is relevant to a number of requirements set out in the Scottish Code of Good Higher Education Governance.

During the reporting year, the Court approved a number of new or revised University policies. These included: Health & Safety Policy and Policy Statement, Treasury Management Policy, Travel and Expenses Policy, Ethical Business: Gifts & Hospitality Policy, Global Reward Policy, and Senior Staff Salary Review Procedures.

## GOVERNING BODY

### Responsibilities

The University's Charter defines the powers of the Court as the governing body of the University with general control of the management and administration of the University. The University Charter and Statutes were substantially revised in 2014/15 with the new constitutional documents coming into effect from 1 September 2015 however, the key functions of the Court, as described in those primary constitutional documents, have remained materially unchanged. The University Charter prescribes that the Court shall adopt, and at all times act in accordance with, a Statement of Primary Responsibilities which shall include provisions relating to the performance of the Court's primary responsibilities in accordance with accepted principles of good governance for a university. The key functions of the Court are to:

- > Be ultimately responsible for oversight of the affairs of the University;
- > Set and approve the University's strategic direction, vision and mission;
- > Ensure the effective management and control of the University's affairs, property and finances through the establishment of systems of internal control;
- > Ensure the effective management and administration of the University's staff and the students;
- > Determine the structure, staffing and overall composition of the University; and
- > Appoint the Chancellor, Pro-Chancellors, Principal, Vice-Principal and the Secretary of the University.

During the reporting year a first phase of work was undertaken to substantially revise and add to the body of supporting Ordinances to the new Charter and Statutes. The work focused on those Ordinances which were essential to the key responsibilities of the Court and the Senate and particular attention was paid to alignment of the new Ordinances to the provisions of the Scottish Code of Good Higher Education Governance.

The Court Statement of Primary Responsibilities sets out clearly the responsibilities of the Court, aligned to guidance provided in the Scottish Code. The Statement is published in full at: <http://www1.hw.ac.uk/committees/court/statement-of-primary-responsibilities.pdf>.

In discharging its responsibilities the Court met 6 times during the year 2015/16, including at two full "Strategy Discussion Days". The first Strategy Discussion Day in the year, scheduled in November 2015, focused primarily on detailed review of the University's performance against the agreed set of Key Performance Indicators aligned to the Strategic Plan and associated institutional strategic risks. Thereby, the Court was provided with background contextual information upon which to draw when considering the 2016 Five-Year Financial Plan.

The Court Strategy Discussion Day held in May each year provides the opportunity for strategic discussions aligned to current institutional priorities. The primary topics for discussion at the May 2016 meeting were focused on the development of the 2016 Five-Year Financial Plan, the transition plan to 2020 and beyond for the Dubai Campus, and strategic research partnerships in the area of high speed rail.

At each of its ordinary meetings in the year being reported, the Court received an executive briefing from the Principal, which updated the Court on topical higher education sector policy issues, matters concerned with the work and progress of the University and the work of the University Executive. In addition, the Court received a regular report from the Senate (based on the full minutes of the Senate), and reports from each of the committees of the Court which had met in the preceding period. The reports from the Court committees, which are presented by the respective committee Chair are normally based on the minutes of the meetings, thereby, the full business of each committee is normally presented to the Court for information, for comment and, where appropriate, for approval. At each ordinary meeting of the Court, the President and the Vice-President Student Union members of the Court are provided with an opportunity to update the Court on items of news and issues of interest to the Student Union and the students it represents. The Court receives the annual report of the Heriot-Watt University Student Union.

The Court is responsible for reviewing and approving any significant long-term academic and business plans of the University including major infrastructure projects. During the year reported the Court and its Finance and Campus Committees have received regular reports on progress towards completion of the major Oriam project (Scotland's National Performance Centre for Sport), the £30 million Edinburgh Campus student residences project and the Lyell Centre, developed jointly with the British Geological Survey. In the reporting year the Court approved development plans for a new hotel building on the Edinburgh Campus. This project is associated with the Oriam project and it will be delivered in 2017.

The Higher Education Governance (Scotland) Act was passed in 2016. The key provisions of the Act relate to:

- > Advertisement, election, appointment, tenure and remuneration of the Chair of Court;
- > Composition of and elections and nominations to the Court;
- > Composition of and elections to the Senate; and
- > The definition of Academic Freedom.

The recent Regulations provided for most sections of the Act to come into force from 30 December 2016, except that institutions will have until their constitutional documents enable compliance or until 30 December 2020 at the latest to comply with the Act's provisions in relation to the composition of the Court and the Senate. Provisions relating to the Chair of Court appointment will come into force from 30 June 2017.

The University has been actively considering the changes that will be required to its constitutional documents to enable compliance with the Act and its Constitutional Review Group will meet in January 2017 to take this work forward.

### Court membership

The Court comprises twenty five members including the Chair, who is one of a maximum of thirteen independent lay members of the Court. A further ten members, both internal and external to the University, have been directly elected to the membership and a further two are ex-officio members. The members of Court are listed on Page 73.

As well as the Principal and Vice-Principal, who are members of Court, regular further attendees at meetings of the Court include the Secretary of the University (who is Secretary to the Court), the Director of Governance and Legal Services, the Director of Finance, the Vice-Principals (Dubai) and (Malaysia) and those in Deputy Principal roles, thereby ensuring that relevant additional advice and expertise is readily available to the Court when required during meetings. As and when particular agenda items require input of specific knowledge or expertise to add value to the discussion and the decision-making process, other members of the executive management team have been invited to attend part of an ordinary meeting of the Court to contribute to the discussion on that item of business.

During 2015/16, all non-Court members of the University Executive, together with independent lay members of each of the Court's standing committees, were invited to attend Away Day meetings of the Court as full participants at those events.

### Equality and Diversity

During 2015/16 six vacancies arose in the independent lay membership of the Court following completion of members' terms of office. Four of the replacement members were female.

The Court has been very successful in recent years in achieving incremental positive change in the gender balance of the Court membership. In the reporting year, 54% of the appointed independent lay members of the Court were female. In the publication 'Women Count: Leaders in Higher Education 2016' which was launched in early 2016, Heriot-Watt University was ranked 4th in the UK out of 166 higher education institutions in terms of its overall proportion of female governing body members.

The Court continues to encourage diversity in its membership, whether this be through independent lay member appointments or encouraging a full diversity of individuals to stand for election in elected positions.

The proportions of female members across the full membership of the standing Committees of Court in 2015/16 were as follows: Audit & Risk 100%, Finance 25%, Global Student Liaison 43%, Governance & Nominations 56%, Remuneration 50%, and Staff 50%.

In summer 2016, the Court approved the appointment of an independent lay member of the Court as an Equality and Diversity Champion. It is intended that this post-holder will work to promote awareness of equality and will maintain a close link with the work of the University's Equality & Diversity Advisory Group and advancement of the University's Equality & Diversity Action Plan.

### Principal and Vice-Chancellor appointment

The University's new Principal and Vice-Chancellor, Professor Richard Williams, took up his post from 1 September 2015. Good governance guidance, as set out in the Scottish Code, was followed in relation to the appointments process for a new Principal.

In the interregnum period between appointments, the Court approved the appointment of Vice-Principal, Professor Julian Jones, as Acting Principal from 14 March 2015 until 31 August 2015. Professor Gill Hogg was appointed during the interregnum as the Acting Vice-Principal.

### Committees of the Court

The standing committees of the Court assist the Court in discharging its responsibilities in the governance oversight of the broad areas of: human resources; estate and campus development; finance and asset management; risk, systems of internal control and audit, student representation and engagement, and effective governance. The Terms of Reference of committees of the Court are normally reviewed annually, and are approved by the Court, ensuring that there remains clarity around the delegated powers and lines of responsibility between the Court and its committees. The membership of the Committees of Court is listed on page 74. The standing committees of the Court are described below.

- The Emergency Committee of Court may consider delegable items of business and take decisions on behalf of the Court during the summer recess, or as and when any urgent matter might require attention between ordinary scheduled meetings of the Court. The Emergency Committee is chaired by the Chair of Court.



- > The Audit and Risk Committee met 7 times during the period reported with the External and Internal Auditors sitting in attendance at each meeting. The Audit and Risk Committee provides independent oversight of, and advice to the Court on: the adequacy and effectiveness of the University's systems of internal control (including financial systems, accounting procedures, measures to control the risk of fraud or malpractice); risk management arrangements; compliance with statutory Scottish Funding Council and other requirements; and governance arrangements to promote efficiency, effectiveness and value for money. The Audit and Risk Committee oversees the process for the appointment of Internal and External Auditors, monitoring the performance and effectiveness of the Auditors, and oversees the programmes of internal and external audit and the implementation of recommendations emerging from internal audit reviews. In 2016 the Committee approved the appointment of PricewaterhouseCoopers LLP as the University's Internal Audit for a period of three years from 1 August 2016.
  - > The Finance Committee met 6 times during the period reported. The Committee's primary responsibilities include reviewing, overseeing and advising the Court on: the overall financial strategies of the University; financial forecasting and performance; the University's treasury activities, including investments, borrowing commitments and borrowing terms; fundraising; working capital management; and the financial affairs of the University's trading and commercial activities. The Committee is also responsible for: monitoring and reviewing compliance with the Financial Memorandum with the Scottish Funding Council and other relevant terms and conditions associated with funding grants and rewards; reviewing and making recommendations to the Court on business plans for new ventures; and ensuring the development and implementation of finance and procurement policies which meet legislative and regulatory requirements and also reflect best practice. The Finance Committee reviews and approves the annual accounts and financial statements for the whole Heriot-Watt University Group jointly with the Audit and Risk Committee.
- Four committees report to the Finance Committee: the Campus Committee; the Endowments Committee; the University Collections Committee; and the Fees Working Group.
- > The Governance and Nominations Committee met 3 times during the period reported. The Committee's composition reflects the advice set out in the Scottish Code relating to the membership of a governing body nominations committee. The Governance and Nominations Committee advises the Court on all matters relating to governance and good governance practice, the conduct and effectiveness of Court business and the appointment of independent lay members of the Court and the standing committees of the Court.
  - > The Remuneration Committee met 3 times during the period reported. The remit of the Committee is to review and determine the salary and other remuneration, including performance reward payments and conditions of service, of the most senior staff of the University (i.e. staff remunerated at Grade 10 on the nationally agreed higher education framework single pay spine). The membership of the Committee comprises only independent lay members and includes one member who is entirely independent of the work or governance of the University. The Committee is chaired by the Deputy Chair of Court. The University complies with the guidance set out in the Scottish Code in relation to the composition and responsibilities of the committee responsible for remuneration. During the year the Terms of Reference of the Committee were reviewed and updated in the light of good governance guidance on remuneration committees which was released by the Committee of Scottish Chairs in August 2015.
- > The Staff Committee met four times during the period reported. The Committee's remit is to advise the Court and make recommendations on the human resources strategy in relation to the University's strategic objectives, legislation and best practice, and to oversee workforce planning and employment policy as well as matters relating to equal opportunities, diversity, the welfare and security of staff, international staff governance and arrangements in place for staff representation.
  - > The Global Student Liaison Committee met 3 times during the period reported. The Committee provides a means for the Court to consider the effectiveness of the University's global mechanisms in place to review, monitor and continually enhance the student experience, and to ensure that appropriate levels of student feedback and representation are enabled and encouraged across all campuses of the University.
  - > The Ordinances and Regulations Committee is a joint committee of the Court and the Senate and includes members who are appointed separately by both the Court and the Senate. The Committee met 3 times during the period reported. The purpose of the Committee is to advise the Court and the Senate on matters related to the Ordinances and Regulations of the University and to keep under review the University's Charter, Statutes and underpinning Ordinances and Regulations.

The full terms of reference of each Court committee can be accessed via the following webpage: <http://www1.hw.ac.uk/committees>.

### **Effectiveness of the Court**

During the reporting year the Court completed an "Interim" 2015 Effectiveness Review of its effectiveness and that of its key committees and also completed a 2016 annual Effectiveness Review.

The Interim Effectiveness Review has been designed as the mid-way review between the five-yearly externally-facilitated reviews required by the Scottish Code. This Effectiveness Review combined a review of Court effectiveness with a review of the effectiveness of the University's governance set in a global context, following visits to all campuses by the Deputy Chair of Court. Actions to fulfil the recommendations of this Effectiveness Review are under way.

The 2016 annual Court Effectiveness Review was completed in summer 2016 and the results were reported to the Court in October 2016. Steps will be taken in the year ahead to implement recommendations emerging from this review in what has become a process of continual review and enhancement of the University's processes to support good governance.

A full externally facilitated review of Court Effectiveness will be undertaken in 2017. This will be the first of the University's five-yearly externally facilitated Effectiveness Reviews as required by the Scottish Code.

### **Effectiveness of the Senate**

The Scottish Code requires that, in addition to reviewing its own effectiveness, the Court should ensure that processes are in place to ensure the effectiveness of the Senate. In parallel with the 2015 mid-point review of Court Effectiveness, an Effectiveness Review was undertaken of the Senate. This major review will help to ensure preparedness for the planned externally-facilitated review of governance in 2017/18.

The Midpoint Review encouraged contributions from the Chairs of Senate Committees along with all members of the Senate and of the committees within the academic governance structure. Research was also conducted to identify and evaluate academic good governance practice at comparable universities in the UK. The resulting report incorporated relevant findings and wide ranging recommendations. In spring 2016 the Senate agreed to adopt a series of principles aimed at enhancing academic governance, and also agreed a series of procedural changes to enhance the operation of the Senate and to ensure well-defined consistent processes. Subsequent developments have included the development of a 'Statement of Primary Responsibilities' of the Senate, a Statement of Delegated Authority' – to ensure there is clarity on how and by whom the responsibilities of the Senate may be discharged. In addition, informed by an assurance mapping process, revised Terms of Reference have been developed for each standing committee of the Senate. Revisions to the academic committee structure have been proposed to promote clarity of purpose and effective discharge of responsibilities. Standing Orders, and induction programme for members of the Senate and its committees and an Attendance Policy also form part of the developments which have emerged in consequence of the review.

### **Induction and development opportunities for members**

A two day induction programme is available to all incoming new and current members of the Court and its standing committees each year. Opportunities are taken throughout the year to increase members' knowledge and understanding of the University's work and the governance and policy environment in which it operates, through tailored presentations and discussions or "show and tell" events at Court Away Days.

Court and Court committee members are also regularly informed of upcoming seminars and conferences which are relevant to higher education governance, for example, those provided by the Leadership Foundation for Higher Education (LFHE) through its Governor Development Programme. Court members are also informed via regular briefings of new publications of relevance. The programme of evening meetings throughout the year which are supplementary to the scheduled ordinary meetings and Strategy Days of the Court provide further future opportunities to develop Court members' knowledge and understanding of issues relevant to the University and the higher education more widely, thereby enhancing their effectiveness in their governance role.

During the course of 2015/16, Court and Court committee members were offered the opportunity to attend six training seminars run by the LFHE, along with a number of round-table sessions on the Prevent Agenda, Academic Governance and Finance Governance.

**Independence**

The Court is satisfied as to the independence of the appointed lay membership of the Court. Appointments are made following open advertising and against clear criteria, taking into account the requirements of independence and diversity.

**Reporting of Interests**

The Group has taken the necessary steps to ensure compliance with Financial Reporting Standard 102's provisions on Related Party transactions. Any interests which, under this accounting standard, would require to be disclosed by members of the Court would be so disclosed, with appropriate recording in the Court minutes.

The University's Ethical Business: Conflict of Interest Policy applies to all members of the Court and its committees. The accompanying register of Court members' interests is updated annually and published on the University's website.

**CORPORATE STRATEGY**

The University's current Strategic Plan, was launched in 2013 and covers the five-year period from 2013 until 2018. The development of the Plan involved an extensive process of consultation and stakeholder involvement, through a series of themed workshops and other meetings. Members of the Court were individually and collectively involved in the development of the Strategic Plan throughout the period leading to approval of the Plan by the Court in autumn 2012. The University is in now more than half-way through the Plan period and in the coming year the University will embark on work to develop a revised five-year Strategic Plan.

The University's supporting Five-Year Operational Plan is reviewed and updated on an annual rolling basis. Within their schedule of meetings during the year, the Finance Committee and the Court receive reports from the Vice-Principal and the Director of Finance on the development of the Five-Year Operational Plan and any issues arising, such as changes or risks posed to the previous year's Plan in consequence of changed internal or external factors. There are opportunities for the Court and the Finance Committee to consider the assumptions underpinning the Five-Year Operational Plan during the spring period, before a final draft Plan is submitted to both bodies for final approval at their respective meetings in June.

The biannual Court Strategy Days provide the opportunity for the Court to consider strategic issues in detail. The autumn Away Day meeting is focused primarily on the University's performance against the agreed set of benchmarked Key Performance Indicators linked to the Strategic Plan. Discussion topics at this meeting will also normally focus on areas of institutional risk. The following spring Strategy Day meeting is more widely based in terms of strategic topics for discussion and the programme will often reflect particular strategic priorities arising in the year.

