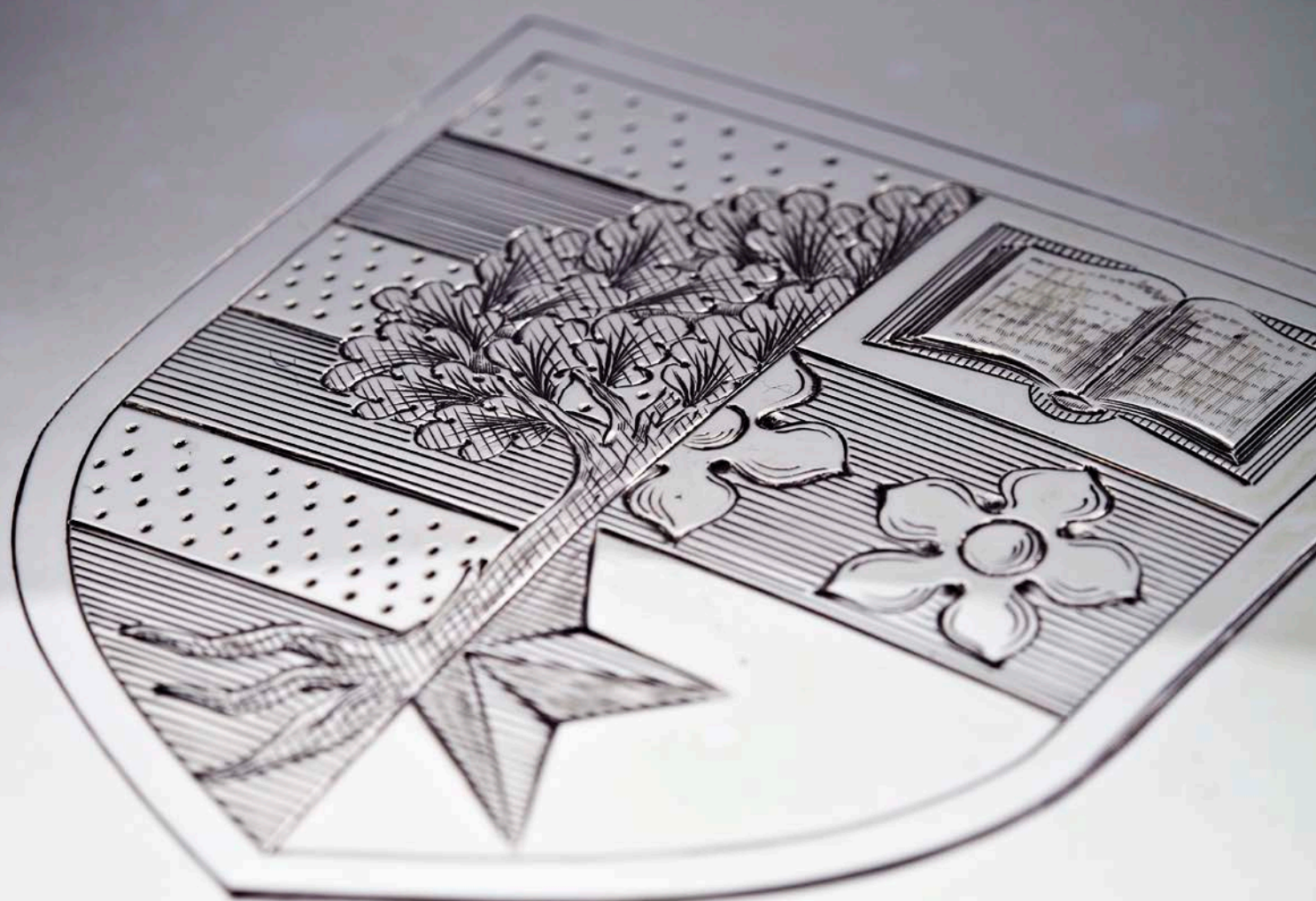


# **Reports and Financial Statements**

*For the year ended  
31 July 2018*





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# Introduction by Principal and Vice-Chancellor

Our annual report provides us with an excellent opportunity to reflect on another successful year and give us a clear sense of where we stand as we make plans for the future. This year we successfully achieved significant growth in our on-campus student numbers, producing highly employable graduates and impactful research outcomes across our global locations.

Continuing challenges in the global economy and the acutely competitive nature of some educational products, means that achieving our overall income growth targets requires a broadening of our efforts. Over the medium term, the University has sought to sustain growth through identification of new income streams, characterised by our success in securing the largest cohort of funded Graduate Apprenticeships in Scotland and fortified by our efforts in areas such as intensification of our online post graduate offering; both precursors for longer-term step-change in our scale associated with our forthcoming investment in digital innovation and other major developments that will emerge in the publication of our 'Strategy 2025' in early 2019.

In the immediate term, the University has continued to recognise the importance of fiscal prudence, evident in our actions initiated in 2016/17 to institute and deliver a significant savings plan. The impact of these fiscal challenges have been compounded during a year in which significant changes to the sector's primary academic pension scheme seemed likely. At the time of writing, it appears that a collaborative approach to the pension issue may deliver a solution that achieves the University's stated objective of substantially maintaining the nature of current benefits within an affordable financial envelope. We are also heartened that Heriot-Watt may benefit from the UK government's industrial strategy white paper, recognising the important role universities play as key drivers for local growth and enhanced national productivity. This reflects the challenge-led strategy that Heriot-Watt University has been focused on, making the most of our strong industrial connectivity and entrepreneurial mindset.

## OUR FINANCIAL PERFORMANCE

The University's financial outturn for the year was a surplus before other gains and losses of £7.4m compared to the budgeted deficit for the year of £4.1m. Although underlying challenges to our financial performance remain, these were masked by incurring £5m of voluntary severance costs in the previous financial year, rather than, as originally budgeted, this year; and consciously underspending our provisions for new academic investment and associated infrastructure by £3.5m, without recommitting that expenditure. The challenge to our underlying financial performance will continue into the coming year; and will only begin to slowly recover as the impact of our efforts to contain costs and grow income begin to bear fruit in the years beyond.

After recognition of an unrealised actuarial gain of £15.3m associated with the Lothian Pension Fund, along with other unrealised gains, primarily in investments and on investment property valuations, the 'total Comprehensive Income for the year' was £24.9m.

## OUR GLOBAL CAMPUSES

During the year, Heriot-Watt's distinctive global mission was externally validated through being named as The Times and Sunday Times International University of the Year 2018; and through our improved standing in both the widely recognised QS World rankings and the Academic Ranking of World Universities 2018. That global mission is increasingly characterised by an expansion of student mobility between campus locations and intra-campus teaching, which together offers greater flexibility in subject choice, location and mode of study. Our overseas campuses continue to develop, with Dubai growing both in terms of the range of academic programmes offered and in terms of student numbers, which are now approaching 4,000, including a growing number of PhD students; while in Malaysia, this was the year that the University passed through the 2,000-student mark.

## OUR ACHIEVEMENTS

In the UK, the University saw improvement in its position in a number of influential league tables, including the Good University Guide, The Times Higher 'Golden Age Rankings' and the Complete University Guide. We were also delighted to see the ORCA Hub, an ambitious programme aimed at addressing the offshore energy industry's vision for a completely autonomous offshore energy field, shortlisted for both the Herald Partnership award and for the Guardian University award for Business Collaboration.

Appropriately, in the year that we celebrated the Year of Robotics, Heriot-Watt University confirmed its reputation as a world leader in artificial intelligence and robotics after reaching the final three of Amazon's prestigious global competition, the Alexa Prize, the annual competition dedicated to advancing conversational artificial intelligence. We successfully cemented our growing reputation by competing against some of the most celebrated universities in the world; where on the final day of public testing, Heriot-Watt's Alana system gained the highest average rating of all the teams, based on hundreds of conversations with Amazon Alexa users.

Our Student Union also won Student Union of the Year at the National Union of Students Scotland Awards.

## INVESTING IN OUR STUDENTS AND COMMUNITY

A focus on enhancing the student experience has been a priority across the Group, culminating in the last two months in the creation of a new Student Partnership Agreement with the Student Union to support driving change. This is accompanied by additional staff development investment in the form of a new Learning and Teaching Academy.

During the year, we signed a new three-year agreement with Santander to support students to further their workplace skills and to encourage more entrepreneurial thinking and develop innovative ideas, all of which are priorities for Heriot-Watt. The University was delighted to be awarded almost £100,000 from Santander's Enterprise and

Entrepreneurship Fund to deliver a programme that will benefit the wider community, deliver real benefit to the economy and the University.

In recent years, the University has recognised the importance of investment in its estate to maintain and enhance the student experience, to keep pace with the growth in student numbers and to facilitate the intensification of our research. Progress was evident this year in the completion of the alteration and refurbishment of the James Watt Centre into a modern state of the art learning and teaching facility; the modernisation of our Student Services Centre; continuation of the rolling programme of refurbishment of existing student residences; the beginning of a rolling-refurbishment project for the Library. In addition, the University embarked on the largest ever University-funded capital investment to construct the new Global Research Innovation and Discovery building, 'GRID': a pioneering innovation building, integrating learning and teaching, research, innovation and enterprise. Our Edinburgh Business School also invested in the fabric of its building; in a revitalised offering; in a major re-development of the School's on line content; in an incubator facility; and in the completion of the restoration of Panmure House, the last home of celebrated Scottish economist Adam Smith, as a place of debate, policy and public engagement.

## ENGAGING WITH OUR RESEARCH

It is fitting that during the University's 'Year of Robotics' the UK and Scottish Governments announced their joint commitment to a £1.3bn Edinburgh and South East Scotland City deal, which will realise government funding for the development of a national Robotarium at Heriot-Watt's Edinburgh campus. The Robotarium will be a world leading innovation centre in robotics and artificial intelligence. As well as the undoubted strength of engagement achieved by the University's 'Year of Robotics' campaign, the campaign itself won the Herald Higher Education Award for 'Campaign of the Year' and a 'Gold' award at the 2018 Heist Awards in the category for Best Marketing Initiative to Promote Research Excellence

2018 saw the opening of the University's 'Year of the Sea', a calendar of engagement that spans schools, the public, academia, industry collaborators, funders and policy makers. Heriot-Watt's research often makes waves, and in 2018 we are focusing on demystifying the depths of the oceans, finding ways to get more energy from the sea, examining the smallest sea creatures to the largest ocean systems, and engineering new ways to work with our seas, oceans and rivers.

## OUR SUPPORTERS

As a charity, philanthropy plays a key role in supporting our students and university wide activities, including research and enterprise. From small to large gifts, our supporters are enhancing the student experience through bursaries, scholarships and wider support for clubs and societies; helping early career researchers and supporting groundbreaking initiatives; helping to create new buildings and equipment as well as foster an entrepreneurial spirit. We deeply appreciate the support of the many alumni, companies, trusts and foundations and other individuals who support Heriot-Watt and, as we build for our Bicentennial campaign in 2021, we look forward to encouraging many more to join our philanthropic community.

## OUR PARTNERS

We value the support of our many funding partners and partnerships, especially the Scottish Funding Council and Skills Development Scotland. In Scotland, the Scottish Funding Council Outcome Agreement process remains an important tool to support our plans to deliver education, inclusivity and widening access, which, this year, saw the University respond to an 'intensification' agenda that sought to advance our approach to delivering the well-aligned objectives of the University and the Scottish Government in education, research, enterprise and innovation. In Malaysia and Dubai we are pleased to work with, and gain the active support of, the Malaysia Qualifications Authority and the Knowledge and Human Development Authority, respectively. Our institutional commitment to diversity is underpinned through our values, through our leadership ethos and recognised through our Athena SWAN awards.

## STRATEGY 2025

The Strategic Report, on the pages that follow, describes our detailed achievements during the past year. I am pleased to acknowledge the valued support and guidance of the Court and the expertise, hard work and dedication of staff in the University that have continued to support the delivery of our strategic ambitions. 2018 marks the conclusion of the University's current strategic plan. That plan set objectives in terms of four strands: **learning, teaching and the student experience**, where we achieved improvement of students' entry scores well ahead of the UK average and upper quartile performance on graduate level employment at 80%; **research intensification**, where we met our target to double doctoral degree awards and saw

exceptional performance in our research income from industry per academic member of staff; **internationalisation**, where we came close to meeting our ambitious target of doubling the scale of our international activities; and **enabling strategies**, where we attained our key objective of achieving near to 50% growth in total income over the period of the 2013 strategic plan.

We are now looking forward to new opportunities that will shape Heriot-Watt's future and that will be published early in 2019 as 'Strategy 2025'. Our new strategy is being developed through deep engagement with our entire global community, including our campuses in Edinburgh, Orkney, Galashiels, Dubai and Putrajaya, working together to shape our future.

The new Strategy is being written against a background that poses different challenges from the ones the university has faced in the recent past. First, the tide of demography has turned against British universities: the number of 18-year-olds is expected to decline. Secondly, the economy after ten years of economic growth may be set for recession within the next seven-year period. Third, it will take some years to adjust to the consequences to the sector of Brexit.

But Heriot-Watt is in a great position to work through these challenges. The University has created, in the past few years, a number of distinctive opportunities that we now need to make the most of. They include; the creation of an international university unlike any other in the Western world, a project which we will develop and refine; the foundation of a group of forward looking and exciting new facilities: GRID, which will allow us unparalleled opportunities to develop new ways of digital teaching and enterprise; the Lyell Centre, which allows our students and researchers to work side by side with some of the world's top geoscientists; Oriam, Scotland's most remarkable centre for a broad range of top professional sports; and the Robotarium, which will grow from the City Deal we have just signed. I look forward to reporting on these opportunities in the year ahead.

I wish to acknowledge the hard work and dedication of our staff and the support of the Student Union and Councils across the University during the last year in effecting the changes we have achieved and for their eager contributions in shaping our future strategy.

**Professor Richard A. Williams**

Principal and Vice-Chancellor  
13 December 2018

# Strategic Report



## Background

### HERITAGE

In 1821, when the School of Arts of Edinburgh was established, it was the world's first Mechanics Institute, the start of a worldwide movement that would revolutionise access to education in science and technology for ordinary people, with the purpose of addressing societal needs by incorporating fundamental scientific thinking and research into engineering solutions. As the institution developed into the Watt Institution and School of Arts (1852) and Heriot-Watt College (1855), its focus on "the practical application of knowledge and learning for the betterment of society" remained a defining characteristic.

- > **1966 saw the College become Heriot-Watt University, established by Royal Charter, since when it has continued to focus on innovating and responding to the needs of business and industry.**
- > **The University's Orkney campus opened in 1989, as part of the International Centre for Island Technology.**
- > **By 1992 the last departments had located to the purpose-built Edinburgh campus, amid 380 acres of parkland.**
- > **In 1998, the Scottish Borders campus and the University's School of Textiles and Design, based in Galashiels, was born of the merger with the Scottish College of Textiles.**
- > **2005 saw Heriot-Watt become 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.**
- > **In 2018, Heriot-Watt was named International University of the Year by The Times and Sunday Times Good University Guide 2018.**

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 provides a distinctive education and a high quality student experience and now stands as a leading institution with an established reputation for high quality across both its teaching and research, continuing to grow as a university characterised by a commitment to excellence.

## STUDENT NUMBERS, LOCATION, DOMICILE AND LEVEL OF STUDY

Heriot-Watt Group has 28,640 students. Their location, the domicile of those on Scottish campuses and the level of study are portrayed in the charts below:

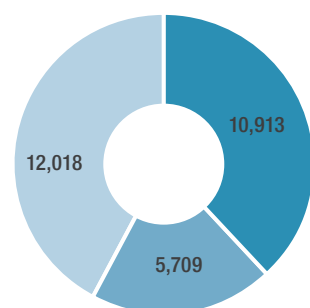
Beyond its campuses, Heriot-Watt University has an unsurpassed international in-country presence delivering degree programmes to almost 8,000 independent distance learning students and through an innovative Approved Learning Partner network where more than 5,000 students study in 85 institutions in 35 countries.

## INSTITUTIONAL STRUCTURE

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

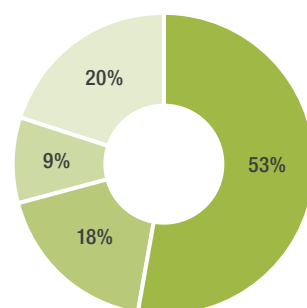
- > *School of Engineering and Physical Sciences*
- > *School of Energy, Geoscience, Infrastructure and Society*
- > *School of Social Sciences*
- > *School of Mathematical and Computer Sciences*
- > *School of Textiles and Design*
- > *Edinburgh Business School*

Study location



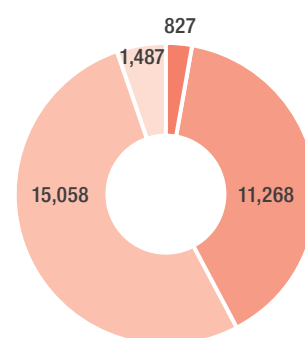
- Scottish campuses
- Overseas campuses
- International programmes

Domicile



- Scotland
- Elsewhere in the UK
- European Union
- Overseas

Level of study



- Foundation students
- Undergraduate students
- Postgraduate taught students
- Postgraduate research students



# 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 presented 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 three key areas of focus in the strategic plan:

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

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

During 2018, the University has been developing a refreshed longer term Strategic Plan for the period to 2025.

## 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.

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 that a major risk to its learning and teaching strategy is 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, including significant enhancement and expansion of teaching, learning and study space on our Edinburgh Campus.

This year we have built on the recent investment at our Edinburgh Campus that provided 'Learning Commons', in a convenient, central, accessible location providing over 200 seats and offering a variety and choice of learning and study settings; Oriam, Scotland's National Performance Centre for Sport, providing extensive access for both students and the local community to the £33m world-class facilities; and new residences on our Edinburgh Campus, providing 450 beds in a mix of five person flats and studio apartments, all with en-suite rooms. During the current year, our investment delivered:

- > The alteration and refurbishment of the James Watt Centre, following significant stakeholder engagement, into a modern state of the art learning and teaching facility with complementary hospitality and conference facilities; along with 130 new study spaces.
- > The modernisation of the Student Services Centre, to become the main point of contact for all international students, bringing together the 'Go Global' office; Scholarships office; International Student Advisors office and existing Centre staff in one location; the creation, nearby, of a Student Wellbeing Office, where student counselling, student disability and support teams are based; and the provision of a designated training room for Assistive Technology and a resource area adjacent to the very popular Learning Commons.
- > The continuation of the rolling programme of refurbishment of existing student residences.
- > The beginning of a rolling-refurbishment project for the Library to transform it into a modern, flexible and comfortable learning environment with a variety of collaborative study spaces, double the number of accessible study rooms and improved layout of library stock.



During this year, we also embarked on the largest ever University-funded capital investment by beginning work on the construction of GRID: a pioneering innovation building, integrating twenty-first century learning and teaching spaces, research laboratories and workspaces, innovation and enterprise space, all developed around the latest models for 'open space collaboration' and utilising the latest digital technology to accelerate innovation and foster the co-creation of ideas. This flagship building's new learning and teaching space for mathematics, engineering, physical sciences and computer science is set to inspire the next generation of digital innovators. The completion of that building in the coming year will herald further capital investment to upgrade a variety of Learning and Teaching spaces; to continue the refurbishment of our Library, enhancing facilities and taking its number of study spaces to over 1,000; to continue our rolling programme of refurbishment of existing student residences; and to enhance the Student Union facilities.

Edinburgh Business School has also invested a significant portion of its reserves in improvements to the fabric and capacity of its own building, including an incubator facility that will extend the reputation of the School and the University in entrepreneurial endeavour; in a major re-development of the School's on line content; and in the completion of the restoration of Panmure House, the last home of the celebrated economist Adam Smith, and its development as a place of debate, policy and public engagement.

Beyond the physical environment, during 2017/18, the University learning and teaching activities focussed on the areas of:

- > **A University wide retention strategy:** Building on the recent overhaul of personal tutoring by promoting training for academic staff, use of the Personal Tutor for early intervention and a more consistent approach to its use across campuses. Other key retention activities related to building cohort cohesiveness through a range of academic and non-academic activities; promoting a closer relationship between academic Schools and the Student Wellbeing Service to improve support for students with additional needs, in particular relating to mental wellbeing; and the appointment of six Student Success Advisors, recent Heriot-Watt graduates who will focus on student engagement, identity and belonging; and part of a Global Student Success Hub, are spread over all of the University's campuses.
- > **Widening Access Strategy:** Recognising the need for support for students admitted through widening access routes, including academic support provision for SIMD students and the need for learning analytics to aid early identification of students at risk, we began work on the development of a Wider Access Strategy.
- > **Learning and Teaching Partnership Agreements:** 2017/18 saw three Learning and Teaching Partnership Agreements developed between the University and the three student organisations for each of the Scottish Campuses, the Dubai Campus and the Malaysia Campus. All three Agreements were based around two common activities, namely the Learning and Teaching Strategy and academic representation. This provides the foundation for a single University Partnership Agreement inclusive of all campuses for 2018/19, which will incorporate Learning and Teaching as one of three strands, the others being Community and Wellbeing.

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

| Key Performance Indicator                                                |                                                                                                                                                                                                                                                                                                      | Status, activity and progress towards target                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Entry scores (undergraduate students)</b>                             | an indication of demand for places from well qualified candidates, measured by the UCAS tariff of UK university entrants                                                                                                                                                                             | Heriot-Watt displayed a steep upward trend, rising ahead of the general escalation of entry scores, until 2013, before mirroring the sectoral trend of stabilisation of students' entry scores. Our target to move from the second quartile of UK universities to the first quartile was achieved in 2012 and the last two years have seen continual improvement in our ranking, against a generally deteriorating sectoral trend. At 19th place among UK universities, we end the period of the current strategy comfortably within our targeted upper quartile range; with scores that are congruent with both the average entry scores for pre-1992 universities and for Scottish universities, and well ahead of the UK average. |
| <b>Widening access - SIMD1-40 student recruitment</b>                    | an indication of the social diversity of the student population, generally measured in Scotland as the fraction of entrants from the 40% most deprived areas as measured by the Scottish Index of Multiple Deprivation (SIMD 1-40)                                                                   | The University set itself the target of achieving at least 25% of Scottish entrants from SIMD 1-40 areas (at least 300 entrants). That target was exceeded in 2014/15 with a step change in entrants that year, and although the fraction of such entrants has eroded marginally since then, the absolute numbers of entrants has been sustained comfortably above the target of 300 students pa since then.                                                                                                                                                                                                                                                                                                                         |
| <b>Retention/ progression (undergraduate students)</b>                   | an indication of the institution's effectiveness in engaging and supporting new students and meeting their expectation, measured by the fraction of university entrants continuing or progressing in the same university in the year after their entry                                               | There has been a trend of very gradual long-run improvement in retention across the sector, with some marginal decline in more recent years. Although Heriot-Watt struggled to track that long-term improvement, the performance of the 2012/13 entry cohort bucked the reversing sectoral trend and exceeded our own 93% target. That upturn was not sustained, with retention for the following entry cohorts fluctuating around 90.5% over the remainder of the strategic plan period, somewhat short of our strategic plan target.                                                                                                                                                                                               |
| <b>Student satisfaction – overall satisfaction and average NSS score</b> | reflections on students' 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 over all 22 NSS questions. | Against a long-term trend of improvement in overall satisfaction, and results generally above or at the target level of 89%, there has been a more recent reversal of that trend, first to 83% satisfaction in 2017 and subsequently to 81% most recently. From consistently performing at or above target level from 2012-2016, performance has fallen significantly below target in the final two years of the current strategy period. Although our current strategic plan has come to an end, the University remains committed to fulfilling its current action plan to recover student satisfaction to the levels targeted and previously achieved.                                                                             |
| <b>Graduate employment – employment or further study</b>                 | an indication of the institution's effectiveness in preparing graduates for a successful future, measured by the fraction of UK university first degree graduates in employment or further study/ training six months after graduation                                                               | A strong upward trend in performance saw Heriot-Watt's performance peak at 96% in 2015/16, meeting our upper quartile target in that year. A very marginal weakening of performance since then sees the strategic plan period end just below target, but with results that sit above the UK and Scottish averages for that year.                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Graduate employment - graduate-level employment</b>                   | an indication of the institution's effectiveness in preparing graduates for 'graduate level' employment                                                                                                                                                                                              | Heriot-Watt places an emphasis on benchmarking its performance where the employment of its graduates, six months after graduation, is classified as 'graduate level'. Over the planning period, performance has been at or around our 82% target, set to achieve a position around the upper decile of UK universities. Following a downward swing last-year, it appears our efforts, such as a reconfiguration of our Careers Advice Services, has helped to restore performance to 80%, within the upper quartile; although reaching our upper decile target has remained elusive.                                                                                                                                                 |





# Research intensification

The underpinning principles of our research strategy are:

- > **to be world leading, within all our specialist areas of science, engineering, technology and business**
- > **to create and exchange knowledge for the benefit of society, and,**
- > **to strengthen research intensity in fields of economic and societal benefit.**

Establishing our fundamental strategic target as being associated with growth in research income, as a proxy for research intensity, the University's strategic plan set 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, consistent with the performance of a benchmark group of small and medium-sized research intensive universities. Although the outcome fell a little short of that ambitious target, at £33m, we did achieve significant growth in Research Income over the period of the current strategic plan.

Evidence of our progress in research intensification is also signalled by the knowledge that the value of new research awards has exceeded £40m in 2017-18 (and, indeed, in four of the last five years) a positive indicator of the likelihood of almost doubling our research grant and contract income to £40m within the foreseeable future. Other positive indicators of success in research intensification over this strategic plan period have been the appreciable improvement in the number of doctoral degree students and doctoral degree awards; the increase in the number of research outputs per member of academic staff and our exceptional ranking among UK universities of our research income earned from industry.

Brexit, the launch by the UK Government of its Industry Strategy Challenge Fund and the growing level of investment in the Global Challenges Research Fund have all created a new landscape for research funding. In response to this, we have significantly increased our interactions with business and industry, our partnering activity has increased by significantly in the past year, including that associated with our successful efforts to establish graduate apprenticeships and developed an international engagement strategy utilising our international campuses as hubs to interact with South East Asia and Sub-Saharan Africa.

As high quality staff remain central to everything we do, we have refocused our staff recruitment strategy, now named "Bicentennial Research Leaders", on areas with the greatest potential for growth. Building on our recent successes in robotics and our ongoing development of the Lyell Centre in partnership with the British Geological Survey initial new areas for targeted investment will major on robotics and geothermal energy, environmental hazards and marine technologies. We have continued to build on our excellent track record of translating our research into useful outcomes. Highlights for the current year include: Professor Bhaskar Sen Gupta, working in collaboration with the Bangladesh Green Energy Foundation, opening the world's first fully autonomous, solar-powered plant to safely remove arsenic from a local water supply in the Comilla district of Bangladesh; Professor Eddie Owens work in India has developed smart irrigation techniques powered by renewable energy that have both reduced water demand and increased crop yield; Professor Suzanne Fitzpatrick has played a leading role in improving homelessness legislation in all three countries in Great Britain, with the Scottish legislation in particular winning international acclaim; in the area of Marine Biodiversity, Dr Bill Sanderson's group worked with Glenmorangie distillery to reintroduce native European oysters to coastal waters in the Dornoch Firth.

This year saw the opening of a new Enterprise Hub, which is a dedicated area for people to access support and be fully immersed in the Heriot-Watt enterprise ecosystem. In addition, as part of the refurbishment of the Edinburgh Business School, we have established the University's first business incubator facility, providing a free and safe harbour for early stage businesses to validate their ideas and identify suitable markets for their products. We have also been planning for the opening of our GRID building, which, as well as providing an expansion of our incubator facilities, signals an expansion of our entrepreneurial culture from our academic body to include our research staff and students; and which span all five of our campuses. Heriot Watt Entrepreneurs, including a swimming aid for young children, were amongst the winners in the Edinburgh tour of the Duke of York's Pitch@Palace competition hosted by Edinburgh Business School.

Our strategic relationship with Santander Universities has gone from strength to strength, at the start of the year, we signed a new three-year agreement with Santander to continue to support students to not only further their workplace skills, but also to help encourage more entrepreneurial thinking and develop innovative ideas. In addition, as part of its ten-year anniversary celebrations in the UK, Santander Universities launched a £1m Enterprise and Entrepreneurship fund designed to support universities in delivering large-scale projects benefiting over 5,000 people directly and driving economic benefits across the UK. Heriot-Watt was one of only two Scottish universities to be awarded grants from the Santander Universities Enterprise and Entrepreneurship Fund to support entrepreneurship.

This year saw the continuation of our successful partnership with Shell who agreed to extend their support for Professor John Underhill's Personal Chair in Exploration Geoscience for a further three years. The £1.1M funding package represents Shell's largest single investment in a Higher Education Institute in the UK. In Orkney, we will partner on a £31M project to implement a Virtual Power Plant to utilise the islands distributed energy resources. Maximise local consumption of local renewable generation through aggregating wind, solar and marine renewable generation with demand-side flexibility including distributed battery storage, EV charging (EVs and electric buses), flexible heating, and hydrogen generation and storage.

The impact of our research outputs on our global scientific peers is also gathering pace and has resulted in an improvement in our ranking in both the Times Higher Education World University Ranking, and in the highly selective Academic Ranking of World Universities.