*The University's current Strategic Plan, was launched in 2013 and covers the five-year period from 2013 until 2018. The development of the Plan involved an extensive process of consultation and stakeholder involvement through a series of themed workshops and other meetings.*

## RISK MANAGEMENT

The University acknowledges the risks inherent in its activities, and is committed to managing those risks both to create value in times of uncertainty and to address those that pose a significant threat to the achievement of its academic and business objectives, its financial health or its reputation. The systems for risk management and internal controls exist to manage and control the risk of failure to achieve academic and business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. There is a continuous process for identifying, evaluating and managing the significant risks faced by the University and these risks are reviewed regularly by the Risk & Project Management Strategy Group, the University Executive, the Audit and Risk Committee and the Court.

The Court, advised by the Audit and Risk Committee, has overall responsibility for reviewing the effectiveness of the systems of internal control and risk management. The University has developed and adopted a formal and structured risk management policy and system to ensure that key risks are identified, prioritised and managed consistently across the University. The policy and system are reviewed and updated on a regular basis. Reports documenting the policy, system and procedures and issues arising are reported to the Audit and Risk Committee on a regular basis.

### The Risk and Control Framework

The University Executive (UE) and the Risk & Project Management Strategy Group, which reports to the UE, lead the University's risk management process. Ownership of each identified strategic risk lies with a named member of the senior management group. At the operational level, the Heads of Schools and Heads of Directorates identify and manage risk and review risk in their areas of responsibility on a regular basis.

The UE and the Risk & Project Management Strategy Group receive and review the University's strategic risk register at quarterly intervals. The Audit and Risk Committee reviews, quarterly, the effectiveness of the University's risk management framework and the content and appropriateness of its strategic risk register. In addition, the Court reviews the risk and control framework annually.

The key elements of the University's risk management strategy are:

- > A documented and communicated process of identifying and evaluating risks, assessing risk appetite, identifying and implementing suitable responses to risks, providing ongoing assurance about the effectiveness of the framework and processes to embed and review risk awareness. The risk management strategy is reviewed on a three yearly cycle by the Risk & Project Management Strategy Group, the University Executive and the Audit and Risk Committee;
- > Multi-level review and reporting processes throughout the risk cycle, involving staff, Heads of Schools, Directors and managers, the University Executive, Internal Audit, the Audit and Risk Committee and the Court; and
- > Identification and regular review of both the continuing appropriateness of the risks and responses identified and of the ongoing status of the identified or planned responses to risks.

The key ways in which risk management is embedded across the University are:

- > The link between strategic and operational planning and the risk management processes;
- > Including risk in routine, regular operational reporting processes;
- > The ownership, management and oversight of risks by the Risk & Project Management Strategy Group, University Executive, Heads of Schools, Directors and managers;

- > Involving the Audit and Risk Committee and the Court in agreeing and reviewing strategic and operational risks;
- > Using risk registers for each of the University's Schools, Services and Projects; and
- > The monthly, quarterly and annual reviews of strategic and operational risk profiles.

The key controls that are built into routine processes are:

- > Ensuring appropriately skilled and experienced staff are responsible for business processes;
- > Documented procedures exist for all key business processes;
- > Management and independent checking ensure quality of processing; and
- > Management information is available to assess the volume, timeliness and quality of processing.

More generally, the University is committed to a process of continuous development and improvement. The University has enhanced its approach to risk management in the following ways:

- > The Risk & Project Management Strategy Group has widened its remit to include the assessment and reporting on the University's project management policy, methodology and processes for reporting on projects;
- > Correlation of project risks and the risk management framework;
- > Review of the University's Strategic Risk Register to align risks to the four key strands of the University Strategy: Research Intensification and Knowledge Exchange; Learning, Teaching and the Student Experience; Internationalisation; and Enabling Strategies;
- > A more sophisticated approach to the measurement of risk in the Strategic Risk Register; and
- > The development of 'The Statement of Risk Policy and Appetite' which specifies the amount of risk the University is willing to tolerate or accept in the pursuit of its long term objectives. It indicates the parameters within which the University would want to conduct its activities.

## INTERNAL CONTROL

### The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks, including information risks, to achieving strategic and operational aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The wider system of internal control is based on an ongoing process designed to identify the principal risks to achieving the University's policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the University for the year ended 31 July 2016, and up to the date of approval of the annual report and accounts.

### Review of effectiveness of the internal control system

The University's internal audit service throughout the reporting period was provided by Ernst & Young. (The Court has appointed PricewaterhouseCoopers LLP as the University's Internal Auditor for a period of three years from 1 August 2016).

The Internal Auditors report directly to the Secretary of the University on the system of internal control. Internal Audit ultimately exists to support the University in achieving its objectives and is one of the key sources of assurance on which the Audit and Risk Committee and the Secretary of the University rely.

In order to discharge its responsibilities effectively, Internal Audit develops an audit strategy and plan which outlines their program of work. The audit plan takes into consideration the entire governance framework and the other assurance mechanisms and processes which include the risk management processes developed and maintained by University management.

It is the responsibility of the University Executive to:

- > Ensure a thorough and regular evaluation of the nature and the extent of the risks to which the University is exposed and the establishment and embedding of effective risk management processes and systems of control; and
- > Receive, comment on and act on the University Internal Audit forward plan; audit reports on reviews undertaken; reports on the University's progress in actioning internal audit recommendations; and the Internal Auditor's Annual Report.

Internal Audit provides regular reports to the Audit and Risk Committee on:

- > The status of audits/reviews outlined in the approved Internal Audit Plan;
- > Key findings/themes and trends emerging from work undertaken;
- > Management implementation of agreed recommendations and actions; and
- > Significant changes to the Internal Audit Plan based on new/ emerging risks.

These include the Internal Auditor's independent opinion on the adequacy and effectiveness of the University's system of internal control and recommendations for improvement. The Audit and Risk Committee regularly receive progress reports on the implementation of Internal and External Audit recommendations.

The University's Internal Auditors issue an annual Assurance Statement which provides the University with an opinion on the adequacy and effectiveness of the internal control system and the extent to which it can be relied on.

For the year to the end of 31 July 2016, they reported that they are satisfied that sufficient internal audit work has been undertaken to allow them to draw a conclusion as to the adequacy and effectiveness of Heriot-Watt University's risk management, control and governance processes. In the Internal Auditor's opinion, there were adequate and effective risk management, control and governance processes to provide reasonable assurance over the achievement of the University's objectives and the management of key risks. The Auditor further reported that no matters had come to their attention during the course of their work to suggest that proper arrangements were not established to achieve value for money.

The External Auditors also report to the Director of Finance, the University Executive and the Audit and Risk Committee on any internal control issues that they identify during their normal audit activities.

The Audit and Risk Committee's review of the effectiveness of the system of internal control is informed by:

- > The comprehensive management information received by the University Executive on all of University's operational activities;
- > The controls that exist over planned expenditure and the regular reporting of actual expenditure and regular review of budgets and forecasts;
- > The managers within University who are responsible for developing and maintaining the internal control framework. In a new development the Secretary of the University now provides the Committee with an annual presentation in risk management and systems of internal control;
- > The work of the internal auditors, who submit to the Audit and Risk Committee regular reports which include the independent and objective opinion on the adequacy and effectiveness of University's systems of internal control, together with recommendations for improvement; and
- > Comments made by the external auditors in their management letter and other reports.

## THE SCOTTISH CODE OF GOOD HIGHER EDUCATION GOVERNANCE

The University operates in compliance with the Scottish Code of Good Higher Education Governance.

### GOING CONCERN

The University's activities and the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 4-21. Its financial performance for the year to 31 July 2016, income and expenditure, assets, liquidity and cash flows are set out in more detail in the Notes to the Financial Statements on pages 51-72. With current forecasts and projections that show it to be well placed to manage its activities successfully having taken account of risk and uncertainty, the University Court considers that the University has adequate resources to continue in operation for the foreseeable future and for this reason, it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

### RESPONSIBILITIES OF THE UNIVERSITY COURT IN RELATION TO THE ACCOUNTS

The Court is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, and enable it to ensure that the financial statements are prepared in accordance with the University's governing instruments, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education, Accounts Directions from Scottish Funding Council (SFC) and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the SFC and the Court of the University, the Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the surplus or deficit and cash flows for that year.

In causing the Accounts to be prepared the Court has ensured that:

- a. they are prepared on a going concern basis in that the Court is satisfied that the Group has adequate resources to continue in operation for the foreseeable future;
- b. suitable accounting policies are selected and applied consistently;
- c. judgements and estimates are made that are reasonable and prudent; and
- d. applicable accounting standards are followed, subject to any material departures being disclosed and explained in the Accounts.

The Court has taken reasonable steps to:

- a. ensure that funds from SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and any other conditions which the Funding Council may from time to time prescribe. Under the terms of the Financial Memorandum the designated officer, who is required to ensure such compliance, is the Principal and Vice-Chancellor;
- b. ensure that there are appropriate financial and other internal controls in place to safeguard public funds and funds from other sources, and ensure value for money is achieved in the application of those funds. This system of internal control is continuously reviewed and developed in line with current best practice;

- c. safeguard the assets of the Group and prevent and detect fraud;
- d. secure the economical, efficient and effective management of the Group's resources and expenditure;
- e. ensure that the Group's Executive has an adequate system of internal control, and regularly monitors and reviews its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss; and
- f. maintain a safe and secure environment for the staff and students.

The Court believes that the delivery of its mission by its charitable activities provides continuing public benefit and it aims to comply with the Office of the Scottish Charity Regulator's regulatory requirements, including the requirement to maintain independent control by its trustees.

**Professor Richard A. Williams**  
Principal and Vice-Chancellor  
19 January 2017

**Dame Frances Cairncross**  
Chair of Court  
19 January 2017

# Independent auditor's report to the University Court of Heriot-Watt University

We have audited the financial statements of Heriot-Watt University for the year ended 31 July 2016 which comprise the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated and University Statement of Changes in Reserves, Consolidated and University Balance Sheet, the Consolidated Statement of Cash Flows, the Principal Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the University Court, in accordance the Charter and Statutes of the University, and, in the University Court's role as charity Trustees, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the University Court of the Heriot-Watt University those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University Court of Heriot-Watt University for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the University Court of Heriot-Watt University and auditor

As explained more fully in the Statement of Responsibilities of the University Court set out on pages 42 the University Court of Heriot-Watt University is responsible for the preparation of financial statements which give a true and fair view. We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report to you in accordance with the regulations made under that Act. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2016 and of the Group's and University's income and expenditure, gains and losses, changes in reserves and of the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended)

## Opinion on other matters prescribed by the terms of our engagement

In our opinion, in all material respects:

- funds from whatever source administered by the Group and the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation; and
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum.

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

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations 2006 (as amended) and the terms of our engagement require us to report to you if, in our opinion:

- the information given in the Strategic Report is inconsistent in any material respect with the financial statements; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for the audit

**Andrew Shaw**

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

*KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006*

Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

3 February 2017

# Consolidated Statement of Comprehensive Income and Expenditure for the year ended 31 July 2016

|                                                | <i>Note</i> | Consolidated          |                     | University            |                      |
|------------------------------------------------|-------------|-----------------------|---------------------|-----------------------|----------------------|
|                                                |             | 2016                  | 2015                | 2016                  | 2015                 |
|                                                |             | £000                  | £000                | £000                  | £000                 |
| <b>INCOME</b>                                  |             |                       |                     |                       |                      |
| Tuition fees and education contracts           | 1           | 110,606               | 102,464             | 94,121                | 86,984               |
| Funding body grants                            | 2           | 45,453                | 44,744              | 45,450                | 44,743               |
| Research grants and contracts                  | 3           | 33,209                | 31,779              | 33,188                | 31,775               |
| Other income                                   | 4           | 27,849                | 30,862              | 24,581                | 27,508               |
| Investment income                              | 5           | 777                   | 623                 | 805                   | 498                  |
| Endowments and donations                       | 6           | 1,626                 | 2,578               | 1,493                 | 1,741                |
| Total Income                                   |             | <u>219,520</u>        | <u>213,050</u>      | <u>199,638</u>        | <u>193,249</u>       |
| <b>EXPENDITURE</b>                             |             |                       |                     |                       |                      |
| Staff costs                                    | 7           | 105,107               | 104,352             | 95,788                | 96,491               |
| Other operating expenses                       | 9           | 99,536                | 89,842              | 89,618                | 75,403               |
| Depreciation                                   |             | 8,630                 | 9,421               | 7,663                 | 8,732                |
| Interest and other finance costs               | 8           | 3,114                 | 1,189               | 3,233                 | 1,438                |
| Total Expenditure                              |             | <u>216,387</u>        | <u>204,804</u>      | <u>196,302</u>        | <u>182,064</u>       |
| <b>Surplus before other gains and losses</b>   |             | <b>3,133</b>          | <b>8,246</b>        | <b>3,336</b>          | <b>11,185</b>        |
| Loss on disposal of fixed assets               |             | (37)                  | (15)                | (37)                  | -                    |
| Loss on investment property                    |             | (280)                 | 800                 | (280)                 | 800                  |
| Gain on investments                            |             | 258                   | 627                 | 258                   | 627                  |
| <b>Surplus before tax</b>                      |             | <b>3,074</b>          | <b>9,658</b>        | <b>3,277</b>          | <b>12,612</b>        |
| Taxation                                       | 10          | (909)                 | (151)               | (909)                 | (151)                |
| <b>Surplus for the year</b>                    |             | <b>2,165</b>          | <b>9,507</b>        | <b>2,368</b>          | <b>12,461</b>        |
| Actuarial loss in respect of pension schemes   |             | (935)                 | -                   | (1,595)               | -                    |
| Loss on derivatives                            |             | (2,792)               | (1,726)             | (2,792)               | (1,726)              |
| <b>Total comprehensive income for the year</b> |             | <b><u>(1,562)</u></b> | <b><u>7,781</u></b> | <b><u>(2,019)</u></b> | <b><u>10,735</u></b> |
| Represented by:                                |             |                       |                     |                       |                      |
| Endowment comprehensive income for the year    |             | 279                   | (384)               | 263                   | (1,492)              |
| Restricted comprehensive income for the year   |             | 1,286                 | 4,973               | 1,272                 | 4,961                |
| Unrestricted comprehensive income for the year |             | (3,127)               | 3,192               | (3,554)               | 7,266                |
|                                                |             | <u>(1,562)</u>        | <u>7,781</u>        | <u>(2,019)</u>        | <u>10,735</u>        |

All items of income and expenditure relate to continuing activities.

The accounting policies on pages 48-50 and the notes on pages 51-72 form an integral part of these financial statements.

# Statement of Changes in Reserves for the year ended 31 July 2016

|                                                         | Income and Expenditure reserve |                      |                      | Revaluation Reserve | Total                       |
|---------------------------------------------------------|--------------------------------|----------------------|----------------------|---------------------|-----------------------------|
|                                                         | Endowment                      | Restricted           | Unrestricted         | £000                | £000                        |
|                                                         | £000                           | £000                 | £000                 |                     |                             |
| <b>Consolidated</b>                                     |                                |                      |                      |                     |                             |
| <b>Balance at 1 August 2014</b>                         | 10,116                         | 8,191                | 27,417               | 3,058               | <b>48,782</b>               |
| Surplus from income and expenditure statement           | 1,108                          | 6,675                | 1,724                | -                   | <b>9,507</b>                |
| Other comprehensive income                              | -                              | -                    | (1,726)              | -                   | <b>(1,726)</b>              |
| Transfers between restricted and unrestricted reserve   | -                              | (3,194)              | 3,194                | -                   | -                           |
| Transfers between endowment and restricted reserve      | (1,492)                        | 1,492                | -                    | -                   | -                           |
| <b>Balance at 1 August 2015</b>                         | <u>9,732</u>                   | <u>13,164</u>        | <u>30,609</u>        | <u>3,058</u>        | <u><b>56,563</b></u>        |
| Surplus/(deficit) from income and expenditure statement | 1,638                          | 5,354                | (4,827)              | -                   | <b>2,165</b>                |
| Other comprehensive income                              | -                              | -                    | (4,218)              | -                   | <b>(4,218)</b>              |
| Transfers between restricted and unrestricted reserve   | -                              | (5,427)              | 5,427                | -                   | -                           |
| Transfers between endowment and restricted reserve      | (1,359)                        | 1,359                | -                    | -                   | -                           |
| <b>Total comprehensive income for the year</b>          | <u>279</u>                     | <u>1,286</u>         | <u>(3,618)</u>       | <u>-</u>            | <u><b>(2,053)</b></u>       |
| <b>Balance at 31 July 2016</b>                          | <u><u>10,011</u></u>           | <u><u>14,450</u></u> | <u><u>26,991</u></u> | <u><u>3,058</u></u> | <u><u><b>54,510</b></u></u> |
| <b>University</b>                                       |                                |                      |                      |                     |                             |
| <b>Balance at 1 August 2014</b>                         | 9,546                          | 8,028                | 11,252               | 4,456               | <b>33,282</b>               |
| Surplus/(deficit) from income and expenditure statement | 935                            | 5,728                | 5,798                | -                   | <b>12,461</b>               |
| Other comprehensive income                              | -                              | -                    | (1,726)              | -                   | <b>(1,726)</b>              |
| Transfers between restricted and unrestricted reserve   | -                              | (3,194)              | 3,194                | -                   | -                           |
| Transfers between endowment and restricted reserve      | (2,427)                        | 2,427                | -                    | -                   | -                           |
| <b>Balance at 1 August 2015</b>                         | <u>8,054</u>                   | <u>12,989</u>        | <u>18,518</u>        | <u>4,456</u>        | <u><b>44,017</b></u>        |
| Surplus/(deficit) from income and expenditure statement | 1,622                          | 5,340                | (4,594)              | -                   | <b>2,368</b>                |
| Other comprehensive income                              | -                              | -                    | (3,742)              | -                   | <b>(3,742)</b>              |
| Transfers between restricted and unrestricted reserve   | -                              | (5,427)              | 5,427                | -                   | -                           |
| Transfers between endowment and restricted reserve      | (1,359)                        | 1,359                | -                    | -                   | -                           |
| <b>Total comprehensive income for the year</b>          | <u>263</u>                     | <u>1,272</u>         | <u>(2,909)</u>       | <u>-</u>            | <u><b>(1,374)</b></u>       |
| <b>Balance at 31 July 2016</b>                          | <u><u>8,317</u></u>            | <u><u>14,261</u></u> | <u><u>15,609</u></u> | <u><u>4,456</u></u> | <u><u><b>42,643</b></u></u> |

The accounting policies on pages 48-50 and the notes on pages 51-72 form an integral part of these financial statements.