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

| Key Performance Indicator                 |                                                                                                                                                   | Status, activity and progress towards target                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income from research grants and contracts | primary indication of the volume and scale of research projects being undertaken                                                                  | Heriot-Watt's performance over the strategic plan period has seen appreciable income growth and an improvement in its relative position, driven, over the early part of the planning period, by success in recruiting high quality research active academic staff. The pipeline for future income, represented by the value of new research awards having exceeded £40m in 2014/15 and 2015/16, was a positive indicator of the likelihood of almost doubling our research grant and contract income to £40m within the foreseeable future. From a financial statement perspective, the University's unusually high number of grants and contracts from non-government sources that lack performance conditions, leads to a degree of volatility in reported revenue; a factor which, combined with a recent slowing in our recruitment of highly active researchers, has contributed to the 2017/18 reported income, at £33m, falling somewhat short £40m strategic plan target for 2018.                                                                                                                                                                                                                             |
| Research student numbers                  | significant indication of the volume of research being undertaken                                                                                 | The Strategic Plan target was to grow to and sustain a steady state of at least 900 active Doctoral degree students, as a leading indicator for the more significant measure of 200 doctoral graduations per year. While, at around 750-775 doctoral students, we have fallen short of our target, this reflects a more efficient throughput to graduation, rather than any reduction in intakes. It is notable that normalised to academic staff numbers, Heriot-Watt has seen an appreciable improvement in its performance to 1.9 PGR's per academic staff; at 7th among UK universities, this is a creditable performance.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Doctoral degree awards                    | indication of the scale of outputs from research in the form of trained researchers                                                               | The upward step-change evident in 2014 was a prelude for a sustained trend of growth in doctoral degree awards, resulting in our ambitious target to double these numbers being all but met by the end of our strategic plan period in 2018.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Research output (publications)            | significant as an indication of the scale of the major output of academic research                                                                | There has been a trend of 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. Consistent with the objective to enhance Heriot-Watt's position in international rankings, in which publications and citations metrics can be influential, a target was set to reach 2,000 outputs pa by the end of the strategic plan period in 2017/18; that target being consistent with an expected growth in the University's academic staff population combined with modest growth in productivity. Early years of the strategy period suggested steady progress which, if sustained, would have seen that target achieved. However, the output level plateaued, somewhat mirroring the unplanned plateau in academic research staff numbers, with a final outcome of 1,489 publications in 2017. While that may be disappointing, it is heartening to reflect that Heriot-Watt's 3.59 publications per academic and research staff compares favourably with the UK median of 1.34 and the pre-92 median of 2.96; a performance that ranks Heriot-Watt 19th among UK universities. |
| Research impact (citations)               | indication of the impact of published research output by measurement of the number of citations in subsequent publications by others in the field | Heriot-Watt's 2013-18 strategic plan set a target to increase the value of the Field-weighted Citation Index for Heriot-Watt to 1.7, a clear long-range settled trend of improvement, comparable to the prevailing UK pre-1992 university average, consistent with our objective to enhance the University's position in international rankings, to which the citations metric is particularly critical. In the years leading up to the most recent result, Heriot-Watt established an upward trend that first exceeded UK, Scottish and pre-92 University averages before peaking above 2.0 - exceeding target and indicating the emergence of new potential in the evolving Heriot-Watt publications portfolio to achieve higher levels of impact. Most recently, the value of the index fell to 1.55, a little short of our target.                                                                                                                                                                                                                                                                                                                                                                                 |
| Research income from industry             | indication of the value placed on the research by industry and commerce, including its potential in relation to commercial knowledge exchange     | When we set out on our strategic plan, we set ourselves a target of maintaining research income from private sector business and industry as a constant proportion of the rising level of total research income. However, an adverse trend over recent years reflects the extent of our dependence on the oil and gas sector and the severity of current challenges for that sector. Having recognised, as early as 2014, that the adverse trend meant that we had no prospect of achieving our strategic plan target of £10m pa by the end of 2018, improved performance over the last two years has seen 71% compound growth on this category of income, to almost £6m pa at the end of the current year. While still some way short of our ambitious target, the result still places Heriot-Watt 28th among UK universities, on the tail of the Russell Group and ahead of many other UK universities; and if normalised to academic staff numbers, would represent exceptional performance at 15th in the UK.                                                                                                                                                                                                      |



# Internationalisation



Heriot-Watt was named International University of the Year by The Times and Sunday Times Good University Guide 2018 and for more than a decade the University's rate of growth of income from international student fees - being very much faster than the UK or Scottish benchmark - coupled with the breadth of its international presence and the number of international students, has set Heriot-Watt apart from other UK Higher Education Institutions.

In addition to being named International University of the Year for 2018, Heriot-Watt was also ranked 41st in the world, 15th in the UK and 3rd in Scotland by the Times Higher World University Rankings 2018 for our international outlook, a score based on the percentage of the university's international staff, the level of international co-authorship of academic papers and the percentage of international students studying with the University. In the Academic Ranking of World Universities 2018, Heriot-Watt is ranked in the top 500 in the world and in the UK top 40. This global ranking considers every university that has any Nobel Laureates, Fields Medallists, Highly Cited Researchers, or papers published in Nature or Science. In addition, universities with a significant amount of papers indexed by Science Citation Index-Expanded (SCIE) and Social Science Citation Index (SSCI) are also included.

Heriot-Watt has a strong track record of extending access to its degree programmes internationally, supporting students to achieve high quality awards through partnerships with overseas institutions and through flexible modes of study such as distance and blended Learning. The addition of international campuses in Dubai (2005) and Malaysia (2013) has strengthened significantly the University's international presence. At July 2018, Heriot-Watt had a head count of over 28,600 students, with 17,700 of those studying with the University overseas.

The University set itself an ambitious target of doubling the scale of its international activities over the timeline of its strategic plan, doubling its income from £45m to £90m; at £83m in 2017/18, the outcome is creditably close to such an ambitious target. In setting out to develop Heriot-Watt as an integrated global university the key aims are:

- > Building on success in Dubai; and securing the success of the Malaysia Campus;
- > Enhancing the internationalisation of research and knowledge exchange activities;
- > Ensuring that Heriot-Watt University qualifications are recognised and respected internationally, providing entry to jobs worldwide;
- > Facilitating international mobility for Heriot-Watt students and staff.

In the past few years, the establishment and development of a global student mobility strategy 'Go Global' is providing opportunities for increasing numbers of students to transfer and study between campuses, adding value to the student experience and supporting the process of acquiring the graduate attributes and skills which are highly valued by employers. This award-winning scheme has become an important feature of internationalisation at Heriot-Watt and students increasingly identify this opportunity as a reason for choosing Heriot-Watt as a place to study. Participation in the scheme continues to increase, alongside European exchanges and other study abroad options with partner universities.

During the year, Heriot-Watt University continued its participation in welcoming and celebrating international students from across the globe through its role in 'Scotland Welcomes the World'. This is a national campaign that celebrates the value and impact of international students and staff in Scottish Universities and across the nation, demonstrating Scotland's national character as inclusive, diverse and welcoming.

The Dubai campus, established in 2005, is the largest overseas university in the UAE and it continues its path of strong development. New programmes continue to be added both based on Heriot-Watt expertise and in response to regional and global demand, including MSc Data Science. In 2017/18 Heriot-Watt Dubai surpassed 20 PhD students

for the first time. A decline in student intake in September 2016 spurred the development of a new marketing and recruitment strategy at Heriot-Watt University Dubai, which is delivering strong recruitment, including a January 2017 cohort of 220 new students adding to a 2017/18 student headcount figure of 3,612. Our recently published vision for our future in Dubai draws on the distinctive characteristics of Heriot-Watt University, as being Global, Specialist, Expert, Innovative and Connected. In Dubai, we plan to continue to grow our student population to 5,000 by 2025.

In 2017/18, the Malaysia campus, for the first time in its six-year history, surpassed the 2,000 total student milestone. This growth in enrolment has been aided by Heriot-Watt University Malaysia launching its first January intake in 2017. The January intake is primarily targeted at meeting the requirements of

Chinese Independent School Leavers and those who would otherwise seek entry into Australian Higher Education Institutions and the inaugural intake saw 50 new enrolments across three Schools. The innovative 'Youth Transformation Programme' has supported strong recruitment into the University's Foundation programme and attracted significant government and press interest.

Heriot-Watt's profile continues to grow in Malaysia and across ASEAN. The University maintains a close interaction with the Ministry of Higher Education in Malaysia and the campus was chosen as the venue for the Ministry's Seminar series on 'University of The Future.' We continue to develop collaborative partnerships across ASEAN with a focus on building the University's profile in research and international recruitment to Heriot-Watt's Malaysian campus.

Given the scale of our international operations, we are particularly attuned to the range of risks that this activity 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 specifically with regard to Dubai and Malaysia. 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 Dubai and Malaysia, as well as in other key markets of interest to Heriot-Watt.

**The effectiveness of our strategic plan in relation to internationalisation is monitored and evaluated through the following Key Performance Indicators:**

| KPI                                                               |                                                                                                                                                                                                                                          | Progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Income from international (non-EU) student fees</b>            | significant as an indication of the scale of involvement in education of non-EU students and the value placed on the education by international students and their sponsors                                                              | Heriot-Watt continues the trend, established in the mid-2000s, of accelerating very significantly ahead of sector norms, with new impetus in very recent years as the new income stream from our Malaysia campus starts to build up. Heriot-Watt maintained last year's position as 21st in the UK for the absolute value of income, behind the majority of much larger and mostly very strongly branded Russell Group universities. If normalised, expressing non-EU student fee income as a proportion of total income, Heriot-Watt's 35% sets it very far apart from the UK average of 10.9% and returns the University to first in the UK. Sustained growth in this source of income from 2014/15 onward, realised income of £83m in 2017/18, just short of our strategic plan target to double this source of income to £90m.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Transnational education – students studying outside the UK</b> | significant as an indication of scale of presence in delivery of higher education outside the UK                                                                                                                                         | The University remains ranked highly at 6th in the UK in terms of the number of students studying outside the UK and whilst financial performance is strong - only falling slightly below the ambitious growth target - the headcount student numbers will not meet the scale targeted over the period of the current strategic plan. In large part, this reflects increasing competition from other large players and from a growth in the number of institutions participating in transnational activity; but must also reflect the impact of recent disappointing student survey results on national and international league table outcomes; which are highly influential in student recruitment. 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 collaborative 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 post-graduate programmes, offering greater flexibility in subject choice, location and mode of study. In addition, the University is seeking to grow partnerships from its international hubs in Dubai and Malaysia. |
| <b>International students studying in the UK</b>                  | significant as an indication of the scale of participation by students from outside the UK (both rest of EU and non-EU), the success of institutions in attracting these students, and the international diversity of the student cohort | Indicators show that the downwards trend at Heriot-Watt in attracting students from abroad to its UK campuses has flattened out and is starting to turnaround. The downturn was primarily associated with changes to UK immigration policy that 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. As previously predicted, international student numbers on our UK campuses have not recovered sufficiently to reach the original strategic plan target of 4,300 students by 2018.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |



# Principal risks and uncertainties

A photograph of a lecture hall with students seated in blue tiered rows. The text 'Principal risks and uncertainties' is overlaid on the left side of the image. The students are looking towards the front of the hall, and the focus is on the students in the foreground.



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, three 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, and 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 post-graduate programmes, including, for the first time at our Edinburgh campus, a full-time on-campus MBA. Last year, the University recognised that these, alone, were insufficient to fully mitigate the risk associated with income shortfall, so instituted a cost saving plan to bring about permanent reductions in the cost base, including a voluntary redundancy scheme. That scheme is now closed, and the savings sought have been achieved. In addition, our financial plans continue to contain 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; borrowing with fixed-interest rates 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 almost 300 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 the formation of a 'Brexit Group' and the development of a consequential Brexit Action Plan.

> The third of these is a risk that relates to the potential growth in employment costs associated with the University's exposure to defined benefit pension schemes. Although the processes associated with the 2017 Universities Superannuation Scheme actuarial valuation are not yet complete, based on the proposed assumptions, the indicative deficit of £7.5bn sets an expectation on the part of the USS trustees for the employers and the employees to come to some agreement over benefit re-design and/or increased contribution rates. During the year, a lack of such agreement precipitated industrial action by employees. That industrial action was suspended when the employers' representatives (UUK) and the employees' representatives (UCU) agreed to the formation of a formally agreed Joint Expert Panel (JEP), comprising actuarial and academic experts nominated in equal numbers from both sides to agree key principles to underpin the future joint approach of UUK and UCU to the valuation of the USS fund.

In the meantime, USS have felt obliged to progress the processes associated with publication of its formal triennial valuation, including initiating a consultation on a phased imposition of increased contributions from 26% of salaries today (18% employers; 8% employees) to 36.6% of salaries (24.9% employers;

11.7% employees). The University's financial plans currently include sufficient latitude to absorb that first phase of the increase, but our longer-term financial plans, as currently constructed, give little further capacity. An increase to 24.9% would exceed our current provision by around £2.5m per-annum.

Concurrently, the work of the Joint Expert Panel (JEP) continued: analysing the basis of the valuation and hearing from the USS trustee, other experts, scheme stakeholders and the Pensions Regulator. The JEP reported during September. The panel estimated, based on independent (and joint) actuarial analysis, that through implementation of adjustments to the 2017 valuation, the total required contributions would require to increase to 29.2% to fund current benefits, which, on the basis of the current cost-sharing arrangements, would mean an employer contribution of 20.1% and an employee contribution rate of 9.1%. It is envisaged that although such a rise in employer contribution would exhaust the headroom in the current Heriot-Watt University forward financial plans, it could be met. The University understands that those findings will inform early discussions by the employee/employer Joint Negotiating Committee (JNC). USS have signalled their willingness to receive any revised proposals to benefits/contributions from the JNC and "subject to due diligence by the trustee" they accept the JEP report might trigger a further consultation on benefit design and/or contributions levels, which could supersede the current proposals to increase contributions.

The University Executive and the Court will continue to monitor the implications of this risk during the coming months.

On page 26, 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.

# Corporate Governance Statement

## INTRODUCTION

The University aims to achieve best practice in all aspects of its governance. This statement describes the principal governance provisions that 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 the University's stakeholders. The University seeks to ensure that it conducts its business in accordance with the nine Principles of Public Life: public service, selflessness, integrity, objectivity, accountability, openness, honesty, leadership and respect. 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. The supporting Ordinances to the Charter and Statutes further clarify the responsibilities delegated by the Court to the Chair of Court, the Principal and the Secretary of the University.

Members of the Court are the charity trustees, as defined by the Charities and Trustee Investment (Scotland) Act 2005.

## GOVERNING BODY

### Responsibilities and delegated authority

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 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, maintenance and regular review 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.

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>

The Charter prescribes that the Court may delegate powers to other bodies as it may determine from time to time. The agreed delegations are set out in the schedule published at <https://www.hw.ac.uk/services/docs/court-delegated-authority.pdf>

The Court, through its Ordinances in support of the Charter and Statutes, has delegated authority to the Principal and Vice-Chancellor to: lead development of the University's vision, mission, Strategic Plan and supporting Key Performance Indicators, Financial Plan and Values; provide the academic leadership of the University and leadership of the Senate; determine the operational and staffing structure of the University; ensure the existence of appropriate policies and other controls required for delivery of the University's objects and compliance with all relevant legislation and legal and contractual agreements; represent the

interests of the University externally; assume primary responsibility for health and safety throughout the University; and undertake other responsibilities as may be determined by the Court which are commensurate with the role of Principal, Chief Accounting Officer and Chief Executive Officer of the University.

The following responsibilities cannot be delegated by the Court to any other body: to determine the objects of the University; to make final decisions on issues of corporate strategy; to appoint or dismiss the Chancellor, a Pro-Chancellor, the Principal, the Vice-Principal or the Secretary of the University and determine their terms and conditions of appointment; to approve the annual business plan, budget, annual report or annual accounts of the University; to make or amend the University Charter, Statutes or Ordinances; to appoint the University's External Auditor; and to decide the remuneration of any member of the Court.

In discharging its responsibilities the Court met six times during the year 2017/18, including at two full 'Strategy Discussion Days'. The first Strategy Discussion Day in the year, held in November 2017, focused on the annual 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 2018 Three-Year Financial Plan. At the November 2017 meeting the Court also embarked on the process of Court engagement in the development of Strategy 2025, exploring the framework for the development of the Strategy, supporting horizon scanning, and giving consideration to the future development of the underpinning Key Performance Indicators. At the meeting, the Court also received professional advice on and discussed the pensions landscape in higher education and the implications for individual institutions including Heriot-Watt.

The Court Strategy Discussion Day, held in May each year, provides the opportunity for strategic discussion aligned to key institutional priorities. Strategy discussion at the May 2018 meeting included an exploration of the themes that had been emerging from horizon scanning associated with the development of Strategy 2025. The Court also considered the then developing 2018 Three-Year Financial Plan and its key underpinning assumptions.

At each of its ordinary meetings in the year 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 full report from the Senate and reports from each of the committees of the Court that had met in the preceding period. The full reports from the Court committees, which are presented by the respective committee Chairs, are provided 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; in addition, the Court receives the annual report of the Heriot-Watt University Student Union. The Court also receives an annual report from each of the University's Dubai and Malaysia Campuses.