# Consolidated and University Balance Sheet for the year ended 31 July 2016

|                                                                | Note | Consolidated    |                | University     |                |
|----------------------------------------------------------------|------|-----------------|----------------|----------------|----------------|
|                                                                |      | 2016            | 2015           | 2016           | 2015           |
|                                                                |      | £000            | £000           | £000           | £000           |
| <b>Non-current assets</b>                                      |      |                 |                |                |                |
| Fixed Assets                                                   | 11   | 192,898         | 154,758        | 151,825        | 131,737        |
| Investments                                                    | 12   | 31,112          | 30,915         | 29,877         | 29,690         |
|                                                                |      | <u>224,010</u>  | <u>185,673</u> | <u>181,702</u> | <u>161,427</u> |
| <b>Current Assets</b>                                          |      |                 |                |                |                |
| Stock                                                          | 13   | 6               | 6              | -              | -              |
| Trade and other receivables                                    | 14   | 52,997          | 52,874         | 62,865         | 57,829         |
| Investments                                                    | 15   | 1,660           | 12,004         | 650            | 10,000         |
| Cash and cash equivalents                                      |      | 15,609          | 30,044         | 12,164         | 22,519         |
|                                                                |      | <u>70,272</u>   | <u>94,928</u>  | <u>75,679</u>  | <u>90,348</u>  |
| <b>Less Creditors:</b> amounts falling due within one year     | 16   | 96,100          | 92,085         | 69,564         | 79,167         |
| <b>Net current (liabilities)/assets</b>                        |      | <u>(25,828)</u> | <u>2,843</u>   | <u>6,115</u>   | <u>11,181</u>  |
| <b>Total assets less current liabilities</b>                   |      | <u>198,182</u>  | <u>188,516</u> | <u>187,817</u> | <u>172,608</u> |
| <b>Creditors:</b> amounts falling due after more than one year | 17   | 96,497          | 90,641         | 99,201         | 88,206         |
| <b>Provisions</b>                                              |      |                 |                |                |                |
| Pension provisions                                             | 18   | 47,175          | 41,312         | 45,973         | 40,385         |
| Other provisions                                               |      | -               | -              | -              | -              |
| <b>Total net assets</b>                                        |      | <u>54,510</u>   | <u>56,563</u>  | <u>42,643</u>  | <u>44,017</u>  |
| <b>Restricted reserves</b>                                     |      |                 |                |                |                |
| Income and expenditure – endowment reserve                     | 19   | 10,011          | 9,732          | 8,317          | 8,054          |
| Income and expenditure – restricted reserve                    | 20   | 14,450          | 13,164         | 14,261         | 12,989         |
| <b>Unrestricted reserves</b>                                   |      |                 |                |                |                |
| Income and expenditure - unrestricted                          |      | 26,991          | 30,609         | 15,609         | 18,518         |
| Revaluation reserve                                            |      | 3,058           | 3,058          | 4,456          | 4,456          |
| <b>Total reserves</b>                                          |      | <u>54,510</u>   | <u>56,563</u>  | <u>42,643</u>  | <u>44,017</u>  |

The accounting policies on pages 48-50 and the notes on pages 51-72 form an integral part of these financial statements, which were approved by the University Court on 19 January 2017 and signed on its behalf by:

**Professor Richard A. Williams**  
Principal and Vice-Chancellor  
19 January 2017

**Dame Frances Cairncross**  
Chair of Court  
19 January 2017

**Andrew Menzies**  
Director of Finance  
19 January 2017

# Consolidated Statement of Cash Flows for the year ended 31 July 2016

|                                                            | Consolidated and University |                 |
|------------------------------------------------------------|-----------------------------|-----------------|
|                                                            | 2016                        | 2015            |
|                                                            | £000                        | £000            |
| <b>Cash flow from operating activities</b>                 |                             |                 |
| Surplus for the year                                       | 2,165                       | 9,507           |
| <b>Adjustment for non-cash items</b>                       |                             |                 |
| Depreciation and impairment of tangible fixed assets       | 8,630                       | 9,421           |
| (Increase) in fixed asset investments                      | (414)                       | (4,897)         |
| Decrease/(increase) in short term investments              | 10,344                      | (5,487)         |
| (Increase) in debtors                                      | (123)                       | (17,402)        |
| (Decrease)/increase in creditors                           | (4,455)                     | 11,690          |
| Increase in provisions                                     | 2,648                       | 8937            |
| Increase in Deferred Capital Grants                        | 12,265                      | 15,380          |
| Gain on investments                                        | (258)                       | (639)           |
| Investment land revaluation                                | 280                         | (800)           |
| Exchange movement                                          | (535)                       | -               |
| Endowment reclassification                                 | -                           | (1097)          |
| <b>Adjustment for investing or financing activities</b>    |                             |                 |
| Interest Receivable                                        | (353)                       | (229)           |
| Interest Payable                                           | 1,739                       | 1,817           |
| Loss on disposal of tangible fixed assets                  | 37                          | 15              |
| <b>Net cash inflow from operating activities</b>           | <u>31,970</u>               | <u>26,216</u>   |
| <b>Cash flows from investing activities</b>                |                             |                 |
| Payments to acquire fixed assets                           | (46,272)                    | (26,476)        |
| Interest Receivable                                        | 353                         | 229             |
|                                                            | <u>(45,919)</u>             | <u>(26,247)</u> |
| <b>Cash flows from financing activities</b>                |                             |                 |
| Interest Payable                                           | (1,739)                     | (1,817)         |
| Net amounts drawn down                                     | 3,557                       | -               |
| Repayments of amounts borrowed                             | (2,304)                     | (826)           |
|                                                            | <u>(486)</u>                | <u>(2,643)</u>  |
| <b>(Decrease) in cash and cash equivalents in the year</b> | <u>(14,435)</u>             | <u>(2,674)</u>  |
| Cash and cash equivalents at beginning of the year         | 30,044                      | 32,718          |
| Cash and cash equivalents at end of the year               | 15,609                      | 30,044          |

The accounting policies on pages 48-50 and the notes on pages 51-72 form an integral part of these financial statements.

# Statement of accounting policies

## 1. BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of fixed assets and financial instruments; in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015; and in accordance with Financial Reporting Standards (FRS 102). The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102

## 2. BASIS OF CONSOLIDATION

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2016. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal. Intra-group transactions are eliminated on consolidation.

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

## 3. INCOME RECOGNITION

### a. Tuition fees and education contracts

Fee income is stated gross of any expenditure and credited to the Consolidated Statement of Income and Comprehensive Expenditure over the period in which students are studying. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

### b. Funding body grants

Recurrent grants from Funding Bodies are credited to income in the period in which they are receivable.

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

Capital grants from Funding Bodies are recognised in income over the expected useful life of the asset.

### c. Research grants and contracts

Research revenue income from government sources are recognised in income over the periods in which the University recognises the related costs for which the grant is intended to compensate. Where part of such a grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate. Research capital grants from government sources are recognised in income over the expected useful life of the asset.

Research revenue income from other sources are recognised when they are receivable and when performance conditions have been met. Income received in advance of performance conditions being met is included in creditors as deferred income. Where there are no performance conditions, income is recognised when it is receivable. Research capital grants from other sources are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

Research development and expenditure credits are included in research grant and contracts income.

### d. Other income

Income from the sale of goods and services is credited to income when the goods or services are supplied to the external customers against the orders received or the terms of the contract have been satisfied.

### e. Investment income

Investment income is credited to income on a receivable basis.

### f. Donations and endowments

Non exchange transactions without performance related conditions are donations and endowments.

Donations with no restrictions are recognised in the financial statements when the donation has been received.

Where a donor has specified that a donation must be used for a particular objective it is classified as a restricted donation and is recognised in income when the University is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with the restrictions, at which time it is released to general reserves.

Where donations are to be retained to the benefit of the University beyond the current year for purposes specified by the donors, other than the purchase or construction of tangible fixed assets, they are considered to be endowments. They are recognised as income when the University is entitled to the funds. Income is retained in the endowment reserve until such time that it is utilised in line with the terms of the endowment, at which time it is released to general reserves.

Where the University has the power to use the capital portion of an endowment it is categorised as an expendable endowment; where the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective it is categorised as a permanent endowment.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms other restriction applied to the individual endowment fund.

### g. Amounts received as agent

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

## 4. ACCOUNTING FOR RETIREMENT BENEFITS

All new members of staff have the option of joining a pension scheme.

The schemes currently available to new members of staff on Heriot-Watt contracts of employment are the Universities Superannuation Scheme (USS) and the Lothian Pension Fund (LPF). Existing employees are entitled to maintain their membership of the Scottish Teachers Superannuation Scheme (STSS), whereas the Supplementary Pension Scheme (SPS) is closed and contains only pensioner members.

The schemes currently available to new members of staff on Edinburgh Business School contracts of employment is the Universities Superannuation Scheme (USS). Existing employees are entitled to maintain their membership of the Lothian Pension Fund (LPF). In addition to USS and LPF staff can opt to join NEST (the National Employment Savings Trust).

Staff on Heriot-Watt Services Ltd contracts of employment are entitled to contribute to a defined contribution scheme.

The Group has implemented arrangements to facilitate pension 'auto enrolment'. The requirement is for employers to automatically enrol certain workers who are not already pension scheme members into a qualifying pension scheme came into force on 1 October 2012. All employers in the UK were allocated a date from which the auto enrolment requirements and arrangements would first apply, referred to as the employer's 'staging date'. The staging date for Heriot Watt University was 1 July 2013. In terms of qualifying pension schemes, in addition to the existing pensions schemes (University Superannuation Scheme and the Lothian Pension Fund), staff can opt to join NEST (the National Employment Savings Trust).

None of the Group's other subsidiary undertakings operates any other pension schemes.

The accounting policies relating to each of the schemes are:

a) USS

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 in full in USS on a consistent and reasonable basis and therefore, as required by FRS 102, the University accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution has established a provision for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the statement of comprehensive income. The costs of the USS deficit recovery plan have been estimated based on a model devised by the USS and the British Universities Finance Directors Group. The model uses the additional costs included in the deficit recovery plan and discounts based on corporate bond levels having a maturity similar to the length of the recovery plan (15 years as at 31 July 2016). The scheme actuary reviews the funding of the USS every year and undertakes a formal actuarial valuation every three years, at which time the deficit recovery plan may be amended.

b) LPF

The LPF is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of Heriot-Watt University. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The institution has established a provision to recognise the net value of those assets and liabilities.

Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the University. The Contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. The amount charged to the statement of financial activities represents the service cost expected to arise from employee service in the current year.

c) STSS

Heriot-Watt University participates in the STSS pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of Heriot-Watt University. Heriot-Watt University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS102 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 year.

d) Heriot- Watt Services Limited defined contribution pension scheme

The cost charged to the expenditure account is equal to the total of contributions payable in the year.

e) Automatic Enrolment

The cost charged to the expenditure account is equal to the total of contributions payable in the year.

## 5. EMPLOYMENT BENEFITS

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

## 6. FINANCE LEASES

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at

an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## 7. OPERATING LEASES

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

## 8. FOREIGN CURRENCY

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income.

## 9. FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

No depreciation is charged on assets in the course of construction.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

a) Land

On adoption of FRS 102 the Group adopted the transitional provisions to measure land at fair value on the date of transition, and to use that fair value as its deemed cost. Land held at 31 July 2014 is shown in the balance sheet at the valuation on that date; land acquired after 31 July 2014 is shown at cost.

Costs incurred in relation to land after initial purchase and prior to valuation are capitalised to the extent that they increase the expected future benefits to the University.

Land is not depreciated as it is considered to have an indefinite useful life.

a) Buildings

Buildings are included in the balance sheet at cost and are depreciated on a straight line basis over their expected useful lives as follows:

|                            |          |
|----------------------------|----------|
| • External fabric          | 50 years |
| • Internal fabric          | 35 years |
| • Mechanical & Engineering | 20 years |

Costs incurred in relation to buildings after initial purchase or construction are capitalised to the extent that they increase the expected future benefits to the University.

c) Equipment

Equipment, including computers and software, costing less than £20,000 is recognised as expenditure. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life as follows:

- Equipment acquired for specific research projects: 3-5 years
- Administrative IT systems: 7 years
- Other Equipment: 5 years

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

d) **Borrowing costs**

Borrowing costs are recognised as expenditure in the period in which they are incurred.

**10. HERITAGE ASSETS**

Works of art and other valuable artefacts and valued are capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. The assets held by the University are held at nil value as cost and valuation are not available.

**11. INVESTMENT PROPERTIES**

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services. Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the income statement. Properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

**12. INVESTMENTS**

Non-current asset investments are held on the Balance Sheet at amortised cost less impairment.

Investments in subsidiaries are carried at cost in the University's accounts.

Current asset investments are held at fair value with movements recognised in the Surplus or Deficit for the year.

**13. STOCK**

Stock is stated at the lower of the cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stock.

**14. CASH AND CASH EQUIVALENTS**

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

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash or repayable within 3 months with insignificant risk of change in value. They can include term deposits at banks or investments in gilts.

**15. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

Provisions are recognised in the financial statements when:

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

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed, where they arise, in the notes to the accounts.

**16. TAXATION**

The University is an exempt Charity within the meaning of the Trustee Investment and Charities (Scotland) Act 2005 and, as such, is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act 1988. The University is recognised as a charity by HM Revenue & Customs and is recorded on the index of charities maintained by the Office of Scottish Charity Regulator. It is therefore a charity within

the meaning of Para 1 of schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 478-488 of the Corporation Tax Act 2010 (CTA 2010) 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 costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

The University's subsidiaries are liable to Corporation Tax in the same way as any other commercial organisation. The subsidiaries, excluding the Edinburgh Business School, pay to the University, under the Gift Aid scheme, amounts as agreed by the directors of each subsidiary company.

**17. DERIVATIVES AND FINANCIAL INSTRUMENTS**

The Group purchases interest rate swaps to manage interest rate risk volatility. Interest rate swaps are held on the Balance Sheet at fair value, with surplus or deficit movements in fair value being recorded within the Statement of Comprehensive Income and Expenditure.

**18. RESERVES**

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

**19. TRANSITION TO 2015 SORP**

The University is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to 2015 SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the University is provided in note 30.

Application of first time adoption grants certain exemption from the full requirements of 2015 SORP in the transition period. The following exemption has been taken into these financial statements: land has been revalued as at 31 July 2014 and that value has been used as the deemed cost.