In May 2018, the University held an inaugural Annual Stakeholder Meeting in compliance with the provision in the 2017 Scottish Code of Good Higher Education Governance that a public meeting of this kind should be held each year. The Court, the Principal and other members of the senior executive team presided at the meeting that attracted a wide range of external stakeholders, students, alumni and staff members. Those who attended the event had the opportunity to learn more about the work and achievements of the University, including both staff and student achievements, and to ask questions of the representatives from the Court and the executive who were present.

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. While a few provisions of the Act came into force from 30 December 2016, a transition period applies to many others. The latest date by which full compliance must be met is the end of December 2020. During 2017/18 the Constitutional Review Group established by the Court has been agreeing revisions

to the University Charter and Statutes and key supporting Ordinances to enable full compliance with the Act. The Court approved the draft revised documents in June 2018, for consultation with the Scottish Government and the Privy Council in the autumn period of 2018. The revised Charter, Statutes and Ordinances are expected to be enacted from early in 2019.

### **Court membership**

The Court comprises twenty-five members including the Chair, who is one of the thirteen independent lay members of the Court who form the membership majority. 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 22. While a governing body membership of twenty-five members is at the upper limit of good governance practice, this number of Court members ensures that there are a sufficient number of individuals with a collective broad base of skills and experience available to support the work of the Court and all of its standing Committees. The University's constitutional rules require that each standing committee of the Court shall include in its membership at least three members of the Court.

Elected members include those from the student body, the alumni body, the Senate and the wider staff of the University. Together with the appointed lay members and the ex-officio staff members of the Court, those members contribute to the wide range of perspectives brought to the work of the Court. This diversity of experience enhances the effectiveness of the Court.

A register of skills is maintained for the appointed lay membership and this information informs the decisions of the Governance and Nominations Committee, both in determining the skill sets and experience sought through advertising of forthcoming vacancies, and in the recommendations for succession planning and appointments that it makes to the Court.

In addition to 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 Clerk to the Court), the Director of Governance and Legal Services, the Director of Finance, the Provosts of the Dubai and Malaysia Campuses, and staff members in Deputy Principal roles. This ensures 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 2017/18, all non-Court members of the University Executive, together with co-opted independent lay members of each of the Court's standing committees, were invited to attend Strategy Discussion Day meetings of the Court as full participants at those events.

### **Equality and Diversity**

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

The Court has been very successful in recent years in achieving incremental positive change in the gender balance of the Court membership. At the beginning of the reporting year, 54% of the appointed independent lay members of the Court were female.

The proportions of female members across the independent lay membership of the standing Committees of Court in 2017/18 were as follows: Audit and Risk 83%, Finance 33%, Global Student Liaison 50%, Governance and Nominations 67%, Remuneration 60%, and Staff 57%. The Court receives an annual report on the gender diversity of Court and Court committee memberships.



## Members of Court

The following persons served as members of Court during the year to 31 July 2018, and up to the date of approval of these financial statements.

| Name of Member/Category of membership            | Court meetings attended 2017/18 |
|--------------------------------------------------|---------------------------------|
| <b>Chair of Court</b>                            |                                 |
| Dame Frances Cairncross                          | 5/6                             |
| <b>Deputy Chair of Court</b>                     |                                 |
| Mr Tony Strachan                                 | 5/6                             |
| <b>Principal &amp; Vice-Chancellor</b>           |                                 |
| Professor Richard A. Williams                    | 6/6                             |
| <b>Vice-Principal</b>                            |                                 |
| Professor Julian D C Jones                       | 5/6                             |
| <b>Senate</b>                                    |                                 |
| Professor Patrick Corbett                        | 6/6                             |
| Dr Fadi Ghaith (from 16 February 2018)           | 1/3*                            |
| Dr Amos Haniff                                   | 5/6                             |
| Professor Isabelle Perez                         | 3/5*                            |
| Professor James Ritchie (until 31 December 2017) | 1/3*                            |
| <b>Staff</b>                                     |                                 |
| Dr Amanda Lyness                                 | 6/6                             |
| Dr Gillian Menzies (Until 30 June 2018)          | 5/6                             |
| Professor Máiréad Nic Craith (From 1 July 2018)  | N/A                             |
| Mr Tom Stenhouse (Until 31 July 2018)            | 4/6                             |
| <b>Graduates</b>                                 |                                 |
| Mr Roger Murray                                  | 4/5                             |
| <b>Student Union</b>                             |                                 |
| Ms Aashna Bakshi (Until 31 May 2018)             | 5/5*                            |
| Mr Diarmuid Cowan (Until 31 May 2018)            | 4/5*                            |
| Mr Craig Duffy (From 1 June 2018)                | 1/1*                            |
| Mr Rahul Singh (From 1 June 2018)                | 1/1*                            |
| <b>Independent Lay Members</b>                   |                                 |
| Ms Tracey Ashworth-Davies                        | 5/6                             |
| Ms Lucy Conan (Until 31 July 2018)               | 6/6                             |
| Mr Grant Innes                                   | 6/6                             |
| Ms Morag McNeill                                 | 5/6                             |
| Mr Cameron Millar (From 23 April 2018)           | 2/2*                            |
| Mr Andrew Milligan                               | 6/6                             |
| Professor John Perkins                           | 4/6                             |
| Ms Marta Phillips (From 23 April 2018)           | 2/2*                            |
| Ms Dorothy Shepherd (Until 4 November 2017)      | 0/1*                            |
| Ms Jandy Stevenson                               | 6/6                             |
| Professor Ian Wall                               | 6/6                             |
| Mr Graham Watson                                 | 6/6                             |
| Dr Rio Watt (Until 26 October 2017)              | 1/1*                            |

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



## Effectiveness of the Court and Senate

Each year effectiveness reviews are undertaken by the Court and the Senate. In 2017/18, these took the form of an externally commissioned full effectiveness review. The Scottish Code of Good Higher Education Governance stipulates that such reviews be conducted at least every five years or following times of exceptional change. The Court will receive the final report of the outcomes of the 2018 Court and Senate Effectiveness Review late in 2018. An action plan will be developed within 2018/19 and the outcomes of the Review and implementation of recommendations will be reported in the University's 2018/19 Annual Report.

### Induction and development opportunities for members

A two-day induction programme provides support to all incoming new members of the Court and its standing committees each year. Current members may use this opportunity to refresh their knowledge and members who reach the end of a period of appointment must re-attend Court induction at any renewal point. 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, 'show and tell' events or guided tours.

Court and Court committee members are also regularly informed of upcoming seminars and conferences that are relevant to higher education governance, for example, those provided by the Leadership Foundation for Higher Education (part of AdvanceHE) through its Governor Development Programme. Court members are also informed via regular briefings of new publications and news items 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 to higher education more widely, thereby enhancing their effectiveness in their governance role.

### 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; senior staff remuneration; 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 approved by the Court, ensuring that there remains clarity around the delegated powers and lines of responsibility between the Court and its committees. The Terms of Reference of standing committees of the Court underwent substantial review in the reporting year to reflect the outputs of a detailed assurance mapping exercise in 2017, changes made to the University's Charter and Statutes and the revised Scottish Code of Good Higher Education Governance. Further changes will be made to the Terms of Reference as part of the University's aim to achieve full compliance with the revised Scottish Code by the end of 2018. The membership of the Committees of Court is listed on page 24. The standing committees of the Court are described below.

- > The Interim Business Committee of Court, which is chaired by the Chair 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 Audit and Risk Committee met five times during the period reported, including once in joint session with the Finance Committee, 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 Committee oversees the process for the appointment and performance monitoring of Internal and External Auditors, and oversees audit review programmes and implementation of emerging recommendations.
- > The Finance Committee met six times during the period reported, including once in joint session with the Audit and Risk Committee. 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 reviews and makes recommendations to the Court on business plans for new ventures, and ensures the development and implementation of finance and procurement policies that meet legislative and regulatory requirements and reflect best practice. The Finance Committee reviews and makes recommendations to the Court about approval of the annual accounts and financial statements for the Heriot-Watt Group jointly with the Audit and Risk Committee. The Committee also reviews and monitors compliance with the Financial Memorandum with the Scottish Funding Council and other relevant terms and conditions associated with funding grants and rewards. 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 five 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 twice 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 (Grade 10) staff of the University. 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. During the reporting year, the President of the Student Union became a member of the Committee, that post-holder previously having had observer status rights at meetings. During 2018/19, it is intended to appoint a staff trade union representative to the membership of the Committee.
- > 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, which includes international student representation, met three 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 four 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: <https://www.hw.ac.uk/services/secretariat/university-committees-a-z.htm>.

### Membership of Committees of Court

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

| Name of Member/Committee                | Attendance |
|-----------------------------------------|------------|
| <b>Audit and Risk Committee</b>         |            |
| Ms Jandy Stevenson (Chair)              | 4/4        |
| Ms Lucy Conan                           | 2/2*       |
| Ms Trish Gray                           | 4/4        |
| Ms Morag McNeill                        | 4/4        |
| Professor John Perkins                  | 1/4        |
| Dr Rio Watt (Until 26 October 2017)     | 1/1*       |
| Ms Suzanne Wilson                       | 3/4        |
| <b>Campus Committee</b>                 |            |
| Professor Ian Wall (Chair)              | 5/5        |
| Dame Frances Cairncross                 | 4/5        |
| Mr Diarmuid Cowan (Until 31 May 2018)   | 3/4*       |
| Professor Julian Jones                  | 3/5        |
| Dr Gillian Menzies (Until 30 June 2018) | 2/5        |
| Ms Morag McNeill                        | 1/5        |
| Mr Alan Robertson (From 6 April 2018)   | 0/2*       |
| Mr Rahul Singh (From 1 June 2018)       | 1/1*       |
| Mr Tom Stenhouse                        | 3/5        |
| Ms Vicki Stott                          | 2/5        |
| Mr Tony Strachan                        | 3/5        |
| Mr Allan Thomson                        | 1/5        |
| Mr Norrie Westbrook                     | 3/5        |
| Professor Richard A. Williams           | 2/5        |
| <b>Emergency Committee</b>              |            |
| Dame Frances Cairncross (Chair)         |            |
| Ms Tracey Ashworth-Davies               | Committee  |
| Professor Patrick Corbett               | does       |
| Professor Julian Jones                  | not        |
| Ms Jandy Stevenson                      | routinely  |
| Mr Tony Strachan                        | meet       |
| Professor Ian Wall                      |            |
| Mr Graham Watson                        |            |
| Professor Richard A. Williams           |            |

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



| Name of Member/Committee                        | Attendance | Name of Member/Committee                     | Attendance |
|-------------------------------------------------|------------|----------------------------------------------|------------|
| <b>Finance Committee</b>                        |            | <b>Governance and Nominations Committee</b>  |            |
| Mr Graham Watson (Chair)                        | 4/5        | Dame Frances Cairncross (Chair)              | 5/5        |
| Dame Frances Cairncross                         | 5/5        | Ms Tracey Ashworth-Davies                    | 2/5        |
| Mr Gerard Cassels                               | 5/5        | Mr Diarmuid Cowan (Until 31 May 2018)        | 5/5        |
| Professor Patrick Corbett                       | 5/5        | Professor Julian Jones                       | 4/5        |
| Ms Judith Cruickshank (From 23 April 2018)      | 1/1*       | Professor Isabelle Perez (Until 30 May 2018) | 2/5        |
| Mr Steve Heathcote (From 23 April 2018)         | 1/1*       | Ms Jandy Stevenson                           | 3/5        |
| Professor Julian Jones                          | 3/5        | Mr Tony Strachan                             | 5/5        |
| Mr Andrew Milligan                              | 5/5        | Mr Graham Watson                             | 4/5        |
| Mr George Morton (Until 22 November 2017)       | 1/1*       | Dr Rio Watt (Until 26 October 2017)          | 2/2*       |
| Ms Marta Phillips                               | 4/5        | Professor Richard A. Williams                | 2/5        |
| Ms Dorothy Shepherd (Until 4 November 2017)     | 1/1*       |                                              |            |
| Mr Tony Strachan                                | 4/5        | <b>Remuneration Committee</b>                |            |
| Professor Ian Wall                              | 4/5        | Mr Tony Strachan (Chair)                     | 2/2        |
| Professor Richard A. Williams                   | 5/5        | Ms Tracey Ashworth-Davies                    | 1/2        |
|                                                 |            | Dame Frances Cairncross                      | 2/2        |
|                                                 |            | Mr Diarmuid Cowan                            | 0/1*       |
|                                                 |            | Ms Evelyn Stevenson                          | 2/2        |
|                                                 |            | Mr Graham Watson                             | 2/2        |
| <b>Global Student Liaison Committee</b>         |            | <b>Staff Committee</b>                       |            |
| Dr Rio Watt (Chair) (Until 26 October 2017)     | 0/1*       | Ms Tracey Ashworth-Davies (Chair)            | 3/4        |
| Dame Frances Cairncross                         | 2/3        | Dame Frances Cairncross                      | 2/4        |
| Mr Liam Burns                                   | 1/3        | Ms Lucy Conan                                | 4/4        |
| Mr Nicholas Chong (Until 31 May 2018)           | 3/3        | Dr Amos Haniff                               | 4/4        |
| Mr Diarmuid Cowan (Until 31 May 2018)           | 3/3        | Mr Grant Innes                               | 4/4        |
| Mr Antony Kingston Dsantos (From 1 June 2018)   | 1/1*       | Professor Julian Jones                       | 3/4        |
| Ms Lucy Graham (Until 31 May 2018)              | 3/3        | Dr Amanda Lyness                             | 3/3*       |
| Ms Vijetha Mohan (Until 31 May 2018)            | 1/3        | Dr Sue Paterson (From 23 April 2018)         | 1/1*       |
| Mr Abdul Mubin Mohd Hanafiah (From 1 June 2018) | 1/1*       | Ms Lorrie Secrest-Osman                      | 4/4        |
| Mr Rahul Singh (From 1 June 2018)               | 1/1*       | Mr Tony Strachan                             | 2/4        |
| Mr Tony Strachan                                | 1/3        | Professor Richard A. Williams                | 3/4        |
| Mr Franklin Thankachan (Until 31 May 2018)      | 3/3        |                                              |            |
| Ms Jen Wither (From 20 April 2018)              | 1/1*       |                                              |            |
| Professor Richard A. Williams                   | 1/3        |                                              |            |

## 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.

## 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 and Project Management Strategy Group, the University Executive, the Audit and Risk Committee and the Court.

### The Risk and Control Framework

The University has an established risk management strategy to effectively identify, assess, record, manage and report risks and opportunities as follows:

#### > Governance and Oversight

A Risk and Project Management Strategy Group has been established comprising members of the senior management team including the Principal, Vice Principal, Secretary, Deputy Principals and relevant Directors of Professional Services. This Group meets a minimum of four times per year and oversees the effective operation of the risk management strategy and framework. The outputs of that group's meetings are reported to the University Executive and Audit and Risk Committee who provide oversight and governance of risk. Annually, the Risk and Project Management Strategy Group, the University Executive, the Audit and Risk Committee and the University Court, in turn, review all of the operational risk registers across the University.

#### > Responsibilities

Responsibility for risk management has been allocated across the senior management team and operational risk registers are maintained across all parts of the University. The University's Project Management policy requires that all projects maintain a project risk register to ensure that all risks relating to change projects are effectively identified, managed and reported. Internal Audit carries out an annual plan of audit reviews, which are focused on the key strategic risks facing the University. Findings from their work are followed up and remedial actions taken. On an annual basis, the Internal Auditors provide a report on the effectiveness of operation of the risk management framework based on the work they have performed.