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

## 1. TUITION FEES AND EDUCATION CONTRACTS

|                                  | Consolidated   |                | University    |               |
|----------------------------------|----------------|----------------|---------------|---------------|
|                                  | 2016           | 2015           | 2016          | 2015          |
|                                  | £000           | £000           | £000          | £000          |
| Home and EU Students             | 17,415         | 14,584         | 17,415        | 14,570        |
| Rest of UK Students              | 12,176         | 9,497          | 12,176        | 9,497         |
| International Students           | 66,744         | 61,661         | 60,966        | 58,836        |
| Higher education contracts       | 7,770          | 9,504          | -             | -             |
| Research training support grants | 1,582          | 2,322          | 1,582         | 2,322         |
| Short course fees                | 1,093          | 909            | 990           | 815           |
| Examination and graduation fees  | 3,826          | 3,987          | 992           | 944           |
|                                  | <u>110,606</u> | <u>102,464</u> | <u>94,121</u> | <u>86,984</u> |

## 2. FUNDING BODY GRANTS

|                                          | Consolidated  |               | University    |               |
|------------------------------------------|---------------|---------------|---------------|---------------|
|                                          | 2016          | 2015          | 2016          | 2015          |
|                                          | £000          | £000          | £000          | £000          |
| SFC teaching grants                      | 26,745        | 26,362        | 26,745        | 26,362        |
| SFC research & knowledge exchange grants | 13,481        | 13,272        | 13,481        | 13,272        |
| Capital maintenance grants               | 1,787         | 1,526         | 1,787         | 1,526         |
| Release of deferred capital grants       | 2,605         | 2,279         | 2,603         | 2,278         |
| Other grants                             | 835           | 1,305         | 834           | 1,305         |
|                                          | <u>45,453</u> | <u>44,744</u> | <u>45,450</u> | <u>44,743</u> |

## 3. RESEARCH GRANTS AND CONTRACTS

|                   | Consolidated  |               | University    |               |
|-------------------|---------------|---------------|---------------|---------------|
|                   | 2016          | 2015          | 2016          | 2015          |
|                   | £000          | £000          | £000          | £000          |
| Research councils | 13,229        | 13,445        | 13,229        | 13,445        |
| Charities         | 1,174         | 1,378         | 1,174         | 1,378         |
| UK Government     | 1,844         | 1,382         | 1,844         | 1,382         |
| UK Industry       | 1,556         | 4,320         | 1,557         | 4,320         |
| EU Commission     | 3,862         | 3,812         | 3,862         | 3,812         |
| Other sources     | 11,544        | 7,442         | 11,522        | 7,438         |
|                   | <u>33,209</u> | <u>31,779</u> | <u>33,188</u> | <u>31,775</u> |

**4. OTHER INCOME**

|                                                  | Consolidated  |               | University    |               |
|--------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                  | 2016          | 2015          | 2016          | 2015          |
|                                                  | £000          | £000          | £000          | £000          |
| Residences, catering and conferences             | 15,916        | 16,086        | 15,024        | 15,191        |
| Income from governments and other funding bodies | 1,542         | 1,595         | 1,318         | 1,524         |
| Release of deferred capital grants               | 881           | 1,699         | 833           | 1,651         |
| Other commercial income                          | 5,279         | 7,846         | 1,059         | 3,295         |
| Other income, including foreign currency gains   | 4,231         | 3,636         | 6,347         | 5,847         |
|                                                  | <u>27,849</u> | <u>30,862</u> | <u>24,581</u> | <u>27,508</u> |

**5. INVESTMENT INCOME**

|                                          | Consolidated |            | University |            |
|------------------------------------------|--------------|------------|------------|------------|
|                                          | 2016         | 2015       | 2016       | 2015       |
|                                          | £000         | £000       | £000       | £000       |
| Investment income on endowments          | 387          | 359        | 307        | 282        |
| Investment income on restricted reserves | 37           | 35         | 37         | 35         |
| Other investment income                  | 353          | 229        | 461        | 181        |
|                                          | <u>777</u>   | <u>623</u> | <u>805</u> | <u>498</u> |

**6. ENDOWMENTS AND DONATIONS**

|                             | Consolidated |              | University   |              |
|-----------------------------|--------------|--------------|--------------|--------------|
|                             | 2016         | 2015         | 2016         | 2015         |
|                             | £000         | £000         | £000         | £000         |
| New endowments              | 218          | 373          | 218          | 373          |
| Donations with restrictions | 905          | 1,539        | 772          | 705          |
| Unrestricted donations      | 503          | 666          | 503          | 663          |
|                             | <u>1,626</u> | <u>2,578</u> | <u>1,493</u> | <u>1,741</u> |

**7. STAFF COSTS**

|                           | Consolidated   |                | University    |               |
|---------------------------|----------------|----------------|---------------|---------------|
|                           | 2016           | 2015           | 2016          | 2015          |
|                           | £000           | £000           | £000          | £000          |
| Salaries                  | 83,359         | 77,483         | 75,768        | 70,992        |
| Social security costs     | 6,415          | 5,621          | 5,995         | 5,259         |
| Voluntary severance       | 45             | 243            | 45            | 243           |
| Other pension costs       | 13,659         | 12,252         | 12,435        | 11,511        |
| Movement in USS provision | 1,629          | 8,753          | 1,545         | 8,486         |
| <b>Total staff costs</b>  | <u>105,107</u> | <u>104,352</u> | <u>95,788</u> | <u>96,491</u> |

**Analysed between staff working in:**

|                                            |                |                |               |               |
|--------------------------------------------|----------------|----------------|---------------|---------------|
| Academic schools                           | 74,809         | 73,439         | 67,493        | 66,992        |
| Administrative & central service functions | 21,548         | 21,760         | 19,593        | 20,351        |
| Premises functions                         | 4,979          | 5,163          | 4,936         | 5,143         |
| Residences & catering                      | 3,771          | 3,990          | 3,766         | 4,005         |
| <b>Total staff costs</b>                   | <u>105,107</u> | <u>104,352</u> | <u>95,788</u> | <u>96,491</u> |

**7. STAFF COSTS (CONTINUED)**

The average number of persons employed in those areas, expressed as full-time equivalents, was:

|                                            | <b>Consolidated</b> |              | <b>University</b>   |              |
|--------------------------------------------|---------------------|--------------|---------------------|--------------|
|                                            | <b>2016</b>         | 2015         | <b>2016</b>         | 2015         |
|                                            | <b>£000</b>         | £000         | <b>£000</b>         | £000         |
| Academic schools                           | <b>1,303</b>        | 1,207        | <b>1,155</b>        | 1,086        |
| Administrative & central service functions | <b>470</b>          | 418          | <b>385</b>          | 373          |
| Premises functions                         | <b>158</b>          | 153          | <b>151</b>          | 149          |
| Residences & catering                      | <b>122</b>          | 122          | <b>121</b>          | 122          |
| <b>Total staff costs</b>                   | <b><u>2,053</u></b> | <u>1,900</u> | <b><u>1,812</u></b> | <u>1,730</u> |

|                                                                      | <b>Consolidated &amp; University</b> |          |
|----------------------------------------------------------------------|--------------------------------------|----------|
|                                                                      | <b>2016</b>                          | 2015     |
|                                                                      | <b>£000</b>                          | £000     |
| <b>Professor Richard A Williams, Principal from 1 September 2015</b> |                                      |          |
| Salary                                                               | <b>206</b>                           | -        |
| Benefits                                                             | <b>9</b>                             | -        |
| Pension contributions to USS*                                        | <b>34</b>                            | -        |
|                                                                      | <b><u>249</u></b>                    | <u>-</u> |

|                                                                                                   |                  |           |
|---------------------------------------------------------------------------------------------------|------------------|-----------|
| <b>Professor Julian Jones, for his period as Acting Principal 13 March 2015 to 31 August 2015</b> |                  |           |
| Salary                                                                                            | <b>17</b>        | 79        |
| Bonus                                                                                             | <b>3</b>         | -         |
| Pension contributions to USS*                                                                     | <b>3</b>         | 13        |
|                                                                                                   | <b><u>23</u></b> | <u>92</u> |

|                                                            |                 |            |
|------------------------------------------------------------|-----------------|------------|
| <b>Professor Steve Chapman, Principal to 31 March 2015</b> |                 |            |
| Salary                                                     | -               | 142        |
| Bonus                                                      | -               | 20         |
| Benefits                                                   | -               | 4          |
| Pension contributions to USS*                              | -               | 23         |
|                                                            | <b><u>-</u></b> | <u>189</u> |

|                                           |                   |            |
|-------------------------------------------|-------------------|------------|
| <b>Total emoluments of the Principals</b> |                   |            |
| Salary                                    | <b>223</b>        | 221        |
| Bonus                                     | <b>3</b>          | 20         |
| Benefits                                  | <b>9</b>          | 4          |
| Pension contributions to USS*             | <b>37</b>         | 36         |
|                                           | <b><u>272</u></b> | <u>281</u> |

\*The pension contributions in respect of the Universities Superannuation Scheme (USS) are paid at the same rate as for other employees.

| <b>KEY MANAGEMENT PERSONNEL</b>                                                                                  | <b>Consolidated &amp; University</b> |                |
|------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------|
|                                                                                                                  | <b>2016</b>                          | 2015           |
|                                                                                                                  | <b>£000</b>                          | £000           |
| Aggregate key management personnel compensation, including salary, benefits and employers' pension contributions | <b><u>622,251</u></b>                | <u>605,745</u> |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. Staff costs include compensation paid to key management personnel. Heriot-Watt University defines its key management personnel as being the Principal and Vice-Chancellor, the Vice-Principal and Deputy Vice-Chancellor and the Secretary of the University.

**7. STAFF COSTS (CONTINUED)****REMUNERATION OF HIGHER PAID STAFF**, excluding pension contributions

|                     | 2016 Number              |             | 2015 Number              |             |
|---------------------|--------------------------|-------------|--------------------------|-------------|
|                     | Key management personnel | Other staff | Key management personnel | Other staff |
| Consolidated        |                          |             |                          |             |
| £100,001 - £110,000 | -                        | 13          | -                        | 11          |
| £110,001 - £120,000 | -                        | 8           | -                        | 7           |
| £120,001 - £130,000 | 1                        | 3           | 1                        | 6           |
| £130,001 - £140,000 | -                        | 2           | -                        | -           |
| £140,001 - £150,000 | -                        | 1           | -                        | 2           |
| £150,001 - £160,000 | -                        | 1           | -                        | -           |
| £160,001 - £170,000 | -                        | -           | 1                        | -           |
| £170,001 - £180,000 | 1                        | -           | 1                        | -           |
| £180,001 - £190,000 | -                        | 1           | -                        | 1           |
| £200,000 - £209.999 | 1                        | -           | -                        | -           |
|                     | <u>3</u>                 | <u>29</u>   | <u>3</u>                 | <u>27</u>   |
| University          |                          |             |                          |             |
| £100,001 - £110,000 | -                        | 13          | -                        | 11          |
| £110,001 - £120,000 | -                        | 8           | -                        | 7           |
| £120,001 - £130,000 | 1                        | 3           | 1                        | 6           |
| £130,001 - £140,000 | -                        | 1           | -                        | -           |
| £140,001 - £150,000 | -                        | 1           | -                        | 2           |
| £150,001 - £160,000 | -                        | -           | -                        | -           |
| £160,001 - £170,000 | -                        | -           | 1                        | -           |
| £170,001 - £180,000 | 1                        | -           | 1                        | -           |
| £180,001 - £190,000 | -                        | 1           | -                        | 1           |
| £200,000 - £209.999 | 1                        | -           | -                        | -           |
|                     | <u>3</u>                 | <u>27</u>   | <u>3</u>                 | <u>27</u>   |

**MEMBERS OF THE UNIVERSITY COURT AND ITS COMMITTEES**

Members of the University Court are the trustees for charitable law purposes. The membership of the Court and its committees is laid out on Pages 73-75 of these financial statements. No Court member, nor any co-opted member of a Court Committee, received any remuneration nor waived any payments in respect of their membership of the University Court or of its committees during the year (2015; nil).

**8. INTEREST PAYABLE AND OTHER FINANCE COSTS**

|                              | Consolidated |              | University   |              |
|------------------------------|--------------|--------------|--------------|--------------|
|                              | 2016         | 2015         | 2016         | 2015         |
|                              | £000         | £000         | £000         | £000         |
| Loan interest                | 1,739        | 1,817        | 1,874        | 1,494        |
| Net return on pension assets | 1,375        | (628)        | 1,359        | (56)         |
|                              | <u>3,114</u> | <u>1,189</u> | <u>3,233</u> | <u>1,438</u> |

**9. ANALYSIS OF OPERATING EXPENSES BY EXPENDITURE BY ACTIVITY**

|                                                      | Consolidated  |               | University    |               |
|------------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                      | 2016          | 2015          | 2016          | 2015          |
|                                                      | £000          | £000          | £000          | £000          |
| Academic departments                                 | 20,774        | 19,469        | 10,887        | 9,221         |
| Academic services                                    | 8,106         | 7,009         | 7,882         | 6,812         |
| Administration and central services                  | 36,584        | 29,850        | 38,782        | 27,153        |
| Premises                                             | 18,593        | 17,407        | 16,940        | 16,326        |
| Residences, catering and conferences                 | 4,319         | 4,176         | 3,967         | 3,973         |
| Research grants and contracts                        | 11,160        | 11,931        | 11,160        | 11,918        |
|                                                      | <u>99,536</u> | <u>89,842</u> | <u>89,618</u> | <u>75,403</u> |
| Other operating expenses include:                    |               |               |               |               |
| External auditor's remuneration - audit              | 87            | 67            | 58            | 41            |
| External auditor's remuneration – non-audit services | 106           | 29            | 64            | 10            |
| Internal auditor's remuneration                      | 108           | 99            | 108           | 99            |
| Operating lease rentals:                             |               |               |               |               |
| Land and buildings                                   |               | -             |               | -             |
| Other                                                |               | 202           |               | 202           |

**10. TAXATION**

|                                            | Consolidated & University |            |
|--------------------------------------------|---------------------------|------------|
|                                            | 2016                      | 2015       |
|                                            | £000                      | £000       |
| UK Corporation tax at 22.33% (2015:23.67%) | <u>909</u>                | <u>151</u> |

The tax charge for the year arises from claims for Research and Development Expenditure Credit (RDEC). The gross value of the claims made in the year is £4,070,000 (2015: £636,000).

**11. FIXED ASSETS**

| Consolidated              | Land and Buildings | Equipment     | Assets in the course of construction | Total          |
|---------------------------|--------------------|---------------|--------------------------------------|----------------|
|                           | £000               | £000          | £000                                 | £000           |
| <b>Cost or valuation</b>  |                    |               |                                      |                |
| At 1 August 2015          | 193,448            | 52,400        | 26,322                               | 272,170        |
| Additions                 | 178                | 2,756         | 43,338                               | 46,272         |
| Transfers                 | 11,062             | (336)         | (10,726)                             | -              |
| Foreign exchange movement | 254                | 332           | 2                                    | 588            |
| Disposals                 | (48)               | (366)         | -                                    | (414)          |
| <b>At 31 July 2016</b>    | <u>204,894</u>     | <u>54,786</u> | <u>58,936</u>                        | <u>318,616</u> |
| <b>Depreciation</b>       |                    |               |                                      |                |
| At 1 August 2015          | 76,085             | 41,327        | -                                    | 117,412        |
| Charge for year           | 4,813              | 3,817         | -                                    | 8,630          |
| Foreign exchange movement | 5                  | 48            | -                                    | 53             |
| Disposals                 | (32)               | (345)         | -                                    | (377)          |
| <b>At 31 July 2016</b>    | <u>80,871</u>      | <u>44,847</u> | <u>-</u>                             | <u>125,718</u> |
| <b>Net Book Value</b>     |                    |               |                                      |                |
| <b>At 31 July 2016</b>    | <u>124,023</u>     | <u>9,939</u>  | <u>58,936</u>                        | <u>192,898</u> |
| At 1 August 2015          | <u>117,363</u>     | <u>11,073</u> | <u>26,322</u>                        | <u>154,758</u> |

**11. FIXED ASSETS (CONTINUED)**

## University

**Cost or valuation**

|                        |                |               |               |                |
|------------------------|----------------|---------------|---------------|----------------|
| At 1 August 2015       | 184,007        | 49,159        | 12,571        | 245,737        |
| Additions              | -              | 1,876         | 25,913        | 27,789         |
| Transfers              | 11,062         | 31            | (11,093)      | -              |
| Disposals              | (48)           | (335)         | -             | (383)          |
| <b>At 31 July 2016</b> | <u>195,021</u> | <u>50,731</u> | <u>27,391</u> | <u>273,143</u> |

**Depreciation**

|                        |               |               |          |                |
|------------------------|---------------|---------------|----------|----------------|
| At 1 August 2015       | 73,881        | 40,119        | -        | 114,000        |
| Charge for year        | 4,446         | 3,217         | -        | 7,663          |
| Disposals              | (32)          | (313)         | -        | (345)          |
| <b>At 31 July 2016</b> | <u>78,295</u> | <u>43,023</u> | <u>-</u> | <u>121,318</u> |

**Net Book Value**

|                        |                |              |               |                |
|------------------------|----------------|--------------|---------------|----------------|
| <b>At 31 July 2016</b> | <u>116,726</u> | <u>7,708</u> | <u>27,391</u> | <u>151,825</u> |
| At 1 August 2015       | <u>110,626</u> | <u>9,040</u> | <u>12,571</u> | <u>131,737</u> |

The land and buildings of Heriot-Watt Services Ltd and the buildings of Heriot-Watt Sports Village Ltd are subject to a first standard security in respect of the grants received from Sport Scotland.

Included in cost for the Group is £58,936,000 (2015: £26,321,000) relating to assets in the course of construction, of which £57,271,000 (2015: £26,042,000) relates to freehold land and buildings and £1,665,000 (2015: £279,000) relates to equipment.

At 31 July 2016 land and buildings for the group included £5,160,000 (31 July 2015, £5,160,000) in respect of freehold land which is not depreciated.

**12. NON-CURRENT INVESTMENTS**

|                         | Investment in subsidiary companies  |                                |                                          |                                                  |                                                     |                          | Total         |
|-------------------------|-------------------------------------|--------------------------------|------------------------------------------|--------------------------------------------------|-----------------------------------------------------|--------------------------|---------------|
|                         | Long/<br>medium term<br>investments | Heriot-Watt<br>Trading Limited | Heriot-Watt<br>Sports Village<br>Limited | Heriot-Watt<br>University<br>Malaysia Sdn<br>Bhd | Minority<br>investments<br>in unquoted<br>companies | Investment<br>properties |               |
|                         | £000                                | £000                           | £000                                     | £000                                             | £000                                                | £000                     | £000          |
| Consolidated            |                                     |                                |                                          |                                                  |                                                     |                          |               |
| <b>At 1 August 2015</b> | 20,180                              | -                              | -                                        | -                                                | 35                                                  | 10,700                   | 30,915        |
| Additions               | 3                                   | -                              | -                                        | -                                                | -                                                   | -                        | 3             |
| Appreciation            | 780                                 | -                              | -                                        | -                                                | -                                                   | -                        | 780           |
| Disposals               | (306)                               | -                              | -                                        | -                                                | -                                                   | -                        | (306)         |
| Impairment              | -                                   | -                              | -                                        | -                                                | -                                                   | (280)                    | (280)         |
| <b>At 31 July 2016</b>  | <u>20,657</u>                       | <u>-</u>                       | <u>-</u>                                 | <u>-</u>                                         | <u>35</u>                                           | <u>10,420</u>            | <u>31,112</u> |
| University              |                                     |                                |                                          |                                                  |                                                     |                          |               |
| At 1 August 2015        | 8,605                               | 2,000                          | 5,000                                    | 3,350                                            | 35                                                  | 10,700                   | 29,690        |
| Additions               | -                                   | -                              | -                                        | -                                                | -                                                   | -                        | -             |
| Appreciation            | 61                                  | -                              | -                                        | 406                                              | -                                                   | -                        | 467           |
| Disposals               | -                                   | -                              | -                                        | -                                                | -                                                   | -                        | -             |
| Impairment              | -                                   | -                              | -                                        | -                                                | -                                                   | (280)                    | (280)         |
| <b>At 31 July 2016</b>  | <u>8,666</u>                        | <u>2,000</u>                   | <u>5,000</u>                             | <u>3,756</u>                                     | <u>35</u>                                           | <u>10,420</u>            | <u>29,877</u> |

The University investment in subsidiary companies is stated at cost.

Minority investments in unquoted companies include investments made by the group in spin-out companies, which are stated at cost.

**13. STOCK**

|                     | Consolidated |          | University |          |
|---------------------|--------------|----------|------------|----------|
|                     | 2016         | 2015     | 2016       | 2015     |
|                     | £000         | £000     | £000       | £000     |
| General consumables | 6            | 6        | -          | -        |
|                     | <u>6</u>     | <u>6</u> | <u>-</u>   | <u>-</u> |

**14. TRADE AND OTHER RECEIVABLES**

|                                               | Consolidated  |               | University    |               |
|-----------------------------------------------|---------------|---------------|---------------|---------------|
|                                               | 2016          | 2015          | 2016          | 2015          |
|                                               | £000          | £000          | £000          | £000          |
| Amounts falling due within one year:          |               |               |               |               |
| Research grants receivables                   | 17,671        | 15,525        | 17,671        | 15,525        |
| Trade receivables                             | 25,315        | 25,615        | 22,910        | 22,475        |
| Trade debt provision                          | (3,756)       | (2,134)       | (3,050)       | (1,784)       |
| Prepayments and accrued income                | 11,322        | 11,152        | 10,048        | 9,558         |
| Amounts due from group undertakings           | -             | -             | 5,291         | 4,839         |
|                                               | <u>50,552</u> | <u>50,158</u> | <u>52,870</u> | <u>50,613</u> |
| Amounts falling due after more than one year: |               |               |               |               |
| Loans by parent undertakings                  | -             | -             | 7,550         | 4,500         |
| Prepayments and accrued income                | 2,445         | 2,716         | 2,445         | 2,716         |
|                                               | <u>52,997</u> | <u>52,874</u> | <u>62,865</u> | <u>57,829</u> |

Included in prepayments and accrued income is £2,445,000 (2014: £2,716,000) due after more than one year which constitutes deemed consideration received by Heriot-Watt University from Borders College for the sale of its Galashiels site to the College in return for 17.5 years rent-free occupation of part of the site, commencing from the 1 February 2008, the practical completion date for the redevelopment of the site.

**15. CURRENT INVESTMENTS**

|                       | Consolidated |               | University |               |
|-----------------------|--------------|---------------|------------|---------------|
|                       | 2016         | 2015          | 2016       | 2015          |
|                       | £000         | £000          | £000       | £000          |
| Term deposit accounts | -            | 10,000        | -          | 10,000        |
| Short term deposit    | 1,660        | 2,004         | 650        | -             |
|                       | <u>1,660</u> | <u>12,004</u> | <u>650</u> | <u>10,000</u> |

**16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

|                                         | Consolidated  |               | University    |               |
|-----------------------------------------|---------------|---------------|---------------|---------------|
|                                         | 2016          | 2015          | 2016          | 2015          |
|                                         | £000          | £000          | £000          | £000          |
| Unsecured bank loans                    | 5,304         | 2,304         | 5,304         | 2,304         |
| Grants in advance for research          | 22,572        | 21,817        | 22,563        | 21,362        |
| Other grants in advance                 | 27,868        | 24,336        | 3,718         | 14,451        |
| Other creditors                         | 248           | 441           | 248           | 441           |
| Trade creditors                         | 2,890         | 5,321         | 2,482         | 5,209         |
| Other taxation and social security      | 2,618         | 3,888         | 2,621         | 3,850         |
| Accruals and deferred income            | 34,600        | 33,978        | 30,517        | 25,814        |
| Amounts owed to subsidiary undertakings | -             | -             | 2,111         | 5,736         |
|                                         | <u>96,100</u> | <u>92,085</u> | <u>69,564</u> | <u>79,167</u> |

**17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

|                                             | Consolidated  |               | University    |               |
|---------------------------------------------|---------------|---------------|---------------|---------------|
|                                             | 2016          | 2015          | 2016          | 2015          |
|                                             | £000          | £000          | £000          | £000          |
| Unsecured bank loans                        | 39,566        | 41,870        | 39,566        | 41,870        |
| Other unsecured loans                       | 557           | -             | 5,557         | -             |
| Derivatives                                 | 7,971         | 5,180         | 7,971         | 5,180         |
| Deferred income                             | 48,274        | 43,462        | 45,978        | 41,027        |
| Other creditors                             | 129           | 129           | 129           | 129           |
|                                             | <u>96,497</u> | <u>90,641</u> | <u>99,201</u> | <u>88,206</u> |
| Analysis of secure and unsecured bank loans |               |               |               |               |
| Due within one year or on demand            | 5,304         | 2,304         | 5,304         | 2,304         |
| Due between one and two years               | 2,304         | 2,304         | 2,304         | 2,304         |
| Due between two and five years              | 6,913         | 6,913         | 6,913         | 6,913         |
| Due in five years or more                   | 30,349        | 32,653        | 30,349        | 32,653        |
|                                             | <u>44,870</u> | <u>44,174</u> | <u>44,870</u> | <u>44,174</u> |

**18. PROVISIONS FOR LIABILITIES**

|                                              | Pension Provisions                          |                                           |                                        |                       |
|----------------------------------------------|---------------------------------------------|-------------------------------------------|----------------------------------------|-----------------------|
|                                              | Obligation to fund USS deficit <sup>1</sup> | Lothian pension fund deficit <sup>2</sup> | Unfunded pension benefits <sup>3</sup> | Total                 |
|                                              | £000                                        | £000                                      | £000                                   | £000                  |
| <b>Consolidated</b>                          |                                             |                                           |                                        |                       |
| <b>At 1 August 2015</b>                      | 17,790                                      | 23,102                                    | 420                                    | <b>41,312</b>         |
| Utilised in year                             | (9,052)                                     | (3,143)                                   | (30)                                   | <b>(12,225)</b>       |
| Additions in 2015/16                         | 11,199                                      | 6,884                                     | 5                                      | <b>18,088</b>         |
| <b>At 31 July 2016</b>                       | <u>19,937</u>                               | <u>26,843</u>                             | <u>395</u>                             | <u><b>47,175</b></u>  |
| <b>Analysis of net movement in provision</b> |                                             |                                           |                                        |                       |
| Charged to staff costs (note 7)              | 1,629                                       | 1,953                                     | (25)                                   | <b>3,557</b>          |
| Net return on pension assets (note 8)        | 518                                         | 853                                       | -                                      | <b>1,371</b>          |
| Actuarial loss on pension schemes            | -                                           | 935                                       | -                                      | <b>935</b>            |
| Total movement                               | <u>2,147</u>                                | <u>3,741</u>                              | <u>(25)</u>                            | <u><b>5,863</b></u>   |
| <b>University</b>                            |                                             |                                           |                                        |                       |
| <b>At 1 August 2015</b>                      | 17,126                                      | 22,835                                    | 424                                    | <b>40,385</b>         |
| Utilised in year                             | (8,635)                                     | (3,064)                                   | (34)                                   | <b>(11,733)</b>       |
| Additions in 2015/16                         | 10,687                                      | 6,629                                     | 5                                      | <b>17,321</b>         |
| Unused amounts reversed in 2015/16           | -                                           | -                                         | -                                      | <b>-</b>              |
| <b>At 31 July 2016</b>                       | <u>19,178</u>                               | <u>26,400</u>                             | <u>395</u>                             | <u><b>45,973</b></u>  |
| <b>Analysis of net movement in provision</b> |                                             |                                           |                                        |                       |
| Charged to staff costs (note 7)              | 1,545                                       | 1,128                                     | (29)                                   | <b>2,644</b>          |
| Net return on pension assets (note 8)        | 507                                         | 842                                       | -                                      | <b>1,349</b>          |
| Actuarial loss on pension schemes            | -                                           | 1,595                                     | -                                      | <b>1,595</b>          |
| Total movement                               | <u>2,052</u>                                | <u>3,565</u>                              | <u>(29)</u>                            | <u><b>(5,588)</b></u> |

<sup>1</sup>The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with USS for total payments to March 2031 relating to benefits arising from past performance. The provision has been calculated by estimating future employer pension payments and applying the deficit recovery contributions outlined in the USS deficit recovery plan published in June 2015. The weighted average discount factor over the remainder of the 17 year deficit recovery plan applied is 1.71% (31 July 2015, 2.70%).

<sup>2</sup>The assets and liabilities of LPF are held separately from those of Heriot-Watt University. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The institution has established a provision to recognise the net value of those assets and liabilities.

<sup>3</sup>This provision meets the cost of legacy pension benefits that are unfunded and paid, as and when they arise, direct to retired members by the University. The cost is charged against the provision established to meet the cost as it arises.

## 19. ENDOWMENT RESERVES

|                                           | Restricted permanent<br>endowments | Unrestricted<br>permanent | Expendable<br>endowments | Consolidated         |                     |
|-------------------------------------------|------------------------------------|---------------------------|--------------------------|----------------------|---------------------|
|                                           |                                    |                           |                          | 2016<br>Total        | 2015<br>Total       |
|                                           | £000                               | £000                      | £000                     | £000                 | £000                |
| <b>Balances at 1 August 2015</b>          |                                    |                           |                          |                      |                     |
| Capital                                   | 5,798                              | 1,678                     | 1,803                    | 9,279                | 8,713               |
| Accumulated Income                        | 208                                | -                         | 245                      | 453                  | 1,403               |
|                                           | <u>6,006</u>                       | <u>1,678</u>              | <u>2,048</u>             | <u>9,732</u>         | <u>10,116</u>       |
| New endowments                            | 19                                 | -                         | 199                      | 218                  | 373                 |
| Investment income                         | 239                                | 80                        | 68                       | 387                  | 359                 |
| Expenditure                               | (468)                              | (80)                      | (135)                    | (683)                | (1,682)             |
|                                           | <u>5,796</u>                       | <u>1,678</u>              | <u>2,180</u>             | <u>9,654</u>         | <u>9,166</u>        |
| Increase in market value of investments   | 256                                | 16                        | 85                       | 357                  | 566                 |
| <b>As at 31 July 2016</b>                 | <b><u>6,052</u></b>                | <b><u>1,694</u></b>       | <b><u>2,265</u></b>      | <b><u>10,011</u></b> | <b><u>9,732</u></b> |
| <b>Represented by:</b>                    |                                    |                           |                          |                      |                     |
| Capital                                   | 6,054                              | 1,694                     | 1,888                    | 9,636                | 9,280               |
| Accumulated income                        | (2)                                | -                         | 377                      | 375                  | 453                 |
|                                           | <u>6,052</u>                       | <u>1,694</u>              | <u>2,265</u>             | <u>10,011</u>        | <u>9,732</u>        |
| <b>Analysis by type and purpose:</b>      |                                    |                           |                          |                      |                     |
| Lectureships                              |                                    |                           |                          | 2,049                | 2,264               |
| Scholarships and bursaries                |                                    |                           |                          | 3,766                | 3,455               |
| Research support                          |                                    |                           |                          | -                    | -                   |
| Prize funds                               |                                    |                           |                          | 1,135                | 1,047               |
| General                                   |                                    |                           |                          | 3,061                | 2,966               |
|                                           |                                    |                           |                          | <u>10,011</u>        | <u>9,732</u>        |
| <b>Analysis by assets:</b>                |                                    |                           |                          |                      |                     |
| Current and non-current asset investments |                                    |                           |                          | 9,650                | 8,790               |
| Cash and cash equivalents                 |                                    |                           |                          | 361                  | 942                 |
|                                           |                                    |                           |                          | <u>10,011</u>        | <u>9,732</u>        |

### Deficit balances

The accumulated income relating to the following permanent endowments is currently in deficit. Income to cover this deficit is expected to be received by 31 July 2017.

|                         | Capital   | Income     |
|-------------------------|-----------|------------|
|                         | £000      | £000       |
| James Brown Legacy Fund | 69        | (1)        |
|                         | <u>69</u> | <u>(1)</u> |

**20. RESTRICTED RESERVES**

|                                                                          | Unspent capital grant<br>£000 | Research grants<br>£000 | Donations<br>£000   | Consolidated         |                      |
|--------------------------------------------------------------------------|-------------------------------|-------------------------|---------------------|----------------------|----------------------|
|                                                                          |                               |                         |                     | 2016                 | 2015                 |
|                                                                          |                               |                         |                     | Total<br>£000        | Total<br>£000        |
| <b>Balances at 1 August 2015</b>                                         | <u>260</u>                    | <u>10,860</u>           | <u>1,577</u>        | <b>13,164</b>        | <u>8,191</u>         |
| New grants                                                               | 260                           | 1,405                   | -                   | 1,665                | 4,770                |
| New donations                                                            | -                             | -                       | 646                 | 646                  | 1,279                |
| Investment income                                                        | -                             | -                       | 37                  | 37                   | 35                   |
| Capital grants utilised                                                  | (500)                         | -                       | -                   | (500)                | -                    |
| Expenditure                                                              | -                             | -                       | (609)               | (609)                | (1,175)              |
| Increase in market value of investments                                  | -                             | -                       | 47                  | 47                   | 64                   |
|                                                                          | <u>(240)</u>                  | <u>1,405</u>            | <u>121</u>          | <b>1,286</b>         | <u>4,973</u>         |
| <b>As at 31 July 2016</b>                                                | <u><b>20</b></u>              | <u><b>12,265</b></u>    | <u><b>1,698</b></u> | <u><b>14,450</b></u> | <u><b>13,164</b></u> |
| <b>Analysis of other restricted funds/donations by type and purpose:</b> |                               |                         |                     |                      |                      |
| Lectureships                                                             |                               |                         |                     | -                    | -                    |
| Scholarships and bursaries                                               |                               |                         |                     | 23                   | 27                   |
| Research support                                                         |                               |                         |                     | 12,732               | 11,327               |
| Prize funds                                                              |                               |                         |                     | 5                    | 20                   |
| General                                                                  |                               |                         |                     | 1,690                | 1,790                |
|                                                                          |                               |                         |                     | <u><b>14,450</b></u> | <u><b>13,164</b></u> |

**21. CASH AND CASH EQUIVALENTS**

|                           | Consolidated & University |                 |                       |
|---------------------------|---------------------------|-----------------|-----------------------|
|                           | As at<br>1 August 2015    | Cash flows      | As at<br>31 July 2016 |
|                           | £000                      | £000            | £000                  |
| Cash and cash equivalents | <u>30,044</u>             | <u>(14,435)</u> | <u><b>15,609</b></u>  |