#### > Strategic Risk

A Strategic Risk Register is maintained containing the significant risks affecting the University's ability to achieve its strategic objectives. A Strategic Opportunities Register is also maintained listing the significant opportunities, which are prioritised and assessed for their potential to be taken forward as initiatives by the University. The Strategic Risk Register, Strategic Opportunities Register, and escalated risks from the operational risk registers, are reviewed by the Risk and Project Management Strategy Group a minimum of four times per year.

#### > Risk Appetite

A risk appetite statement is in place and is reviewed periodically to summarise the University's appetite for risk across different risk categories.

The risk management strategy is reviewed on a three yearly cycle by the Risk and Project Management Strategy Group, the University Executive and the Audit and Risk Committee.

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.

The Assurance Services team oversees the effective application of risk management across the University and co-ordinates risk reporting to the relevant governance bodies. It is working through a programme of enhancements to the risk management framework including the implementation of an updated risk management policy and a revised risk appetite statement for the University.

## 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 2018, 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 PricewaterhouseCoopers LLP.

The Internal Auditor reports 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 its programme 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 receives progress reports on the implementation of Internal and External Audit recommendations.

The University's Internal Auditor issues an annual Assurance Statement that 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 ended 31 July 2018, it reported that it was satisfied that sufficient internal audit work has been undertaken to allow it to draw a conclusion as to the adequacy and effectiveness of Heriot-Watt University's governance, risk management and control, and economy, efficiency and effectiveness arrangements. In the Internal Auditor's opinion, governance, risk management and control, and value for money arrangements were generally satisfactory with some improvements required. The annual internal audit report notes that there were no critical-graded (red) reports or findings, with only one high-graded (amber) report issued in the year on the 'Cyber Essentials' project, with recommendations relating to the adequacy of the University's

gap analysis to support its remediation plan and to the completeness of documentation and level of detail associated with the construction of those plans. At the date of signing the accounts, work to address this point is complete and the University achieved Cyber Security Plus status ahead of the 31 October deadline. There was only one further high-rated (amber) finding among the other Internal Audit reports, relating to the need for the University to develop a fundraising policy that provides an appropriate and risk cognisant framework for optimising fundraising activities whilst remaining GDPR compliant. A draft policy and approach to fundraising has been developed and is being taken to the relevant governance bodies within the University for consultation and approval.

The External Auditor also reports to the Director of Finance, the University Executive and the Audit and Risk Committee on any internal control issues that they identify during its 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 the 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 on risk management and systems of internal control;
- > the work of the internal auditor, which submits regular reports to the Audit and Risk Committee that 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 auditor in its management letter and other reports.



## 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 and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council 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 the Scottish Funding Council 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.

## THE SCOTTISH CODE OF GOOD HIGHER EDUCATION GOVERNANCE

A revised Scottish Code of Good Higher Education Governance was published in 2017, which replaced the 2013 Scottish Code of Good Higher Education Governance. Academic year 2017-18 is considered a transitional year for compliance with the 2017 Code.

In the opinion of the Court, the University complies with all the principles and provisions of the 2013 Scottish Code of Good Higher Education Governance and is still working to ensure compliance with the 2017 Code. Areas of the 2017 Code where there remains non-compliance are:

- > A policy or goal that sets out longer-term equality and diversity aims in relation to membership of the Court. The Court can however report success in terms of equality and diversity within its membership, having already met the gender threshold established in the Gender Representation on Public Boards (Scotland) Act 2018, and does monitor progress in this area.

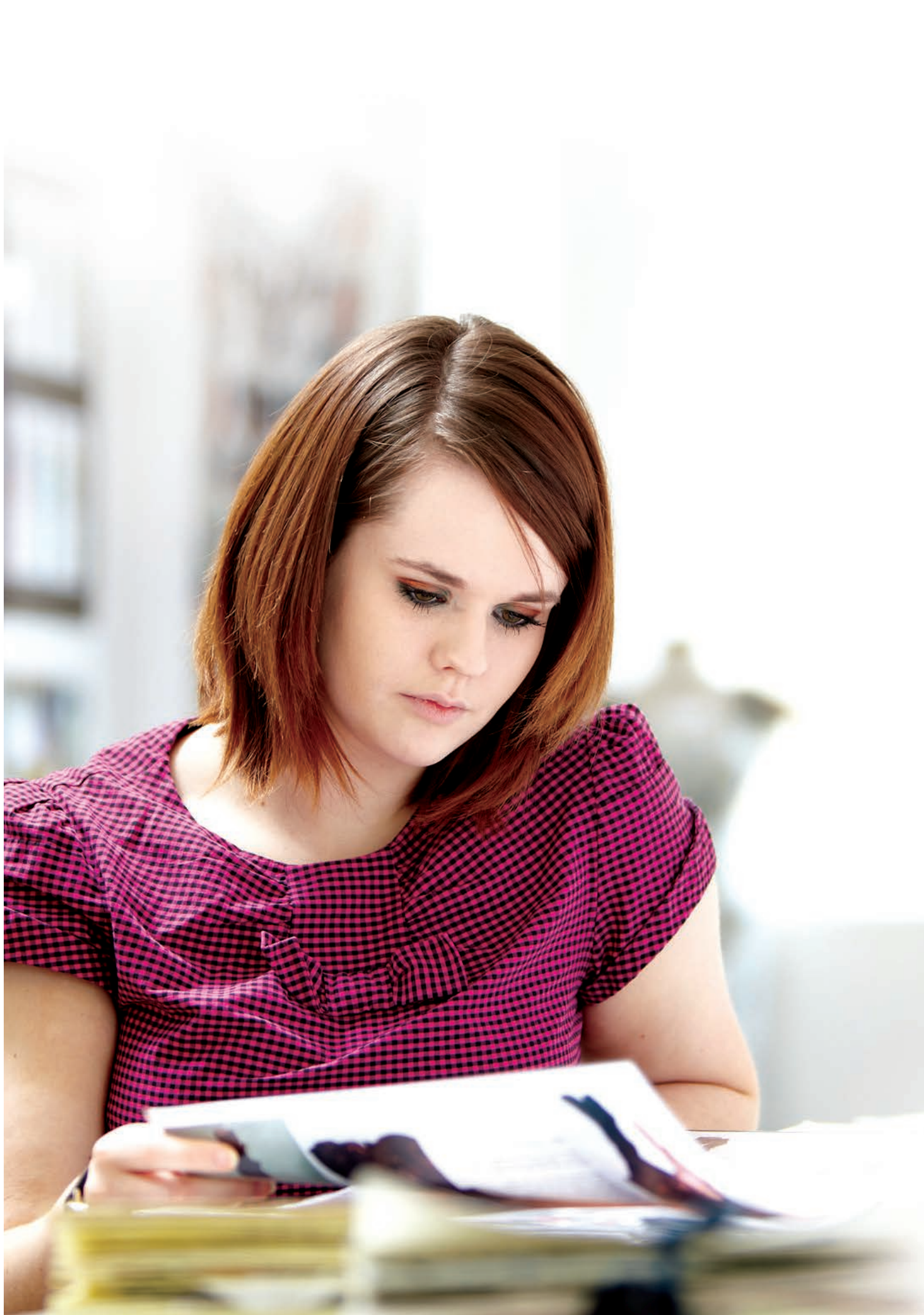
The University is taking action to address this by establishing an Equality and Diversity Statement and expects to be fully compliant in this area by the end of December 2018.

## GOING CONCERN

The University's activities and the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6-19. Its financial performance for the year to 31 July 2018 is described in the Financial Review on pages 34-39; and the income and expenditure, assets, liquidity and cash flows are set out in more detail in the Financial statements on pages 42-45 and in the Notes to the Financial Statements on pages 51-69. 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.

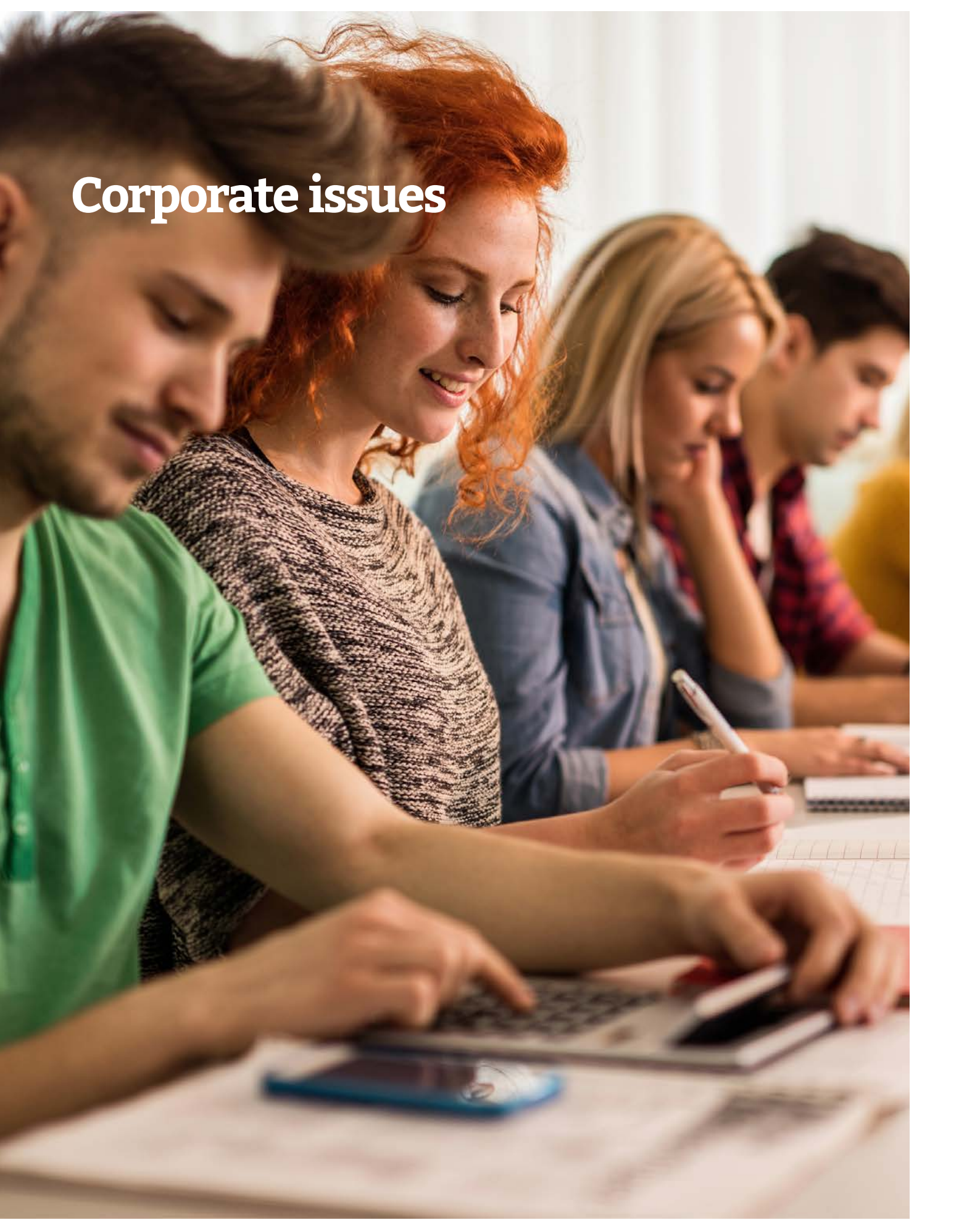
**Professor Richard A. Williams**  
Principal and Vice-Chancellor  
13 December 2018

**Dame Frances Cairncross**  
Chair of Court  
13 December 2018





# Corporate issues





## OUTCOME AGREEMENT

Outcome agreements, which are negotiated individually between the Scottish Funding Council and institutions, are framed to ensure delivery of improved outcomes 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. In 2017, the Scottish Government expressed its wish to 'intensify' the Outcome Agreement process to drive more ambitious target-setting and accelerated delivery of priority objectives.

The University continues to welcome this opportunity to demonstrate alignment of its activities with Scottish Government priorities and, through the negotiation of Outcome Agreements over a number of years now, has secured additional resources from Scottish Funding Council to advance the targeted outcomes. The Agreement negotiated between the University and the Scottish Funding Council in 2017/18 responded constructively to the 'intensification' agenda and seeks to advance our positive approach to delivering the well-aligned objectives of the University and the Scottish Government in education, research and innovation.

## COLLEAGUE COMMUNICATION

Providing colleagues with timely and targeted information that enables them to perform their roles to the best of their ability is a key area of focus. A variety of communications channels are used to engage colleagues throughout the year on strategic, financial and academic performance. Regular electronic and online communications include a weekly e-newsletter; the Professional Services Leadership Board Bulletin; email messages to colleagues and students; and the Principal's Outlook - a series of articles from our Principal. Managers have access to communications expertise, guidance and resources to help them communicate effectively with their teams and support them through change.

Providing our colleagues with a clear understanding of the financial position of the University and what it means to them helps to reduce uncertainty and improve engagement. We do this by providing open, honest and timely communications that focus on two-way feedback with our colleagues.

Our channels included forums for open discussions between the Principal and Senior Managers where colleagues were able to ask questions about our finances, as well as a dedicated email and frequently asked questions section on the staff intranet. Colleagues are continuously encouraged to send their questions and share their views on the implementation of our financial plans.

## EQUALITY AND DIVERSITY

Heriot-Watt University is committed to equality and diversity in an environment that promotes a culture of 'Inclusion for All'. This holistic approach helps us maintain an open and accessible working, living and learning environment where all are supported to reach their full potential.

Consistent with meeting our legal requirements, in April 2017 the University published a range of material that outlines how we respond to the equality and diversity agenda. Those publications, which are summarised below, can all be found at [www.hw.ac.uk/equality](http://www.hw.ac.uk/equality):

- > Inclusion for All: Mainstreaming Equality. Equality Outcomes 2017-21: This updates progress on our 2013-17 Equality Outcomes and outlines our plans covering 2017-21, including our Equality Outcomes action plan.
- > Heriot-Watt University Equal Pay Statement: This builds on the last four years; our Equal Pay Statement includes pay gap data by gender, ethnicity and race and includes our Equal Pay action plan covering 2017-21.
- > Heriot-Watt University Employee Information: We publish employee information under separate cover, with data covering recruitment, promotion, pay and remuneration, training and development, return after maternity leave, return to work of disabled employees following sick leave, relating to their disability, appraisal, grievances (including about harassment), disciplinary action (including for harassment) and dismissals and other reasons for leaving.
- > Heriot-Watt University Student Information: we annually publish data online to show our student intake by protected characteristic.

## OUR EQUALITY OUTCOMES COVER TWO OVERARCHING AREAS:

- > Fundamentals for Success: addressing those activities we will be progressing over the period 2017-2021, covering underpinning areas such as data collection and reporting.
- > Equality and Diversity Interventions: sets out a range of project related work, usually spanning two-year timeframes, for review and refresh in 2019.

The University is particularly committed to progressing through the Athena SWAN Charter Awards. We hold a University-wide Bronze Award and three of our academic schools (the School of Energy, Geoscience, Infrastructure and Society; the School of Mathematical and Computer Sciences; and the School of Engineering and Physical Sciences) currently hold Bronze awards with work toward renewals in November 2018. Edinburgh Business School, the School of Social Sciences and the School of Textiles and Design are all currently being supported in developing their plans for progressing toward Athena SWAN Bronze submissions. Further information relating to our Athena SWAN activities can be found at [www.hw.ac.uk/athenaswan](http://www.hw.ac.uk/athenaswan).

Equality and diversity activity is also embedded in our Outcome Agreement with the Scottish Funding Council, supplemented by our Gender Equality Action Plan, which pulls together actions relating to addressing gender balance in the student population across subject areas

## EMPLOYMENT OF DISABLED PERSONS

The University is an accredited Disability Confident Employer and, as such, we have been able to demonstrate progression against a set of standards in support of taking positive action to attract, recruit and retain people with disabilities. We are committed to:

- > ensuring that people with disabilities receive full and proper consideration throughout the whole recruitment process;
- > guaranteed interviews for those who meet the minimum essential criteria; and

- > providing practical equipment or modification to 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 support is made available in partnership with the employee and their manager. It is the policy of the Group that the recruitment, training, career development and promotion of people with disabilities should, as far as possible, equal that of other employees.

## PENSIONS

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

USS published their latest triennial valuation report, for which the reference date is 31 March 2014, in December 2015. The 2017 actuarial valuation of USS has been undertaken but this has not yet been formerly completed. There remains various stages of consultation around the key factors specifically relating to the funding of the past deficit (including the level of contributions required), the period of the recovery plan and the level of asset performance over the period. It remains appropriate, therefore, to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation. On that valuation basis, the balance sheet provision fell during the year by £2.4m to £15.9m (note 18).

In the University's judgement, however, there is a significant risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. While the University expects to have greater clarity in this respect during the next financial year, the University thinks it appropriate to represent a range of sensitivities around the potential impact on the existing provision (note 25).

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.

LPF published their latest triennial valuation report, for which the reference date is 31 March 2017, in March 2018. For the Lothian Pension Fund the net value of the deficit between the underlying assets and liabilities of the University's share of the fund is identifiable as a provision in the University's balance sheet. During the year, that provision fell by £12.7m to £9.8m (note 18).

Valuation of STSS 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. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019. These schemes provide benefits to members based on final pensionable pay.

The other pension schemes are both defined contribution schemes. The scheme currently available to staff on Heriot-Watt Services Limited contracts of employment is the Heriot-Watt Services Limited defined contribution pension scheme. The University and Edinburgh Business School have implemented arrangements to meet the UK statutory requirement for employers to automatically enrol certain workers who are not already pension scheme members into a qualifying pension scheme. In addition to the existing pension schemes, staff can opt to join the National Employment Savings Trust (NEST).

Details of the accounting policies are set out on Pages 46-50 and further disclosures are set out in note 25.

## 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 promotes enhanced environmental sustainability via a significant proportion of its teaching and research, with specialisms in diverse areas including sustainable fuels, renewable energy, carbon sequestration, energy storage and rainwater management / flood mitigation.

During 2017/18 the University's environmental sustainability initiatives have included:

- > Establishing and initiating funded programmes to install renewable energy generation and replace outdated and inefficient boiler plant
- > Development of a Travel Strategy for the Edinburgh Campus
- > Improvements to segregation of wastes and the installation of food waste composters at the Edinburgh Campus

Data to support public reporting of the University's 2017/18 greenhouse gas footprint is currently being collated, however previous

annual interim emission reduction targets under the University's Carbon Management Plan (2015/16 - 2019/20) have been achieved.

The University is appraising the UN Sustainable Development Goals (SDGs) with a view to a possible corporate commitment under the

SDG Accord, the sector's collective response to the SDGs. The Goals will also provide a reference framework for the development of a new overarching Sustainability Strategy for the University, currently in development.

### 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 2018 there were 22 days (2017: 16 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

As at 31 July 2018 the Group held 20 minority investments in a range of different companies (2017: 18).

The largest single minority investment relates to the University's shares held in CVCP Properties, a company wholly owned by both UK universities in membership of Universities UK and Universities UK. The company holds the freehold of Woburn House, providing leased office accommodation and conference space to Universities UK and a number of other HE related tenants.

In addition, 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 2018 there were 19 investments in a range of different companies.

All of these minority investments are stated at cost.





# 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 planned 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.

Consistent with that plan, the University has seen rapid and sustained growth. Significant contributions to the teaching income have come from the development of post-graduate and transnational activities, while research income increases have been stimulated by academic recruitment under the 'Global Platform' initiative. In more recent times, however, the rate of growth in both tuition fee and research income has slowed, and a range of risks to the pace of growth has become clearer. Our recent financial plans, therefore, have been developed with contingency comparable to the scale of envisaged risk: they have been based on a combination of resilience in individual budgets (an ability to reduce expenditure if expected income failed to materialise), provide an ability to slow medium-term investments if required (e.g., in staffing) and have included an explicit centrally held contingency. Nevertheless, as reported last year, with the risks crystallising at a scale and pace at the upper limit of what had been envisaged, it was apparent that the desired level of contingency could not realistically be maintained over the duration of our forward financial plans; precipitating a plan to achieve significant reductions in cost in future years. In the short term, operating surpluses will be compromised, but our future plans indicate that we should return to surpluses of around 5% as the impact of our efforts to contain costs and grow income begin to bear fruit over the medium term; a prelude to the nascent plans for a longer-term step-change in our scale associated with investment in digital innovation and other major developments that will emerge in the publication of our 'Strategy 2025' in early 2019.

Historically the University has been relatively conservative in its borrowing. However, its continued ambition to grow requires 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. To that end, in December 2016, we benefited from the establishment of a long-term debt funding arrangement by way of a private placement with three UK and US institutional investors, which enabled restructuring of the then current debt portfolio and consequent significant reduction in applicable rates of interest and simplification of covenants. The net proceeds of the £112m investment were used to repay all existing borrowings and to contribute £63.5m towards the funding of future University-wide development.

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; the opening of Oriam, Scotland's National Performance Centre for Sport; the opening of the Sir Charles Lyell Centre, a new centre for earth and marine science and technology; the delivery of the 'Learning Commons' space, providing a variety and choice of supported learning and study settings; the start of a series of improvements and refurbishment of a range of learning and teaching spaces across the Edinburgh campus; 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; new student residential accommodation in Edinburgh and Galashiels; the start of a rolling programme of refurbishment of existing student residences; and a continuation of the investment in the University's core information systems.

The current year saw completion of the alteration and refurbishment of the James Watt Centre, into a modern state of the art learning and teaching facility with complementary hospitality and conference facilities; the modernisation of our Student Services Centre; continuation of the rolling programme of refurbishment of existing student residences; the beginning of a rolling-refurbishment project for the Library to transform it into a modern, flexible and comfortable learning environment; and the initiation of the construction of GRID: a pioneering innovation building, integrating twenty-first century learning and teaching spaces, research laboratories and workspaces, innovation and enterprise space, all developed

around the latest models for 'open space collaboration' and utilising the latest digital technology to accelerate innovation and foster the co-creation of ideas. Our Edinburgh Business School has made major investments this year: in the fabric of its building; in a revitalised offering including a new flagship on-campus MBA based on Entrepreneurship with travelling student cohorts making use of our global footprint; in a major re-development of the School's on line content; in an incubator facility that will extend the reputation of the School and the University in entrepreneurial endeavour; and in the completion of the restoration of Panmure House, the last home of the celebrated economist Adam Smith, and its development as a place of debate, policy and public engagement.

Going forward, our capital plans will continue, through a rolling programme of refurbishment, to focus on the investment required in order to provide capacity for new research activities and to provide for increased quality and quantity of teaching and learning space to meet the needs of growing student numbers and of higher student expectations.

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 pre-agreed 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 revised financial plans still 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 investment priorities, financial circumstances or risk profiles change. We have historically employed interest rate hedging to achieve certainty over debt servicing costs and, looking ahead, will gain the same certainty from our available refinancing funds, making use of fixed low-rate interest bonds.

## SCOPE OF THE FINANCIAL STATEMENTS

The financial statements for the year-ended 31 July 2018, which have been approved by the Court, comprise the consolidated results of the University and its subsidiary undertakings, together the 'Group'. These accounts have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015; and in accordance with Financial Reporting Standards (FRS 102).

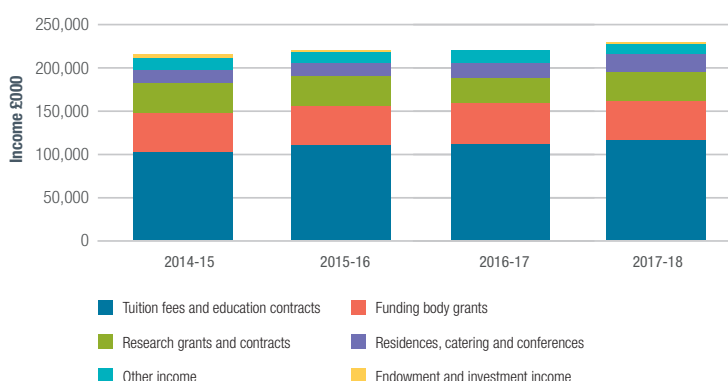
## FINANCIAL PERFORMANCE

### Results for the year

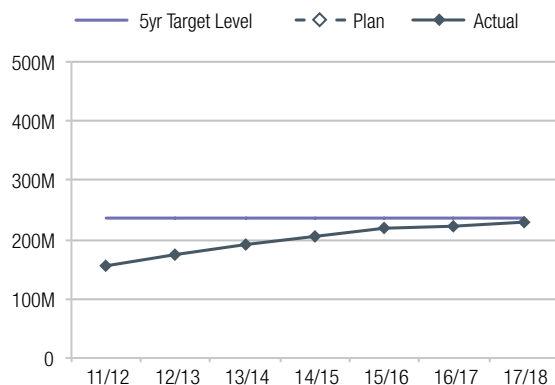
The Group reported a surplus, before other gains and losses, of £7.3m. After other gains, the reported surplus for the year was £8.9m. After the tax credits and recognition of the unrealised actuarial gain on pension schemes, this took the total comprehensive income for the year to £24.9m. The actuarial gain comprised 3 elements: £2.5m arising from the fund's actuarial revaluation, driven in large part by membership experience between the 2014 valuation and the 2017 valuation that was different to the actuary's assumptions countered by the effects of the revaluation on asset valuation; £6.7m associated with changes to actuarial assumption including financial and demographic assumptions; and £6.1m attributable to asset outperformance.

### Income

In 2017/18, the Group achieved total income growth of 3.2%, with total income increasing by £7m to £228.3m (2017: £221.2m). That growth was driven primarily by continued growth in tuition fee income and research grant income. Growth was offset to some extent by a reduction in other income.



### KPI: Total income



The University's strategic plan set the aim of growing income by more than 50% over the five-year strategic planning period, so establishing a target total income of £235m by 2017/18, which, depending on competitor growth rates, would move the University well into the sector's second quartile. At £228m, actual performance in 2017/18 indicates that we have to come close to that target. At £221m in 2016/17 (the most recently available sectoral figures), Heriot-Watt moved into 52nd place in the UK rank order, broadly maintaining the position achieved last year, following the previous trend of increasing its position in that rank order over a number of years. When normalised to total staff numbers (to give a measure of the efficiency of income generation), the University's £120k per staff FTE ranks 7th in the UK (2016 £121k; 7th).



Continued growth in on-campus student numbers and associated tuition fees, saw that category of income grow by £4.9m over the year to £117.8m (2017: £112.9m):

The growth in student numbers on Scottish campuses was reflected in fee income growth of £2.4m: a modest reduction in income from Home/EU students and students attending Heriot-Watt from England Wales and Northern Ireland being offset by this year's reversal of fortunes in international student numbers, where fee income grew by £3.1m.

In Dubai, a £1.2m increase in income reflected the increase in student numbers of 2.1%. Our Malaysian campus, in its early years of operation, continues to see growth in student numbers associated with adding additional year-groups. At our Malaysian Campus, the growth in fee income in the year was £2.8m, reflecting the 39.5% growth in student numbers, associated, in large part, with the addition of a further year-group.

Following the downturn in the fortunes of Edinburgh Business School reported last year, associated with currency fluctuation, conflicts, keen competition and the closure of its programmes at West London College; this reduction in income has continued, falling by £0.8m in the current year.

There was, once again, a net reduction in student numbers associated with Independent Distance Learning and Approved Learning Partners, reflected in a reduction in income of £0.7m; a pattern that reflects a shift away from high volume-low revenue partnerships to more rewarding activity.

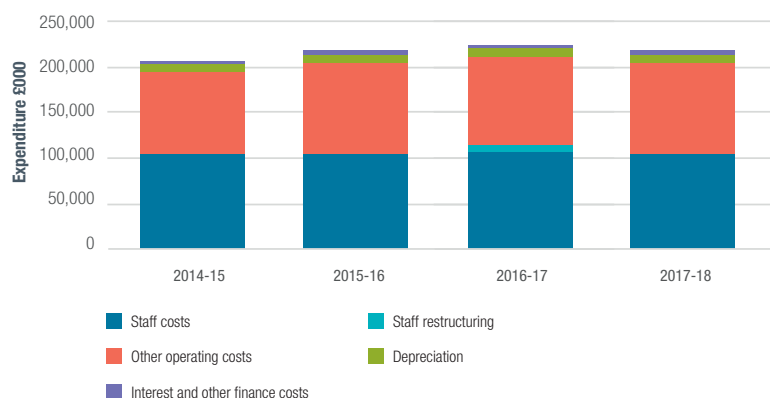
Funding body grants have remained almost static at £47.3m (2017: £47.4m). This reflects relatively little movement in the number of funded places and the completion, last year, of the gradual escalation of the Research Excellence Grant flowing from the University's success in the Research Excellence Framework 2014. At 20.7% (2017: 21.4%) of total income, Heriot-Watt's proportion of income derived from this source is likely to remain among the lowest in Scotland, reflecting the diversity of our income streams.

This year saw an increase in research grant and contract income to £31.4m (2017: £27.1m), more in line with that earned prior to last year's dip and indicating a continued trend of growth from research grants income, but also reflecting the volatility related to FRS 102's income recognition requirements for contracts that lack performance conditions.

Counter to the growth in income from residences, catering and conferences, associated with the opening of new residences; and from growth in sports income, associated with the enhancement in the University's sports facilities; overall, other income fell by £2.5m to £29.4m (2017: £31.9m). The largest contributor to that fall was the reduction in other commercial income, largely reflective of the extent of our dependence, for such income, on the oil and gas sector and the severity of current challenges for that sector.

## Student numbers

|                                                                                 | 2016/17       | Change       | 2017/18       |
|---------------------------------------------------------------------------------|---------------|--------------|---------------|
| <b>Scottish Campuses</b>                                                        |               |              |               |
| Undergraduates                                                                  | 6,910         | 3.8%         | 7,173         |
| Taught Postgraduates                                                            | 1,427         | 85.7%        | 2,650         |
| Research Postgraduates                                                          | 1,087         | 0.3%         | 1,090         |
|                                                                                 | 9,424         | 15.8%        | 10,913        |
| <b>Dubai Campus</b>                                                             |               |              |               |
| Undergraduates/foundation                                                       | 2,187         | 0.3%         | 2,193         |
| Taught Postgraduates                                                            | 1,336         | 4.6%         | 1,398         |
| Research Postgraduates                                                          | 14            | 50.0%        | 21            |
|                                                                                 | 3,537         | 2.1%         | 3,612         |
| <b>Malaysia Campus</b>                                                          |               |              |               |
| Undergraduates/foundation                                                       | 1,294         | 42.6%        | 1,845         |
| Taught Postgraduates                                                            | 209           | 20.6%        | 252           |
| Research Postgraduates                                                          | -             | 0.0%         | -             |
|                                                                                 | 1,503         | 39.5%        | 2,097         |
| <b>TOTAL ON-CAMPUS</b>                                                          | <b>14,464</b> | <b>14.9%</b> | <b>16,622</b> |
| <b>Independent Distance Learners and Students at Approved Learning Partners</b> |               |              |               |
| Undergraduates                                                                  | 1,259         | -29.8%       | 884           |
| Taught Postgraduates                                                            | 12,800        | -16.0%       | 10,758        |
| Research Postgraduates                                                          | 302           | 24.5%        | 376           |
|                                                                                 | 14,361        | -16.3%       | 12,018        |
| <b>GRAND TOTAL</b>                                                              | <b>28,825</b> | <b>-0.6%</b> | <b>28,640</b> |



### Expenditure

At £106.4m (2017: £108m), total staff costs, excluding any restructuring costs, reduced by £1.6m (1.43%). The underlying salary costs of £86.6m (2017: £86.7m) represented a decrease of 0.2% on the previous year; which against a background of a 1.7% pay award and grade progression reflects staff restructuring undertaken in 2016/17.