**22. CAPITAL AND OTHER COMMITMENTS**

|                                                                               | Consolidated & University |                      |
|-------------------------------------------------------------------------------|---------------------------|----------------------|
|                                                                               | 2016                      | 2015                 |
|                                                                               | £000                      | £000                 |
| Provision has not been made for the following capital commitments at 31 July: |                           |                      |
| Commitments contracted                                                        | 9,058                     | 49,499               |
| Authorised but not contracted                                                 | 5,421                     | 8,826                |
|                                                                               | <u><b>14,479</b></u>      | <u><b>58,325</b></u> |

**23. LEASE OBLIGATIONS**

At 31 July 2016 commitments under operating leases as follows:

| <b>Consolidated</b>                          | <b>31 July 2016</b> |                     |              | <b>2016</b>           | <b>2015</b>    |
|----------------------------------------------|---------------------|---------------------|--------------|-----------------------|----------------|
|                                              | Land and buildings  | Plant and machinery | Other leases | <b>Total</b>          | <b>Total</b>   |
|                                              | £000                | £000                | £000         | <b>£000</b>           | £000           |
| <b>Payable during the year</b>               | 1,978               | 56                  | 87           | <b>2,121</b>          | 218            |
| <b>Future minimum lease payments due:</b>    |                     |                     |              |                       |                |
| Not later than 1 year                        | 2,225               | 74                  | 89           | <b>2,388</b>          | 2,122          |
| Later than 1 year and not later than 5 years | 9,620               | 183                 | 103          | <b>9,906</b>          | 8,631          |
| Later than 5 years                           | 88,457              | -                   | -            | <b>88,457</b>         | 91,847         |
| <b>Total lease payments due</b>              | <u>102,280</u>      | <u>313</u>          | <u>279</u>   | <u><b>102,872</b></u> | <u>102,818</u> |
|                                              |                     |                     |              |                       |                |
| <b>University</b>                            | <b>31 July 2016</b> |                     |              | <b>2016</b>           | <b>2015</b>    |
|                                              | Land and buildings  | Plant and machinery | Other leases | <b>Total</b>          | <b>Total</b>   |
|                                              | £000                | £000                | £000         | <b>£000</b>           | £000           |
| <b>Payable during the year</b>               | 1,455               | 56                  | 87           | <b>1,598</b>          | -              |
| <b>Future minimum lease payments due:</b>    |                     |                     |              |                       |                |
| Not later than 1 year                        | 1,702               | 74                  | 89           | <b>1,865</b>          | 1,598          |
| Later than 1 year and not later than 5 years | 5,831               | 183                 | 103          | <b>6,117</b>          | 6,410          |
| Later than 5 years                           | 4,923               | -                   | -            | <b>4,923</b>          | 6,232          |
| <b>Total lease payments due</b>              | <u>13,911</u>       | <u>313</u>          | <u>279</u>   | <u><b>14,503</b></u>  | <u>14,231</u>  |

**24. EVENTS AFTER THE REPORTING PERIOD**

Following the Balance Sheet date, the University accepted offers of funding totalling £112m, by way of a private placement with three investors. £48.5m of the funds were used immediately to repay the existing loans to Barclays and Clydesdale Bank and to meet the costs of buying out the existing interest rate swaps. The remaining £63.5m will contribute to the funding of the University's capital investment programme.

## 25. SUBSIDIARY UNDERTAKINGS

The subsidiary companies (all of which are registered in Scotland), wholly-owned or effectively controlled by the University are as follows:

| Company                                          | Principal activity                                                                                                                                                            | Number of shares | Percentage owned |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Edinburgh Business School (Limited by Guarantee) | The advancement of education in any aspect of corporate or strategic management techniques, education and research through the establishment and running of a business school | -                | 100%             |
| Edinburgh Conference Centre Limited              | Dormant                                                                                                                                                                       | 100              | 100%             |
| Heriot-Watt Services Limited                     | The management and operation of the National Performance Centre for Sport                                                                                                     | 100              | 100%             |
| Heriot-Watt Sports Village Limited               | Operating Heriot Watt's Sports Academy                                                                                                                                        | 5,000,000        | 100%             |
| Heriot-Watt Trading Limited                      | The provision of consultancy, pipeline technology, language translation and interpretation services, management and business training and the manufacture of finished goods   | 2,000,000        | 100%             |
| Scottish College of Textiles Limited             | Dormant                                                                                                                                                                       | 6                | 100%             |

The group also wholly owns and effectively controls the following overseas business:

| Company                                 | Principal activity                                                                               | Number of shares | Percentage owned |
|-----------------------------------------|--------------------------------------------------------------------------------------------------|------------------|------------------|
| Heriot-Watt University Malaysia Sdn Bhd | A private Higher Education Institution, registered by the Malaysian Ministry of Higher Education | 20,000,000       | 100%             |

## 26. PENSION SCHEMES

All staff have the option of joining a pension scheme. The schemes currently available to new members of staff on Heriot-Watt contracts of employment are the Universities Superannuation Scheme (USS) and the Lothian Pension Fund (LPF). Existing employees are entitled to maintain their membership of the Scottish Teachers Superannuation Scheme (STSS), whereas the Supplementary Pension Scheme (SPS) is closed and contains only pensioner members.

Full provision has been made for those pension costs which do not arise from externally funded defined benefit schemes.

The scheme currently available to new members of staff on Edinburgh Business School contracts of employment is the Universities Superannuation Scheme (USS). Existing employees are entitled to maintain their membership of the Lothian Pension Fund (LPF).

The scheme currently available to staff on Heriot-Watt Services Limited contracts of employment is the Heriot-Watt Services Limited defined contribution pension scheme.

None of the group's other subsidiary undertakings operate any other pension schemes.

The amount charged to the statement of comprehensive income represents either the contributions payable to the individual plans in respect of the year or the service cost expected to arise from employee service in the current year.

The total pension charge in the financial statements reflects the costs incurred by the group during the year of £15,288,000 (2015 - £21,005,000); and is analysed as follows:

|                                         | Employers' pension contributions (note 7) | Provision movement (note 18) | Consolidated  |               |
|-----------------------------------------|-------------------------------------------|------------------------------|---------------|---------------|
|                                         |                                           |                              | 2016<br>£000  | 2015<br>£000  |
| Universities Superannuation Scheme      | 8,937                                     | 1,629                        | 10,566        | 17,072        |
| Lothian Pension Fund                    | 2,356                                     | 1,953                        | 4,309         | 3,745         |
| Scottish Teachers Superannuation Scheme | 42                                        | -                            | 42            | 36            |
| Other pension costs                     | 371                                       | (25)                         | 371           | 152           |
|                                         | <b>11,706</b>                             | <b>3,557</b>                 | <b>15,288</b> | <b>21,005</b> |

The pension costs are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuations of the USS and Lothian Pension Fund (LPF) schemes were on 31 March 2014, of the Scottish Teachers Superannuation Scheme on 31 March 2012 and of the Supplementary Pension Scheme (SPS) on 31 July 2004.

**UNIVERSITIES SUPERANNUATION SCHEME**

Heriot-Watt participates in the Universities Superannuation Scheme (the scheme). Throughout the current and preceding periods, the scheme was a defined benefit only pension scheme until 31 March 2016 which was contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. 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, currently 18% (2015:16%). The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by Section 28 of FRS 102 "Employee benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive income represents the contributions payable to the scheme in respect of the accounting period. Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the statement of comprehensive income.

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

The University is required to contribute a specified percentage of payroll costs to the pension scheme to fund the benefits payable to the company's employees. From 1 April 2016 the percentage was 18%, prior to that date it was 16% (2015: 16%).

The total cost charged to the statement of comprehensive income is £10,566,000 (2015: £17,072,000) as shown above. Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect the position from the financial statements for the scheme as a whole.

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

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

|                           | <b>2016</b> | 2015                                       |
|---------------------------|-------------|--------------------------------------------|
| Discount rate             | <b>3.6%</b> | 3.3%                                       |
| Pensionable salary growth | <b>n/a</b>  | 3.5% in the first year.<br>4.0% thereafter |
| Pension increases (CPI)   | <b>2.2%</b> | 2.2%                                       |

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

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

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

|                                   | <b>2016</b> | 2015 |
|-----------------------------------|-------------|------|
| Males currently aged 65 (years)   | <b>24.3</b> | 24.2 |
| Females currently aged 65 (years) | <b>26.5</b> | 26.4 |
| Males currently aged 45 (years)   | <b>26.4</b> | 26.3 |
| Females currently aged 45 (years) | <b>28.8</b> | 28.7 |

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

**LOTHIAN PENSION FUND**

The LPF is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of Heriot-Watt University. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the University. The Contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. The amount charged to the statement of comprehensive income represents the service cost expected to arise from employee service in the current year.

An actuarial valuation exercise has been undertaken by a qualified independent actuary in order to calculate pension expense as at 31 July 2016.

The major categories of plan assets as a percentage of total plan assets:

|          | 2016 | 2015 |
|----------|------|------|
| Equities | 68%  | 66%  |
| Bonds    | 21%  | 18%  |
| Property | 8%   | 9%   |
| Cash     | 3%   | 7%   |

The major assumptions at 31 July 2016 used by the actuary were:

|                       | 2016 | 2015 |
|-----------------------|------|------|
| Pension increase rate | 1.9% | 2.6% |
| Salary increase rate  | 4.4% | 4.5% |
| Discount rate         | 2.4% | 3.6% |

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI2012 model assuming current rates of improvement have peaked and will converge to a long term rate 1.25% p.a.

|                    | Males      | Females    |
|--------------------|------------|------------|
| Current Pensioners | 22.1 years | 23.7 years |
| Future Pensioners* | 24.2 years | 26.3 years |

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

Life expectancies for the prior period end are based on the Fund's Vita Curves. The allowance for future improvements is shown below:

| Period ending | Prospective pensioners                                                                                           | Pensioners                                                                                                                   |
|---------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| 31 July 2015  | CMI2012 model assuming current rates of improvement have peaked and will converge to a long term rate 1.25% p.a. | 23.7 years CMI2012 model; assuming current rates of improvement have peaked and will converge to a long term rate 1.25% p.a. |

The mortality assumptions are identical to those used in the previous accounting period.

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

Changes in the fair value of plan assets, defined benefit obligation and net liability for year end 31 July 2016

| Period Ended 31 July 2016                                                  | Assets<br>£000 | Obligations<br>£000 | Net Asset/ (Liability)<br>£000 |
|----------------------------------------------------------------------------|----------------|---------------------|--------------------------------|
| Fair value of plan assets                                                  | 89,671         | -                   | 89,671                         |
| Present value of funded liabilities                                        | -              | (112,530)           | (112,530)                      |
| Present value of unfunded liabilities                                      | -              | (242)               | (242)                          |
| <b>Opening Position as at 31 July 2015</b>                                 | <b>89,671</b>  | <b>(112,772)</b>    | <b>(23,101)</b>                |
| Service Cost                                                               |                |                     |                                |
| Current service cost*                                                      | -              | (4,292)             | (4,292)                        |
| Past service cost (including curtailments)                                 | -              | (17)                | (17)                           |
| Effect of settlements                                                      | -              | -                   | -                              |
| <b>Total Service Cost</b>                                                  | <b>-</b>       | <b>(4,309)</b>      | <b>(4,309)</b>                 |
| Net interest                                                               |                |                     |                                |
| Interest income on plan assets                                             | 3,239          | -                   | 3,239                          |
| Interest cost on defined benefit obligation                                | -              | (4,092)             | (4,092)                        |
| <b>Total net interest</b>                                                  | <b>3,239</b>   | <b>(4,092)</b>      | <b>(853)</b>                   |
| <b>Total defined benefit cost recognised in Profit or (Loss)</b>           | <b>3,239</b>   | <b>(8,401)</b>      | <b>(5,162)</b>                 |
| Cashflows                                                                  |                |                     |                                |
| Plan participants' contributions                                           | 775            | (775)               | -                              |
| Employer contributions                                                     | 3,128          | -                   | 3,128                          |
| Contributions in respect of unfunded benefits                              | 15             | -                   | 15                             |
| Benefits paid                                                              | (3,422)        | 3,422               | -                              |
| Unfunded benefits paid                                                     | (15)           | 15                  | -                              |
| Effect of business combinations and disposals                              | -              | -                   | -                              |
| <b>Total cash flows</b>                                                    | <b>481</b>     | <b>2,622</b>        | <b>3,143</b>                   |
| <b>Expected closing position</b>                                           | <b>93,391</b>  | <b>(118,511)</b>    | <b>(25,120)</b>                |
| Remeasurements                                                             |                |                     |                                |
| Changes in demographic assumptions                                         | -              | -                   | -                              |
| Changes in financial assumptions                                           | -              | (19,426)            | (19,426)                       |
| Other experience                                                           | -              | 937                 | 937                            |
| Return on assets excluding amounts included in net interest                | 16,767         | -                   | 16,767                         |
| Changes in asset ceiling                                                   | -              | -                   | -                              |
| <b>Total remeasurements recognised in Other Comprehensive Income (OCI)</b> | <b>16,767</b>  | <b>(18,489)</b>     | <b>(1,722)</b>                 |
| Fair value of plan assets                                                  | 110,158        | -                   | 110,158                        |
| Present value of funded liabilities                                        | -              | (136,759)           | (136,759)                      |
| Present value of unfunded liabilities**                                    | -              | (241)               | (241)                          |
| <b>Closing position as at 31 July 2016</b>                                 | <b>110,158</b> | <b>(137,000)</b>    | <b>(26,842)</b>                |

\* The current service cost includes an allowance for administration expenses of 0.3% of payroll.

\*\* The liability comprises of approximately £241,000 in respect of LGPS unfunded pensions £0 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 July 2016, it is assumed that all unfunded pensions are payable for the remainder of the members life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension between 37.5% and 50% of the member's pension as at the date of the member's death.

Information about the Defined benefit obligation

|                   | Liability split £(000)<br>as at 31 July 2016 | Liability split (%) as<br>at 31 July 2016 | Weighted average<br>duration at previous<br>formal valuation |
|-------------------|----------------------------------------------|-------------------------------------------|--------------------------------------------------------------|
| Active members    | 97,966                                       | 71.6%                                     | 22.6                                                         |
| Deferred members  | 14,706                                       | 10.8%                                     | 23.0                                                         |
| Pensioner members | 24,087                                       | 17.6%                                     | 11.0                                                         |
| <b>Total</b>      | <b>136,759</b>                               | <b>100.0%</b>                             | <b>18.1</b>                                                  |

The figures, above, are for the funded obligations only and do not include any unfunded pensioner liabilities. The durations are as they stood at the previous formal valuation as at 31 March 2014.

Changes in the fair value of plan assets, defined benefit obligation and net liability for year end 31 July 2016

| Period Ended 31 July 2015                                                  | Assets<br>£000 | Obligations<br>£000 | Net Asset/ (Liability)<br>£000 |
|----------------------------------------------------------------------------|----------------|---------------------|--------------------------------|
| Fair value of plan assets                                                  | 80,520         | -                   | 80,520                         |
| Present value of liabilities                                               | -              | (102,112)           | (102,112)                      |
| <b>Opening Position as at 31 July 2014</b>                                 | <b>80,520</b>  | <b>(102,112)</b>    | <b>(21,592)</b>                |
| Service Cost                                                               |                |                     |                                |
| Current service cost*                                                      | -              | (3,745)             | (3,745)                        |
| Past service cost (including curtailments)                                 | -              | -                   | -                              |
| Effect of settlements                                                      | -              | -                   | -                              |
| <b>Total Service Cost</b>                                                  | <b>-</b>       | <b>(3,745)</b>      | <b>(3,745)</b>                 |
| Net interest                                                               |                |                     |                                |
| Interest income on plan assets                                             | 3,157          | -                   | 3,157                          |
| Interest cost on defined benefit obligation                                | -              | (4,011)             | (4,011)                        |
| <b>Total net interest</b>                                                  | <b>3,157</b>   | <b>(4,011)</b>      | <b>(854)</b>                   |
| <b>Total defined benefit cost recognised in Profit or (Loss)</b>           | <b>3,157</b>   | <b>(7,756)</b>      | <b>(4,599)</b>                 |
| Cash flows                                                                 |                |                     |                                |
| Plan participants' contributions                                           | 767            | (767)               | -                              |
| Employer contributions                                                     | 3,075          | -                   | 3,075                          |
| Contributions in respect of unfunded benefits                              | 15             | -                   | 15                             |
| Benefits paid                                                              | (3,042)        | 3,042               | -                              |
| Unfunded benefits paid                                                     | (15)           | 15                  | -                              |
| Effect of business combinations and disposals                              | -              | -                   | -                              |
| <b>Total cash flows</b>                                                    | <b>800</b>     | <b>2,290</b>        | <b>3,090</b>                   |
| <b>Expected closing position</b>                                           | <b>84,477</b>  | <b>(107,578)</b>    | <b>(23,101)</b>                |
| Remeasurements                                                             |                |                     |                                |
| Changes in demographic assumptions                                         | -              | -                   | -                              |
| Changes in financial assumptions                                           | -              | (5,641)             | (5,641)                        |
| Other experience                                                           | -              | 447                 | 447                            |
| Return on assets excluding amounts included in net interest                | 5,194          | -                   | 5,194                          |
| Changes in asset ceiling                                                   | -              | -                   | -                              |
| <b>Total remeasurements recognised in Other Comprehensive Income (OCI)</b> | <b>5,194</b>   | <b>(5,194)</b>      | <b>-</b>                       |
| Fair value of plan assets                                                  | 89,671         | -                   | 89,671                         |
| Present value of funded liabilities                                        | -              | (112,530)           | (112,530)                      |
| Present value of unfunded liabilities**                                    | -              | (242)               | (242)                          |
| <b>Closing position as at 31 July 2015</b>                                 | <b>89,671</b>  | <b>(112,772)</b>    | <b>(23,101)</b>                |

\* The current service cost includes an allowance for administration expenses of 0.3% of payroll.

Analysis of projected amount to be charged to operating profit for the period to 31 July 2017

| Period Ended 31 July 2017                   | Assets<br>£000 | Obligations<br>£000 | Net (liability)/asset<br>£000 | % of pay       |
|---------------------------------------------|----------------|---------------------|-------------------------------|----------------|
| Projected Current service cost*             | -              | 4,929               | (4,929)                       | (37.7%)        |
| Past service cost including curtailments    | -              | -                   | -                             | -              |
| Effect of settlements                       | -              | -                   | -                             | -              |
| <b>Total Service Cost</b>                   | <b>-</b>       | <b>4,929</b>        | <b>(4,929)</b>                | <b>(37.7%)</b> |
| Interest income on plan assets              | 2,652          | -                   | 2,652                         | 20.3%          |
| Interest cost on defined benefit obligation | -              | 3,319               | (3,319)                       | (25.4%)        |
| <b>Total Net Interest Cost</b>              | <b>2,652</b>   | <b>3,319</b>        | <b>(667)</b>                  | <b>(5.1%)</b>  |
| <b>Total Included in Profit and Loss</b>    | <b>2,652</b>   | <b>8,248</b>        | <b>(5,596)</b>                | <b>(42.8%)</b> |

\*The current service cost includes an allowance for administration expenses of 0.3% of payroll. The monetary value is based on a projected payroll of £13,085,000.

The contributions paid by the Employer are set by the Fund Actuary at each triennial actuarial valuation (the most recent being as at 31 March 2014), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2018 are set out in the Rate and Adjustments certificate.

The Employer's contributions are estimated for the period to 31 July 2017 to be approximately £3,087,000.

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

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

#### SENSITIVITY ANALYSIS

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

| Change in assumptions at 31 July 2016:     | Approximate %<br>increase to Employer<br>Liability | Approximate<br>monetary amount<br>£000 |
|--------------------------------------------|----------------------------------------------------|----------------------------------------|
| 0.5% decrease in Real Discount Rate        | 11%                                                | 15,631                                 |
| 1 year increase in member life expectancy  | 3%                                                 | 4,110                                  |
| 0.5% increase in the Salary Increase Rate  | 4%                                                 | 5,598                                  |
| 0.5% increase in the Pension Increase Rate | 7%                                                 | 9,546                                  |

In order to quantify the impact of a change in the financial assumptions used, the value of the scheme liabilities as at 31 July 2016 has been calculated and compared on varying bases. The approach taken is consistent with that adopted to derive the FRS 102 figures provided in this report.

To quantify the uncertainty around life expectancy, the difference in cost to the Employer of a one year increase in life expectancy has been calculated. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominately apply at younger or older ages).

The above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.

#### SCOTTISH TEACHERS SUPERANNUATION SCHEME

Heriot-Watt University participates in the Scottish Teachers Superannuation Scheme (STSS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). STSS operates on a notionally funded basis.

The amount charged to the Statement of Comprehensive Income and Expenditure represents the contributions payable to the scheme in respect of the year. The total contribution made for the year ended 31 July 2016 was £72,000 (2015: £67,000), of which employer's contributions totalled £42,000 (2015: £36,000) and employee's contributions totalled £30,000 (2015: £31,000). The agreed contribution rates for future years are 17.2% (2015: 14.9%) for employers and 11.6% average (2015: 11.6%) for employees. The employer's contributions include £3,566 (2015: £3,033) of outstanding contributions at the balance sheet date.

#### AUTOMATIC ENROLMENT

The Group has implemented arrangements to facilitate pension 'auto enrolment'. The requirement is for employers to automatically enrol certain workers who are not already pension scheme members into a qualifying pension scheme came into force on 1 October 2012. All employers in the UK were allocated a date from which the auto enrolment requirements and arrangements would first apply, referred to as the employer's 'staging date'. The staging date for Heriot Watt University was 1 July 2013.

In terms of qualifying pension schemes, in addition to the existing pensions schemes (University Superannuation Scheme and the Lothian Pension Fund), staff can opt to join NEST (the National Employment Savings Trust).

A total of 241 employees were auto enrolled in the NEST scheme and were active members at the year end. The employer's costs for the year ended 31 July 2016 was £5,145 (2015: £4,805).

#### HERIOT- WATT SERVICES LIMITED DEFINED CONTRIBUTION PENSION SCHEME

Employees on Heriot-Watt Services Ltd contracts of employment are entitled to contribute to a defined contribution scheme.

During the year, a total of 12 employees contributed to the scheme. The employer's costs for the year ended 31 July 2016 was £4,061 (2015: £nil).

## 27. FINANCIAL INSTRUMENTS

The Group has exposure to the following risks from the use of financial instruments:-

- Liquidity risk
- Credit risk
- Market risk

**LIQUIDITY RISK**

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The University's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due. The group's key income sources are set out in notes 1 to 6 above. These income streams are considered by the University to be reliable and stress tests against the bank covenants in place show these income streams to be more than sufficient to satisfactorily service the existing level of debt. Liquidity is managed by the use of the annual operating plan process and the monitoring of actual performance against budgets and forecasts. The table below details the contractual maturities of financial liabilities.

|                                                    | Carrying<br>amount<br>£000 | Contractual<br>cash flows<br>£000 | Within<br>one year<br>£000 | After more<br>than one year<br>£000 |
|----------------------------------------------------|----------------------------|-----------------------------------|----------------------------|-------------------------------------|
| <b>Financial liabilities</b>                       |                            |                                   |                            |                                     |
| Trade creditors and other payables (less accruals) | 47,477                     | -                                 | 47,348                     | 129                                 |
| Other financial liabilities                        | 53,398                     | -                                 | 5,304                      | 48,094                              |
|                                                    | <b>100,875</b>             | <b>-</b>                          | <b>52,652</b>              | <b>48,223</b>                       |

**CREDIT RISK**

Credit risk is the risk of financial loss to the University group if a customer or counter party fails to meet its contractual obligations and arises from the trade receivables. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet. The University operates a debt management process including monitoring, escalation procedures and recourse to court action to recover monies outstanding. Provision is made for doubtful receivables upon the age of the debt and experience of collecting overdue debts. Cash and cash equivalents are held with banks which are not expected to fail. The maximum exposure to credit risk at the reporting date was:-

|                                     | Carrying amount |               |
|-------------------------------------|-----------------|---------------|
|                                     | 2016<br>£000    | 2015<br>£000  |
| <b>Financial assets</b>             |                 |               |
| Trade debtors and other receivables | 39,230          | 39,006        |
| Cash and cash equivalents           | 15,609          | 30,044        |
| Current investments                 | 1,660           | 12,004        |
|                                     | <b>56,499</b>   | <b>81,054</b> |

**MARKET RISK**

Market risk is the risk that market prices such as interest rates, foreign exchange rates and equity prices will affect income or the value of holdings in financial instruments.

## a. Interest rate risk

The University 'hedges' its interest rate risk using swaps which provide stability against interest rate fluctuations on its current variable rate loans. The University holds the following fixed rate interest rate swap arrangements:

- A swap was entered into on 28 June 2002 for £10m at 5.05%, expiring on 30 September 2016 and amortising on a straight line basis from 31 December 2008.
- A swap was entered into on 28 June 2002 for £5m at 5.62%, expiring on 30 September 2016 and amortising on a straight line basis from 31 December 2008.
- A swap was entered into on 5 October 2007 for £5m at 5.03%, rising to £18m on 30 September 2016, expiring on 31 March 2037 and amortising on a straight line basis from 30 September 2014.
- A swap was entered into on 28 March 2013 for £12.5m at 3.5875%, expiring on 31 March 2023 and amortised on a straight line basis from 30 April 2015

At the balance sheet date the market risk of the group's interest bearing financial instruments was as follows:

|                                  | 2016<br>£000  | 2015<br>£000  |
|----------------------------------|---------------|---------------|
| <b>Fixed rate instruments</b>    |               |               |
| Financial assets                 | -             | -             |
| Financial liabilities            | 32,500        | 32,500        |
|                                  | <u>32,500</u> | <u>32,500</u> |
| <b>Variable rate instruments</b> |               |               |
| Financial assets                 | -             | -             |
| Financial liabilities            | 12,500        | 12,500        |
|                                  | <u>12,500</u> | <u>12,500</u> |

The fair value of the hedging instruments is determined by establishing a market value for the swaps at the balance sheet date, such value being reflected in Balance sheet creditors and the movements being reflected in the Statement of comprehensive income and expenditure.

|                                 | Carrying amount |              |
|---------------------------------|-----------------|--------------|
|                                 | 2016<br>£000    | 2015<br>£000 |
| Fair value of swaps at 1 August | 5,179           | 3,454        |
| Change in fair value            | 2,792           | 1,725        |
| Fair value of swap a 31 July    | <u>7,971</u>    | <u>5,179</u> |

b. Currency risk

The group is exposed to currency risk on transactions and balances that are denominated in currencies other than sterling. Whenever practical, the University enters into agreements in its functional currency in order to minimise currency risks. The group is exposed to currency risks from its activities conducted overseas but does not enter into any hedge arrangements and does not consider currency risk to be material.

## FAIR VALUES

The fair values, together with the carrying amounts of financial assets and liabilities in the balance sheet are as follows:-

|                                     | Carrying amount |                 | Fair value      |                 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                     | 2016<br>£000    | 2015<br>£000    | 2016<br>£000    | 2015<br>£000    |
| Trade debtors and other receivables | 39,230          | 39,006          | 39,230          | 39,006          |
| Cash and cash equivalents           | 15,609          | 30,044          | 15,609          | 30,044          |
| Current investments                 | 1,660           | 12,004          | 1,660           | 12,004          |
| Trade creditors and other payables  | (47,477)        | (47,472)        | (47,477)        | (47,472)        |
| Other financial liabilities         | (53,398)        | (49,353)        | (53,398)        | (49,353)        |
|                                     | <u>(44,376)</u> | <u>(15,771)</u> | <u>(44,376)</u> | <u>(15,771)</u> |

The following methods and assumptions were used to estimates fair values:-

|                                     |                                                |
|-------------------------------------|------------------------------------------------|
| Financial assets held for sale      | Based on an assessment of recoverable amounts  |
| Trade debtors and other receivables | Fair value deemed to be the same as book value |
| Cash and cash equivalents           | Fair value deemed to be the same as book value |
| Trade creditors and other payables  | Fair value deemed to be the same as book value |

**28. ACCESS FUNDS**

Funding council grants are available solely for students; the group acts only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account. The unspent balances repayable to the Funding council are recorded on the Balance Sheet as a Cash asset and an equal liability in Creditors - amounts falling due within one year.

|                                        | Group     |            |            |
|----------------------------------------|-----------|------------|------------|
|                                        | Childcare | Hardship   | Total      |
|                                        | £000      | £000       | £000       |
| <b>At 1 August 2015</b>                | 30        | 175        | 205        |
| Repaid to funding body                 | (30)      | (175)      | (205)      |
| Funding council grants                 | 110       | 404        | 514        |
| Disbursed to students                  | (160)     | (129)      | (289)      |
| Vired between funds                    | 90        | (90)       | 0          |
| <b>Balance unspent at 31 July 2016</b> | <u>40</u> | <u>185</u> | <u>225</u> |
| <b>Repayable to funding body</b>       | 40        | 185        | 225        |

**29. RELATED PARTY TRANSACTIONS**

Due to the nature of the University's activities and the composition of Court (being drawn from public and private sector organisations) transactions may take place with organisations in which a member of Court may have an interest. From time to time, as supporters of the University, Court members may make donations of varying amounts to assist the University in achieving its goals. All transactions involving organisations in which a member of Court may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. The registered interests of court members can be accessed on the University's website at <https://www.hw.ac.uk/about/profile/governance/court.htm>.

**30. TRANSITION TO FRS 102**

As noted in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the new Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015. The accounting policies set out on pages 48-50 have been applied in preparing the financial statements for the year ended 31 July 2016, the comparative information presented for the year ended 31 July 2015 and in the preparation of an opening FRS 102 statement of financial position at 1 August 2014. In preparing its FRS 102, SORP based statement of financial position, the University has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (Statement of Recommended Practice: Accounting for Further and Higher Education 2007). An explanation of how the transition to FRS 102 and the SORP 2015 has affected the University's financial position and financial performance in the opening statement of financial position at 1 August 2014 and adjusted amounts reported previously in financial statements is set out in the tables and in the explanatory notes that follow.

| <b>Financial Position</b>                              |      | <b>1 August 2014</b> |                 | <b>31 July 2015</b> |                 |
|--------------------------------------------------------|------|----------------------|-----------------|---------------------|-----------------|
|                                                        |      | Consolidated         | University      | Consolidated        | University      |
|                                                        | Note | £000                 | £000            | £000                | £000            |
| <b>Total reserves under 2007 SORP</b>                  |      | 85,065               | 68,745          | 95,833              | 81,775          |
| Reclassification of deferred capital grants            | a    | (43,061)             | (41,658)        | (42,552)            | (41,198)        |
| Revaluation of Edinburgh campus                        | b    | 4,958                | 4,456           | 4,958               | 4,456           |
| Revaluation of Research Park                           | c    | 9,783                | 9,783           | 10,583              | 10,583          |
| Holiday pay accrual                                    | d    | (2,782)              | (2,782)         | (2,982)             | (2,982)         |
| Provision for institution's share of USS recovery plan | e    | (8,823)              | (8,442)         | (17,786)            | (17,126)        |
| Research income                                        | f    | 8,028                | 8,028           | 11,528              | 11,528          |
| Release of deferred income                             | g    | 165                  | (297)           | 2,160               | 2,160           |
| Valuation of interest rate swap                        | h    | (3,454)              | (3,454)         | (5,179)             | (5,179)         |
| Reclassification of Endowments                         | i    | (1,097)              | (1,097)         | -                   | -               |
| <b>Total effect of transition to FRS 102</b>           |      | <u>(36,283)</u>      | <u>(35,463)</u> | <u>(39,270)</u>     | <u>(37,758)</u> |
| <b>Total reserves under 2015 SORP</b>                  |      | <u>48,782</u>        | <u>33,282</u>   | <u>56,563</u>       | <u>44,017</u>   |

**30. TRANSITION TO FRS 102 (CONTINUED)****Financial performance**

|                                                                |      | <b>31 July 2015</b> |                |
|----------------------------------------------------------------|------|---------------------|----------------|
|                                                                |      | Consolidated        | University     |
|                                                                | Note | £000                | £000           |
| <b>Surplus for the year under 2007 SORP</b>                    |      | 11,114              | 13,787         |
| Revaluation of Research Park                                   | c    | 800                 | 800            |
| Holiday pay accrual                                            | d    | (200)               | (200)          |
| Provision for institution's share of USS recovery plan         | e    | (8,965)             | (8,684)        |
| Research income                                                | f    | 3,501               | 3,501          |
| Release of deferred income                                     | g    | 2,160               | 2,160          |
| Valuation of interest rate swap                                | h    | (1,726)             | (1,726)        |
| Endowments                                                     | i    | 1,097               | 1,097          |
| <b>Total effect of transition to FRS 102</b>                   |      | <u>(3,333)</u>      | <u>(3,052)</u> |
| <b>Total comprehensive income for the year under 2015 SORP</b> |      | <u>7,781</u>        | <u>10,735</u>  |

**A. RECLASSIFICATION OF DEFERRED CAPITAL GRANTS**

In accordance with FRS 102, capital grants that are deferred over the life of the underlying asset are now recognised as deferred income, within creditors; rather than as a reserve.

At 1 August 2014 £43,061,000 (£41,657,000 in respect of the University and £1,404,000 in respect of Heriot-Watt Sports Village Limited), was moved from reserves to creditors. By 31 July 2015, the balance on the reserve had reduced by £508,000 (£458,000 in respect of the University and £50,000 in respect of Heriot-Watt Sports Village Limited)

**B. REVALUATION OF EDINBURGH CAMPUS**

On adoption of FRS 102 the Group adopted the transitional provisions to measure land at fair value on the date of transition, and to use that fair value as its deemed cost.