Following on from the £5.9m staff restructuring costs in the previous year, the University undertook one further, much smaller, round, of voluntary redundancy at a cost of £0.5m.

The University's contributions to various pension schemes reduced to £13.2m (2017: £13.7m), the 4% reduction reflecting both a reduction in the underlying pensionable staff numbers and the absence of the pension strain costs borne during last year's staff restructuring.

At £97.6m (2017: £99m), the reduction in other operating expenditure, reflects the continuing in-year efforts to make cost savings.

At £4.6m (2017: £2.5m), interest and other finance costs are higher than in the previous year. That increase was primarily associated with suffering the first full-year, rather than part-year, of interest on the University's private placement borrowing; compounded by the absence of last year's one-off gain, achieved on disposal of the interest rate swaps associated with the pre-existing bank borrowing.

## FINANCIAL POSITION

### Net assets

At the end of the year, the Group had net assets of £80.9m (2017: £55.9m), an increase of £25.0m on the previous year.

The £16.1m net increase in fixed assets to £217.4m (2017: £201.3m) reflects capital development during the current year, which saw completion of the alteration and refurbishment of the James Watt Centre into a modern state of the art learning and teaching facility with complementary hospitality and conference facilities; the modernisation of our Student Services Centre; continuation of the rolling programme of refurbishment of existing student residences; the beginning of a rolling-refurbishment project for the Library to transform it into a modern, flexible and comfortable learning environment; the commencement of the construction of GRID: a pioneering innovation building, integrating twenty-first century learning and teaching spaces, research laboratories and workspaces, innovation and enterprise space; along with the major investments made this year by the Edinburgh Business School: in the fabric of its the building, in a major re-development of the School's on line content and in the completion of the restoration of Panmure House, as a place of debate, policy and public engagement.

The £0.5m reduction in investment assets to £33.0m (2017: £33.5m) reflects unrealised gains arising from the revaluation of investment property (£0.8m) and from the year-end revaluation of long-term investment assets (£0.7m); offset by Edinburgh Business School's realisation of £2m of its investment portfolio to fund some of its in-year capital investment.

A net increase of £1.7m in trade and other receivables to £53.7m (2017: £52.0m) reflects, largely, an upturn in research grant activity, and so in associated amounts due at the year-end; offset by the impact of a review of bad debt, which saw that provision reduced by £2.4m in the year.

Although creditors due within one year saw a modest increase of £0.4m to £83.6m (2017: £83.2m), that growth was thinly spread among the constituent elements of that balance sheet item.

The £1.8m net increase in creditors falling due after more than one year, to £191.0m (2017: £189.2m) arose primarily from new unsecured loans funded by the Scottish Funding Council's Universities Carbon Reduction Fund. Those loans, totalling £2.1m, are interest-free and are repayable over 7 years; a period set to match the cost of repaying the borrowing with the projected revenue savings arising from the boiler replacement and the income from the renewable energy generation scheme.

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 both 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. Having raised £112m by way of a private placement last year, Heriot-Watt's borrowings now represent 50.0% (2017: 50.7%) of the University's total income. Borrowing at that level is likely to place Heriot-Watt in the top quartile of most highly geared UK institutions. 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 has done

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 £15.1m reduction in pension provisions to £26.0m (2017: £41.1m) reflects a £2.4m reduction in our year-end assessment of the University's long-term obligation to fund its share of the USS recovery plan; and an actuarially assessed £12.7m reduction in the year-end net liability in relation to the Lothian Pension Fund.

## RESERVES

The Group's reserves grew by £25.0m to £80.9m (2017: £55.9m) during the year.

Disaggregating that movement:

- > Endowment reserves grew by £0.7m to £11.4m (2017: £10.7m) during the year (note 19). That growth being attributable to new endowments of £216,000, £387,000 income from endowment investments, and an increase of £547,000 in the market value of endowment investments, set against £439,000 of expenditure from the endowment funds.
- > Restricted reserves fell by £1.9m to £8.6m (2017: £10.5m) during the year (note 20). That fall was attributable to expenditure of £3.0m (£2.5m research, £0.5m donations), offset by £1.0m of new philanthropic donations and £0.1m increase in the market value of invested donations.
- > The Revaluation Reserve remains at £3.06m.
- > Unrestricted reserves grew by £26.1m to £57.7m (2017: £31.6m) during the year. That growth being attributable to an unrestricted surplus of £7.4m, transfers from restricted reserves of £3.4m and a £15.3m actuarial gain arising from the year-end Lothian Pension Fund valuation.

## CASH FLOW

At 1 July 2017 cash and cash equivalents At 1 July 2018, cash and cash equivalents sat at £77.4m, a reduction of £4.3m on the previous year-end (2017: £81.6m). This represents 34% (2017: 37%) of total income, or net liquidity of 124 days (2017: 142 days).

Chief among the contributors to the decrease of £4.2m in cash and cash equivalents were the payments to acquire fixed assets of £26.4m, an increase of £10.1m on the £16.3m spent last year. This is in line with plans to fund our capital programme. This programme of construction was funded by the private placement borrowing entered into last year and while there is an increase in interest payable from £2.8m to £3.6m, associated with suffering interest for a full 12 months on the increased borrowing during this year, the interest rate is lower than that associated with the pre-existing borrowings.

In addition to the surplus for the year of £9.6m, adjustment for depreciation charges, increases in debtor and creditor balances and a range of unrealised gains and losses result in net cash inflow from operating activities of £20.4m. Taken together with the cash flows from investing activities of £24.1m and the net costs of financing of £0.5m, there is an overall reduction in cash and cash equivalents over the year of £4.2m.



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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Heriot-Watt University ("the University") for the year ended 31 July 2018 which comprise the Consolidated and University Statement of Comprehensive Income and Expenditure, the Consolidated and University Statement of Changes in Reserves, the Consolidated and University Balance Sheet, the Consolidated Statement of Cash Flows and related notes, including the Statement of Accounting Policies.

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 2018, and of the Group's and the University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended;
- > have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and
- > have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

### Basis for opinion

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.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### Other information

The University Court of Heriot-Watt University is responsible for the other information, which comprises the Introduction by Principal and Vice-Chancellor, Strategic Report, Corporate Governance Statement, Corporate Issues and Financial Review. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. We are required to report to you if:

- > based solely on that work, we have identified material misstatements in the other information; or
- > in our opinion, the information given in the Strategic Report is inconsistent in any material respect with the financial statements.

We have nothing to report in these respects.

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

Under the Charities Accounts (Scotland) Regulations 2006 (as amended), we are required to report to you if, in our opinion:

- > the University has not kept proper accounting records; or
- > the financial statements are not in agreement with the accounting records; or
- > we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### University Court of Heriot-Watt University responsibilities

As explained more fully in their statement set out on page 28, the University Court of Heriot-Watt University is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

# Independent auditor's report (continued)

## Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## Report on other legal and regulatory requirements

We are required under the terms of our engagement to report on the following matters.

In our opinion, in all material respects:

- > funds from whatever source administered by the Group or the University for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation and any other terms and conditions attached to them;
- > funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum with Higher Education Institutions.

## The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the University Court of Heriot-Watt University, in accordance with the Charter and Statutes of the institution, 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 Heriot-Watt University those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the University Court of Heriot-Watt University for our audit work, for this report, or for the opinions we have formed.

## Andrew Shaw

For and on behalf of KPMG LLP,  
Statutory Auditor

*Chartered Accountants*  
Saltire Court, 20 Castle Terrace,  
Edinburgh, EH1 2EG

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

December 2017



## Consolidated and University Statement of Comprehensive Income and Expenditure for the year ended 31 July 2018

|                                                        | Note | Consolidated |         | University |         |
|--------------------------------------------------------|------|--------------|---------|------------|---------|
|                                                        |      | 2018         | 2017    | 2018       | 2017    |
|                                                        |      | £000         | £000    | £000       | £000    |
| <b>Income</b>                                          |      |              |         |            |         |
| Tuition fees and education contracts                   | 1    | 117,824      | 112,909 | 96,464     | 93,408  |
| Funding body grants                                    | 2    | 47,280       | 47,428  | 47,276     | 47,427  |
| Research grants and contracts                          | 3    | 31,424       | 27,107  | 31,323     | 27,064  |
| Other income                                           | 4    | 29,365       | 31,909  | 24,989     | 26,375  |
| Investment income                                      | 5    | 1,097        | 968     | 1,115      | 948     |
| Endowments and donations                               | 6    | 1,313        | 897     | 1,056      | 807     |
|                                                        |      | 228,303      | 221,218 | 202,223    | 196,029 |
| <b>Expenditure</b>                                     |      |              |         |            |         |
| Staff costs                                            | 7    | 106,432      | 107,972 | 94,780     | 96,819  |
| Staff restructuring                                    | 7    | 494          | 5,909   | 443        | 5,647   |
| Other operating expenses                               | 9    | 98,934       | 98,962  | 78,901     | 79,912  |
| Depreciation and impairment                            |      | 10,484       | 12,741  | 8,677      | 7,697   |
| Interest and other finance costs                       | 8    | 4,604        | 2,526   | 4,563      | 2,594   |
|                                                        |      | 220,948      | 228,110 | 187,364    | 192,669 |
| <b>Surplus/(Deficit) before other gains and losses</b> |      | 7,355        | (6,892) | 14,859     | 3,360   |
| Gain on disposal of fixed assets                       |      | 37           | -       | 37         | -       |
| Gain on investment property                            |      | 800          | 1,030   | 800        | 1,030   |
| Gain/(loss) on investments                             |      | 689          | 1,761   | (3,210)    | 959     |
| <b>Surplus/(Deficit) before tax</b>                    |      | 8,881        | (4,101) | 12,486     | 5,349   |
| Taxation                                               | 10   | 756          | (1,127) | -          | (572)   |
| <b>Surplus/(Deficit) for the year</b>                  |      | 9,637        | (5,228) | 12,486     | 4,777   |
| Actuarial gain in respect of pension schemes           | 25   | 15,305       | 6,911   | 15,607     | 6,724   |
| <b>Total comprehensive income for the year</b>         |      | 24,942       | 1,683   | 28,093     | 11,501  |
| Represented by:                                        |      |              |         |            |         |
| Endowment comprehensive income for the year            |      | 711          | 709     | 702        | 574     |
| Restricted comprehensive income for the year           |      | (1,849)      | (3,948) | (1,999)    | (3,759) |
| Unrestricted comprehensive income for the year         |      | 26,080       | 4,922   | 29,390     | 14,686  |
|                                                        |      | 24,942       | 1,683   | 28,093     | 11,501  |

All items of income and expenditure relate to continuing activities.

The accounting policies on pages 46-50 and the notes on pages 51-69 form an integral part of these financial statements.



## Statement of Changes in Reserves for the year ended 31 July 2018

|                                                       | Income and Expenditure reserve |                |               | Revaluation Reserve | Total          |
|-------------------------------------------------------|--------------------------------|----------------|---------------|---------------------|----------------|
|                                                       | Endowment                      | Restricted     | Unrestricted  |                     |                |
|                                                       | £000                           | £000           | £000          | £000                | £000           |
| <b>Consolidated</b>                                   |                                |                |               |                     |                |
| <b>Balance at 1 August 2016</b>                       | 10,011                         | 14,450         | 26,713        | 3,058               | <b>54,232</b>  |
| Surplus from income and expenditure statement         | 1,197                          | 795            | (7,220)       | -                   | <b>(5,228)</b> |
| Other comprehensive income                            | -                              | -              | 6,911         | -                   | <b>6,911</b>   |
| Transfers between restricted and unrestricted reserve | -                              | (5,231)        | 5,231         | -                   | -              |
| Transfers between endowment and restricted reserve    | (488)                          | 488            | -             | -                   | -              |
| <b>Balance at 1 August 2017</b>                       | <b>10,720</b>                  | <b>10,502</b>  | <b>31,635</b> | <b>3,058</b>        | <b>55,915</b>  |
| Surplus from income and expenditure statement         | 1,152                          | 1,100          | 7,385         | -                   | <b>9,637</b>   |
| Other comprehensive income                            | -                              | -              | 15,305        | -                   | <b>15,305</b>  |
| Transfers between restricted and unrestricted reserve | -                              | (3,390)        | 3,390         | -                   | -              |
| Transfers between endowment and restricted reserve    | (441)                          | 441            | -             | -                   | -              |
| <b>Total comprehensive income for the year</b>        | <b>711</b>                     | <b>(1,849)</b> | <b>26,080</b> | <b>-</b>            | <b>24,942</b>  |
| <b>Balance at 31 July 2018</b>                        | <b>11,431</b>                  | <b>8,653</b>   | <b>57,715</b> | <b>3,058</b>        | <b>80,857</b>  |
| <b>University</b>                                     |                                |                |               |                     |                |
| <b>Balance at 1 August 2016</b>                       | 8,317                          | 14,261         | 15,609        | 2,875               | <b>41,062</b>  |
| Surplus from income and expenditure statement         | 980                            | 731            | 3,066         | -                   | <b>4,777</b>   |
| Other comprehensive income                            | -                              | -              | 6,724         | -                   | <b>6,724</b>   |
| Transfers between restricted and unrestricted reserve | -                              | (4,896)        | 4,896         | -                   | -              |
| Transfers between endowment and restricted reserve    | (406)                          | 406            | -             | -                   | -              |
| <b>Balance at 1 August 2017</b>                       | <b>8,891</b>                   | <b>10,502</b>  | <b>30,295</b> | <b>2,875</b>        | <b>52,563</b>  |
| Surplus from income and expenditure statement         | 1,055                          | 949            | 10,482        | -                   | <b>12,486</b>  |
| Other comprehensive income                            | -                              | -              | 15,607        | -                   | <b>15,607</b>  |
| Transfers between restricted and unrestricted reserve | -                              | (3,301)        | 3,301         | -                   | -              |
| Transfers between endowment and restricted reserve    | (353)                          | 353            | -             | -                   | -              |
| <b>Total comprehensive income for the year</b>        | <b>702</b>                     | <b>(1,999)</b> | <b>29,390</b> | <b>-</b>            | <b>28,093</b>  |
| <b>Balance at 31 July 2018</b>                        | <b>9,593</b>                   | <b>8,503</b>   | <b>59,685</b> | <b>2,875</b>        | <b>80,656</b>  |

The accounting policies on pages 46-50 and the notes on pages 51-69 form an integral part of these financial statements