At 1 August 2014, the £4,958,000 increase in the valuation of land held by the University other than the Research Park, was recognised as an increase in intangible assets and by the creation of a revaluation reserve.

**C. REVALUATION OF RESEARCH PARK**

In accordance with FRS 102, the University considers the Research Park to be land held for rental income or capital appreciation, and as such is considered to be an investment property. Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the Surplus or Deficit. Properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

At 1 August 2014, the £9,783,000 increase in valuation of the land was recognised by its addition to non-current asset investments and by as an addition to the accumulated income and expenditure reserve. At 31 July 2015, that valuation had increased by £800,000.

**D. HOLIDAY PAY ACCRUAL**

In accordance with FRS 102, an accrual has been made for annual leave untaken at the balance sheet date.

At 1 August 2014, £2,782,000 was recognised in creditors falling due within one year and as a charge to the accumulated income and expenditure reserve. At the 31 July 2015, a further £200,000 was accrued

**E. PROVISION FOR INSTITUTION'S SHARE OF USS RECOVERY PLAN**

In accordance with FRS 102, a provision for the estimated cost of the University's share of meeting the deficit recovery plan for the Universities Superannuation Scheme has been established.

At 1 August 2014 a provision of £8,823,000 (£8,442,000 in respect of the University and £381,000 in respect of Edinburgh Business School) was established, with a corresponding charge to accumulated income and expenditure reserve. At 31 July 2015, the provision had increased by £8,964,000 (£8,684,000 in respect of the University and £280,000 in respect of Edinburgh Business School).

**F. RESEARCH INCOME**

In accordance with accounting policy 3c, research grant and contract income from sources other than government and where performance conditions do not exist is recognised when it is receivable; rather than, as previously, being recognised over the periods in which the University recognised the related costs for which the grant was intended to compensate; with any such income having been received in advance being recognised as deferred income within creditors.

At 1 August 2014, £8,028,000 was released from deferred income to the accumulated income and expenditure reserve. At the 31 July 2015, a further £3,501,000 was released.

**G. RELEASE OF DEFERRED INCOME**

In accordance with FRS 102, the advance income received without performance conditions cannot be held as deferred income in the balance sheet for future release, but must be recognised in full as income in the Statement of Comprehensive Income and Expenditure.

During 2014/15 £2,160,000 held in creditors was released and credited to the accumulated income and expenditure reserve.

**H. VALUATION OF INTEREST RATE SWAP**

The group purchases interest rate swaps to manage interest rate risk volatility. In accordance with FRS 102, interest rate swaps are held on the Balance Sheet at fair value, with surplus or deficit movements in fair value being recorded within the Statement of Comprehensive Income and Expenditure.

At 1 August 2014 £3,454,000 was recognised in creditors falling due within one year and as a charge to the accumulated income and expenditure reserve. At the 31 July 2015, a further £1,726,000 was accrued.

**I. RECLASSIFICATION OF ENDOWMENTS**

In accordance with FRS 102, donations received without performance conditions must be recognised in full as income in the Statement of Comprehensive Income and Expenditure.

During 2014/15 £1,109,000 of endowments held in reserves was recognised as income in the Statement of Comprehensive Income and Expenditure

# Members of Court

The following persons served as members of Court during the year to 31 July 2016, and up to the date of approval of these financial statements.

|                             |                                            |                                      |
|-----------------------------|--------------------------------------------|--------------------------------------|
| Chair of Court              | Dame Frances Cairncross <sup>1</sup>       | DBE, FRSE                            |
| Deputy Chair of Court       | Mr Tony Strachan <sup>1</sup>              | MBA, FCIS                            |
| Principal & Vice-Chancellor | Professor Richard A. Williams              | OBE, FEng, FTSE                      |
| Vice-Principal              | Professor Julian D C Jones                 | OBE, FRSE, FOSA, FlntP, BSc, PhD     |
| City of Edinburgh Council   | Councillor Ricky Henderson <sup>1, 2</sup> |                                      |
| Senate                      | Professor Patrick Corbett                  | BSc, MSc, PGDip, PhD, DSc, FRSE, FGS |
|                             | Mr Amos Haniff                             | BSc, MSc, MAPM, MCIOM, PGCAP         |
|                             | Professor Isabelle Perez                   | Licence, Diploma, MITI, MIL          |
|                             | Professor Phillip John                     | BSc, PhD, DSc                        |
| Staff                       | Ms Pamela Calabrese                        | MA, BA                               |
|                             | Ms Jane Queenan                            | LLB, MBA                             |
|                             | Mr Tom Stenhouse <sup>8</sup>              |                                      |
| Graduates                   | Ms Trish Gray                              | MBA, BSc                             |
| Student Union               | Ms Hannah Frances <sup>3</sup>             | MA                                   |
|                             | Ms Miranda Matoshi <sup>3</sup>            | BSc                                  |
|                             | Mr Diarmuid Cowan <sup>4</sup>             | MA                                   |
|                             | Ms Eloise McNeaney <sup>4</sup>            | MA                                   |
| Co-opted                    | Ms Tracey Ashworth-Davies <sup>1</sup>     | BSc                                  |
|                             | Ms Lucy Conan <sup>1</sup>                 | BA                                   |
|                             | Mr Grant Innes <sup>1, 5</sup>             | FIChemE, BSc                         |
|                             | Ms Morag McNeill <sup>1, 6</sup>           | LLB, LLM, DipLP                      |
|                             | Mr Andrew Milligan <sup>1</sup>            | BSc                                  |
|                             | Professor John Perkins <sup>7</sup>        | PhD, CBE, FEng, FIET, FIMA, FRSA     |
|                             | Ms Dorothy Shepherd <sup>1</sup>           | CA, MBA, BAcc                        |
|                             | Ms Jandy Stevenson <sup>1</sup>            | FCA, BSc                             |
|                             | Professor Ian Wall <sup>1</sup>            | DSc, FRICS, Hon FRIAS, FRSE          |
|                             | Mr Graham Watson <sup>1, 6</sup>           | LLB, CA, FRSA                        |
|                             | Ms Rio Watt <sup>1</sup>                   | C.Ed                                 |

<sup>1</sup> Independent lay member of Court

<sup>2</sup> Member until 1 September 2015

<sup>3</sup> Member until 31 May 2016

<sup>4</sup> Member from 1 June 2016

<sup>5</sup> Member from 4 March 2016

<sup>6</sup> Member from 1 September 2015

<sup>7</sup> Member since 6 May 2016

<sup>8</sup> Member from 1 August 2015

<sup>9</sup> Member until 31 July 2015

<sup>10</sup> Member until 1 September 2015

<sup>11</sup> Member until 31 May 2015

<sup>12</sup> Member until 11 November 2015

<sup>13</sup> Member from 1 September 2015

# Membership of Committees of Court

The following persons served on the committees of court during the financial year reported in these accounts.

|                                      |                                                                                                                                                                                            |                                                                                                                                                                      |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AUDIT & RISK COMMITTEE               | Ms Jandy Stevenson (Chair)<br>Mr Colin MacLean (Chair)<br>Ms Trish Gray<br>Ms Morag McNeill                                                                                                | Ms Susan O'Brien<br>Ms Rio Watt<br>Ms Suzanne Wilson                                                                                                                 |
| EMERGENCY COMMITTEE                  | Dame Frances Cairncross (Chair)<br>Mr Tony Strachan<br>Ms Tracey Ashworth-Davies<br>Professor Julian Jones<br>Professor Patrick Corbett<br>Mr Tony Strachan                                | Ms Dorothy Shepherd<br>Ms Jandy Stevenson<br>Professor Ian Wall<br>Mr Graham Watson<br>Professor Richard A. Williams                                                 |
| FINANCE COMMITTEE                    | Mr Graham Watson (Chair)<br>Dame Frances Cairncross<br>Mr Gerard Cassels<br>Professor Patrick Corbett<br>Professor Julian Jones<br>Mr Andrew Milligan                                      | Mr George Morton<br>Ms Marta Phillips<br>Ms Dorothy Shepherd<br>Mr Tony Strachan<br>Professor Ian Wall<br>Professor Richard A. Williams                              |
| GLOBAL STUDENT LIAISON COMMITTEE     | Ms Rio Watt (Chair)<br>Mr Liam Burns<br>Dame Frances Cairncross<br>Mr Diarmuid Cowan<br>Rev. Dr Alistair Donald<br>Mr Peter Gilchrist<br>Ms Miranda Matoshi<br>Mr Hrishikesh Ganesh K Nair | Ms Vanessa Northway<br>Mr Corto Pimenta<br>Professor John Sawkins<br>Mr Tony Strachan<br>Mr Paul Travill<br>Professor Richard A. Williams<br>Mr Mohd Naqeeb Zahiedin |
| GOVERNANCE AND NOMINATIONS COMMITTEE | Dame Frances Cairncross (Chair)<br>Ms Tracey Ashworth-Davies<br>Mr Diarmuid Cowan<br>Ms Hannah Frances<br>Professor Julian Jones<br>Professor Isabelle Perez                               | Ms Jandy Stevenson<br>Mr Tony Strachan<br>Mr Graham Watson<br>Ms Rio Watt<br>Professor Richard A. Williams                                                           |
| REMUNERATION COMMITTEE               | Mr Tony Strachan (Chair)<br>Ms Tracey Ashworth-Davies<br>Dame Frances Cairncross                                                                                                           | Mr Grant Innes<br>Mr Graham Watson                                                                                                                                   |
| STAFF COMMITTEE                      | Ms Tracey Ashworth-Davies (Chair)<br>Dame Frances Cairncross<br>Ms Lucy Conan<br>Dr James Evans<br>Mr Amos Haniff<br>Mr Grant Innes                                                        | Professor Julian Jones<br>Ms Jane Queenan<br>Mr Tony Strachan<br>Ms Lorrie Secrest-Osman<br>Professor Richard Williams                                               |
| CAMPUS COMMITTEE                     | Professor Ian Wall (Chair)<br>Dame Frances Cairncross<br>Ms Pamela Calabrese<br>Mr Diarmuid Cowan<br>Ms Hannah Frances<br>Professor Julian Jones<br>Ms Morag McNeill                       | Mr Thomas Stenhouse<br>Ms Vicki Stott<br>Mr Tony Strachan<br>Mr Allan Thomson<br>Mr Norrie Westbrook<br>Professor Richard Williams                                   |

# Court and committee attendance record during year to 31 July 2016

| Name                          | Dates to/from                | Court<br>6 meetings | Audit & Risk<br>Committee (ARC)<br>6 meetings | Campus<br>Committee<br>5 meetings | Finance<br>Committee<br>5 meetings | Global<br>Student<br>Liaison<br>Committee<br>3 meetings | Governance &<br>Nominations<br>Committee<br>3 meetings | Remuneration<br>Committee<br>3 meetings | Staff<br>Committee<br>4 meetings |
|-------------------------------|------------------------------|---------------------|-----------------------------------------------|-----------------------------------|------------------------------------|---------------------------------------------------------|--------------------------------------------------------|-----------------------------------------|----------------------------------|
|                               |                              |                     |                                               |                                   |                                    |                                                         |                                                        |                                         |                                  |
| Dame Frances Cairncross       |                              | 6/6                 |                                               | 0/5                               | 1/0                                | 1/3                                                     | 3/3                                                    | 3/3                                     | 2/4                              |
| Ms Tracey Ashworth-Davies     |                              | 5/6                 |                                               |                                   |                                    |                                                         | 3/3                                                    | 3/3                                     | 4/4                              |
| Ms Pamela Calabrese           |                              | 2/6                 |                                               | 3/5                               |                                    |                                                         |                                                        |                                         |                                  |
| Ms Lucy Conan                 |                              | 6/6                 |                                               |                                   |                                    |                                                         |                                                        |                                         | 3/4                              |
| Professor Patrick Corbett     |                              | 6/6                 |                                               |                                   | 5/5                                |                                                         |                                                        |                                         |                                  |
| Mr Diarmuid Cowan             | Member from 1 June 2016      | 1/1*                |                                               |                                   |                                    | 1/1*                                                    |                                                        |                                         |                                  |
| Ms Hannah Frances             | Member until 31 May 2016     | 4/5*                |                                               | 4/5                               |                                    |                                                         | 2/3                                                    |                                         |                                  |
| Ms Trish Gray                 |                              | 6/6                 | 5/6                                           |                                   |                                    |                                                         |                                                        |                                         |                                  |
| Mr Amos Haniff                |                              | 6/6                 |                                               |                                   |                                    |                                                         |                                                        |                                         | 3/4                              |
| Mr Grant Innes                |                              | 2/2*                |                                               |                                   |                                    |                                                         |                                                        | 1/2*                                    | 3/4                              |
| Professor Phillip John        |                              | 6/6                 |                                               |                                   |                                    |                                                         |                                                        |                                         |                                  |
| Professor Julian Jones        |                              | 5/6                 |                                               | 3/5                               | 5/5                                |                                                         | 1/3                                                    | 1/1*                                    | 3/4                              |
| Mr Colin MacLean              | Member until November 2015   | 0/1*                | 2/2*                                          |                                   |                                    |                                                         | 0/1*                                                   |                                         |                                  |
| Ms Miranda Matoshi            |                              | 5/5*                |                                               |                                   |                                    | 2/2*                                                    |                                                        |                                         |                                  |
| Ms Eloise McNeaney            | Member from 1 June 2016      | 1/1*                |                                               |                                   |                                    |                                                         |                                                        |                                         |                                  |
| Mr Andrew Milligan            |                              | 3/6                 |                                               |                                   | 4/5                                |                                                         |                                                        |                                         |                                  |
| Ms Morag McNeill              | Member from 1 September 2015 | 4/6                 | 1/1*                                          | 5/5                               |                                    |                                                         |                                                        |                                         |                                  |
| Professor Isabelle Perez      |                              | 5/6                 |                                               |                                   |                                    |                                                         | 3/3                                                    |                                         |                                  |
| Professor John Perkins        | Member from 6 May 2016       | 1/1*                |                                               |                                   |                                    |                                                         |                                                        |                                         |                                  |
| Ms Jane Queenan               |                              | 5/6                 |                                               |                                   |                                    |                                                         |                                                        |                                         | 3/4                              |
| Ms Dorothy Shepherd           |                              | 6/6                 |                                               |                                   | 4/5                                |                                                         |                                                        |                                         |                                  |
| Mr Tom Stenhouse              |                              | 6/6                 |                                               | 3/5                               |                                    |                                                         |                                                        |                                         |                                  |
| Ms Jandy Stevenson            |                              | 6/6                 | 6/6                                           |                                   |                                    |                                                         | 1/2*                                                   |                                         |                                  |
| Mr Tony Strachan              |                              | 5/6                 |                                               | 4/5                               | 4/5                                | 2/3                                                     | 3/3                                                    | 3/3                                     | 2/4                              |
| Professor Ian Wall            |                              | 6/6                 |                                               | 5/5                               | 5/5                                |                                                         |                                                        |                                         |                                  |
| Mr Graham Watson              | Member from 1 September 2015 | 5/6                 |                                               |                                   | 5/5                                |                                                         | 2/3                                                    | 2/3                                     |                                  |
| Ms Rio Watt                   |                              | 5/6                 | 5/6                                           |                                   |                                    | 3/3                                                     |                                                        |                                         |                                  |
| Professor Richard A. Williams |                              | 6/6                 |                                               | 3/5                               | 3/5                                | 1/3                                                     | 2/3                                                    | 2/2*                                    | 3/4                              |
| Mr Liam Burns                 | Member from 1 September 2015 | ~                   |                                               |                                   |                                    | 3/3                                                     |                                                        |                                         |                                  |
| Mr Gerard Cassels             |                              | ~                   |                                               |                                   | 5/5                                |                                                         |                                                        |                                         |                                  |
| Mr George Morton              |                              | ~                   |                                               |                                   | 4/5                                |                                                         |                                                        |                                         |                                  |
| Ms Susan O'Brien              | Member until 10 June 2016    | ~                   | 4/6                                           |                                   |                                    |                                                         |                                                        |                                         |                                  |
| Ms Marta Phillips             |                              | ~                   |                                               |                                   | 5/5                                |                                                         |                                                        |                                         |                                  |
| Ms Lorrie Secrest-Osman       |                              | ~                   |                                               |                                   |                                    |                                                         |                                                        |                                         | 3/4                              |
| Ms Vicki Stott                |                              | ~                   |                                               | 3/5                               |                                    |                                                         |                                                        |                                         |                                  |
| Mr Allan Thomson              |                              | ~                   |                                               | 4/5                               |                                    |                                                         |                                                        |                                         |                                  |
| Mr Norrie Westbrook           |                              | ~                   |                                               | 3/5                               |                                    |                                                         |                                                        |                                         |                                  |
| Ms Suzanne Wilson             |                              | ~                   | 6/6                                           |                                   |                                    |                                                         |                                                        |                                         |                                  |

\* Indicates total number of meetings held during period of membership



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