## Consolidated and University Balance Sheet for the year ended 31 July 2018

|                                                                | Note | Consolidated   |                | University     |                |
|----------------------------------------------------------------|------|----------------|----------------|----------------|----------------|
|                                                                |      | 2018<br>£000   | 2017<br>£000   | 2018<br>£000   | 2017<br>£000   |
| <b>Non-current assets</b>                                      |      |                |                |                |                |
| Intangible assets and goodwill                                 |      | 6              | -              | -              | -              |
| Fixed Assets                                                   | 11   | 217,423        | 201,344        | 171,045        | 158,889        |
| Investments                                                    | 12   | 32,956         | 33,531         | 27,812         | 31,291         |
|                                                                |      | <b>250,385</b> | <b>234,875</b> | <b>198,857</b> | <b>190,180</b> |
| <b>Current Assets</b>                                          |      |                |                |                |                |
| Stock                                                          | 13   | 2              | 6              | -              | -              |
| Trade and other receivables                                    | 14   | 53,696         | 51,989         | 76,137         | 66,689         |
| Investments                                                    | 15   | -              | 962            | -              | 600            |
| Cash and cash equivalents                                      |      | 77,365         | 81,648         | 69,103         | 73,050         |
|                                                                |      | <b>131,063</b> | <b>134,605</b> | <b>145,240</b> | <b>140,339</b> |
| <b>Less Creditors: amounts falling due within one year</b>     | 16   | <b>83,593</b>  | <b>83,208</b>  | <b>77,323</b>  | <b>76,143</b>  |
| <b>Net current assets</b>                                      |      | <b>47,470</b>  | <b>51,397</b>  | <b>67,917</b>  | <b>64,196</b>  |
| <b>Total assets less current liabilities</b>                   |      | <b>297,855</b> | <b>286,272</b> | <b>266,774</b> | <b>254,376</b> |
| <b>Creditors: amounts falling due after more than one year</b> | 17   | <b>190,991</b> | <b>189,220</b> | <b>161,398</b> | <b>161,672</b> |
| <b>Provisions</b>                                              |      |                |                |                |                |
| Pension provisions                                             | 18   | 26,007         | 41,137         | 24,720         | 40,141         |
| <b>Total net assets</b>                                        |      | <b>80,857</b>  | <b>55,915</b>  | <b>80,656</b>  | <b>52,563</b>  |
| <b>Restricted reserves</b>                                     |      |                |                |                |                |
| Income and expenditure – endowment reserve                     | 19   | 11,431         | 10,720         | 9,593          | 8,891          |
| Income and expenditure – restricted reserve                    | 20   | 8,653          | 10,502         | 8,503          | 10,502         |
| <b>Unrestricted reserves</b>                                   |      |                |                |                |                |
| Income and expenditure - unrestricted                          |      | 57,715         | 31,635         | 59,685         | 30,295         |
| Revaluation reserve                                            |      | 3,058          | 3,058          | 2,875          | 2,875          |
| <b>Total reserves</b>                                          |      | <b>80,857</b>  | <b>55,915</b>  | <b>80,656</b>  | <b>52,563</b>  |

The accounting policies on pages 46-50 and the notes on pages 51-69 form an integral part of these financial statements, which were approved by the University Court on 13 December 2018 and signed on its behalf by:

**Professor Richard A. Williams**  
Principal and Vice-Chancellor

13 December 2018

**Dame Frances Cairncross**  
Chair of Court

13 December 2018

**Andrew Menzies**  
Director of Finance

13 December 2018

## Consolidated Statement of Cash Flows for the year ended 31 July 2018

|                                                                     |      | Consolidated & University |               |
|---------------------------------------------------------------------|------|---------------------------|---------------|
|                                                                     |      | 2018                      | 2017          |
|                                                                     | Note | £000                      | £000          |
| <b>Cash flow from operating activities</b>                          |      |                           |               |
| Surplus/(Loss) for the year                                         |      | 9,637                     | (5,228)       |
| <b>Adjustment for non-cash items</b>                                |      |                           |               |
| Depreciation and impairment of tangible fixed assets                | 11   | 10,484                    | 12,741        |
| (Gain) on restatement of tangible fixed assets in overseas entities | 11   | (164)                     | -             |
| (Increase) in fixed asset investments                               | 12   | (714)                     | (4,180)       |
| Decrease in short term investments                                  |      | -                         | 698           |
| Decrease in stock                                                   | 13   | 4                         | -             |
| (Increase)/decrease in debtors                                      | 14   | (1,707)                   | 1,008         |
| Increase/(decrease) in creditors within one year                    | 16   | 385                       | (13,170)      |
| increase in creditors after one year                                | 17   | 1,771                     | 92,375        |
| (Decrease) in provisions                                            | 18   | (15,131)                  | (6,038)       |
| (Gain) on derivatives                                               |      | -                         | (1,766)       |
| (Gain) on investment land revaluation                               | 12   | (800)                     | (1,030)       |
| Actuarial gain in respect of pension schemes                        | 18   | 15,305                    | 6,911         |
| <b>Adjustment for investing or financing activities</b>             |      |                           |               |
| Interest receivable                                                 | 5    | (1,097)                   | (563)         |
| Net return on pension assets                                        | 26   | 981                       | 1,012         |
| Interest payable                                                    | 8    | 3,623                     | 2,845         |
| Loss on disposal of tangible fixed assets                           |      | (37)                      | -             |
| Net amounts drawn down                                              |      | (2,183)                   | (112,200)     |
| Repayments of amounts borrowed                                      |      | 45                        | 44,870        |
| <b>Net cash inflow from operating activities</b>                    |      | <b>20,402</b>             | <b>18,285</b> |
| <b>Cash flows from investing activities</b>                         |      |                           |               |
| Payments to acquire fixed assets                                    | 11   | (26,399)                  | (16,282)      |
| Payments to acquire intangible assets and goodwill                  |      | (6)                       | -             |
| Proceeds from sale of fixed assets                                  |      | 37                        | -             |
| Interest receivable                                                 | 5    | 1,097                     | 563           |
| Disposals of fixed asset investments                                | 12   | 2,090                     | -             |
| Net return on pension assets                                        | 26   | (981)                     | (1,012)       |
|                                                                     |      | (24,162)                  | (16,731)      |
| <b>Cash flows from financing activities</b>                         |      |                           |               |
| Interest payable                                                    | 8    | (3,623)                   | (2,845)       |
| Disposal of current asset investments                               | 15   | 962                       | -             |
| Net amounts drawn down                                              |      | 2,183                     | 112,200       |
| Repayments of amounts borrowed                                      |      | (45)                      | (44,870)      |
|                                                                     |      | (523)                     | 64,485        |
| <b>(Decrease)/Increase in cash and cash equivalents in the year</b> |      | <b>(4,283)</b>            | <b>66,039</b> |
| Cash and cash equivalents at beginning of the year                  |      | 81,648                    | 15,609        |
| Cash and cash equivalents at end of the year                        |      | 77,365                    | 81,648        |

The accounting policies on pages 46-50 and the notes on pages 51-69 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. The financial statements also conform to guidance published by the Scottish Funding Council. The financial statements are prepared in sterling and rounded to the nearest thousand pounds.

### 2. Basis of consolidation

The consolidated financial statements include the University and all of its subsidiaries for the financial year to 31 July 2018. 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 Student 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).

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 Group has implemented arrangements to meet the UK statutory requirement for employers to automatically enrol certain workers who are not already pension scheme members into a qualifying pension scheme. In addition to the existing pension schemes, both the University and Edinburgh Business School allow staff to opt to join the National Employment Savings Trust (NEST).

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

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 institution participates in Universities Superannuation Scheme. The scheme is a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 'Employee benefits', the institution therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme. Since the institution has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the institution recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

##### 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 based on 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 Scottish Teachers' Superannuation Scheme, an unfunded multi-employer defined benefit statutory public service pension scheme with benefits underwritten by the UK Government. Because of the nature of the scheme, the University is unable to identify its share of the underlying assets and liabilities 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 Statement of Comprehensive Income and Expenditure is equal to the total of contributions payable by the employer in the year.

##### d. National Employment Savings Trust (NEST)

The scheme is a defined contribution scheme into which both the employer and the employee make a contribution. The cost charged to the statement of comprehensive Income and Expenditure is equal to the total of contributions payable by the employer in the year.

##### e. Heriot-Watt Services Limited defined contribution pension scheme

Employees of Heriot-Watt Services can join that company's defined contribution pension scheme, into which both the employer and the employee make a contribution. Being a defined contribution scheme, the cost charged to the statement of comprehensive Income and Expenditure is equal to the total of contributions payable by the employer 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, such as holiday entitlements earned but not taken at the balance sheet date, 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 based on 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.

### b. 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 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 readily obtainable.

## 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:

- the University has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- 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 Charities and Trustee Investment (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.

Neither the University nor its subsidiaries receive any 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 not exempt from taxation. The subsidiaries, other than Edinburgh Business School and Heriot-Watt Malaysia Sdn Bhd, pay to the University, under the Gift Aid scheme, amounts as agreed by the directors of each subsidiary company. The charge for taxation is based on the taxable profit or loss for the year after the cost of any Gift Aid payment payable to the University.

#### 17. Derivatives and financial instruments

Historically, the Group has purchased interest rate swaps to manage interest rate risk volatility. Following the refinancing of the existing loans in December 2016, the interest rate swaps were redeemed.

At 31 July 2016, the Interest rate swaps were held on the Balance Sheet at fair value, with the deficit movement in fair value to that date having been recorded as other expenditure in the Statement of Comprehensive Income and Expenditure.

On redemption of the interest rate swaps in December 2016, the gain arising from the difference between the book value and the cost of the redemption was recorded as other income in the Statement of Comprehensive Income and Expenditure.

#### 18. Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances that, 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. Key sources of estimation, uncertainty and critical judgements in applying accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future period.

##### a. Key sources of estimation uncertainty:

##### • Fixed Assets

Fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual value, where appropriate. The actual lives of assets and any residual value are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation and maintenance programmes are taken into account.

##### • Investment property

Investment properties are revalued according to market conditions as at 31 July each year. That valuation is informed by an externally sourced, professional property valuation.

##### • Impairment of debtors

The University makes an estimate for the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors and historical experience of collection success.

##### • Defined benefit pension

The Group has obligations to pay pension benefits to certain employees and to reflect the net funding position of the Lothian Pension Fund and of certain unfunded legacy pension arrangements. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds are determined using actuarial



valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the evaluation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty.

- **Provision for the USS Deficit Recovery plan**

The Group has made a provision in the financial statements, related to the contractual obligation to fund the past USS deficit. 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, adjusts according to management judgement of estimated changes in staffing levels and pay increases, and is discounted based on corporate bond levels having a maturity of a similar length to the recovery plan. 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.

Given that the triennial valuation, as at 31 March 2017, has not yet formally been completed, there is additional uncertainty over the extent of the scheme's current deficit and therefore over the adequacy of the provision in these accounts to recognise a liability for the contributions that arise from the

agreement to meet the future obligations to fund the scheme to the extent that they relate to the deficit. The potential financial impact of that uncertainty is quantified in the sensitivity analysis included in note 25.

- b. **Critical accounting judgements in applying the accounting policies**

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 Universities Superannuation Scheme. 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 in profit or loss in accordance with section 28 of FRS 102. The directors are satisfied that Universities Superannuation Scheme 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.

## Notes to the accounts

### 1. Tuition fees and education contracts

|                                  | Consolidated   |                | University    |               |
|----------------------------------|----------------|----------------|---------------|---------------|
|                                  | 2018<br>£000   | 2017<br>£000   | 2018<br>£000  | 2017<br>£000  |
| Home and EU Students             | 17,281         | 18,622         | 17,106        | 18,468        |
| Rest of UK Students              | 14,155         | 13,506         | 14,155        | 13,506        |
| International Students           | 73,766         | 67,072         | 62,224        | 58,238        |
| Higher education contracts       | 7,211          | 7,847          | -             | -             |
| Research training support grants | 1,795          | 1,479          | 1,792         | 1,479         |
| Short course fees                | 272            | 448            | 227           | 363           |
| Examination and graduation fees  | 3,344          | 3,935          | 960           | 1,354         |
|                                  | <b>117,824</b> | <b>112,909</b> | <b>96,464</b> | <b>93,408</b> |

### 2. Funding body grants

|                                            | Consolidated  |               | University    |               |
|--------------------------------------------|---------------|---------------|---------------|---------------|
|                                            | 2018<br>£000  | 2017<br>£000  | 2018<br>£000  | 2017<br>£000  |
| SFC teaching grants                        | 26,950        | 26,907        | 26,950        | 26,907        |
| SFC research and knowledge exchange grants | 16,989        | 16,438        | 16,989        | 16,439        |
| Release of deferred capital grants         | 2,101         | 2,109         | 2,094         | 2,107         |
| Other grants                               | 1,240         | 1,974         | 1,243         | 1,974         |
|                                            | <b>47,280</b> | <b>47,428</b> | <b>47,276</b> | <b>47,427</b> |

### 3. Research grants and contracts

|                   | Consolidated  |               | University    |               |
|-------------------|---------------|---------------|---------------|---------------|
|                   | 2018<br>£000  | 2017<br>£000  | 2018<br>£000  | 2017<br>£000  |
| Research councils | 14,366        | 13,937        | 14,367        | 13,937        |
| Charities         | 1,634         | 1,567         | 1,634         | 1,567         |
| UK Government     | 1,976         | 1,952         | 1,976         | 1,952         |
| UK Industry       | 3,627         | 2,490         | 3,574         | 2,490         |
| EU Commission     | 5,549         | 3,829         | 5,549         | 3,829         |
| EU other          | 701           | 622           | 701           | 622           |
| Other overseas    | 2,328         | 1,827         | 2,328         | 1,827         |
| Other sources     | 1,243         | 883           | 1,194         | 840           |
|                   | <b>31,424</b> | <b>27,107</b> | <b>31,323</b> | <b>27,064</b> |

### 4. Other income

|                                                  | Consolidated  |               | University    |               |
|--------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                  | 2018<br>£000  | 2017<br>£000  | 2018<br>£000  | 2017<br>£000  |
| Residences, catering and conferences             | 18,019        | 17,711        | 17,361        | 16,952        |
| Income from governments and other funding bodies | 1,184         | 1,513         | 986           | 1,020         |
| Release of deferred capital grants               | 1,799         | 1,508         | 964           | 806           |
| Other commercial income                          | 3,535         | 6,835         | 1,790         | 3,244         |
| Sports and exercise                              | 2,825         | 1,927         | -             | -             |
| Other income, including foreign currency gains   | 2,003         | 2,415         | 3,888         | 4,353         |
|                                                  | <b>29,365</b> | <b>31,909</b> | <b>24,989</b> | <b>26,375</b> |

## 5. Investment income

|                                          | Consolidated |              | University   |              |
|------------------------------------------|--------------|--------------|--------------|--------------|
|                                          | 2018<br>£000 | 2017<br>£000 | 2018<br>£000 | 2017<br>£000 |
| Investment income on endowments          | 387          | 366          | 300          | 284          |
| Investment income on restricted reserves | 40           | 40           | 40           | 40           |
| Other investment income                  | 670          | 562          | 775          | 624          |
|                                          | <b>1,097</b> | <b>968</b>   | <b>1,115</b> | <b>948</b>   |

## 6. Endowments and donations

|                             | Consolidated |              | University   |              |
|-----------------------------|--------------|--------------|--------------|--------------|
|                             | 2018<br>£000 | 2017<br>£000 | 2018<br>£000 | 2017<br>£000 |
| New endowments              | 217          | -            | 217          | -            |
| Donations with restrictions | 1,093        | 660          | 836          | 599          |
| Unrestricted donations      | 3            | 237          | 3            | 208          |
|                             | <b>1,313</b> | <b>897</b>   | <b>1,056</b> | <b>807</b>   |

## 7. Staff costs

|                                              | Consolidated   |                | University    |                |
|----------------------------------------------|----------------|----------------|---------------|----------------|
|                                              | 2018<br>£000   | 2017<br>£000   | 2018<br>£000  | 2017<br>£000   |
| Salaries                                     | 86,578         | 86,740         | 76,602        | 77,204         |
| Social security costs                        | 7,485          | 7,588          | 6,970         | 7,097          |
| Staff restructuring costs                    | 494            | 5,909          | 443           | 5,647          |
| Other severance costs                        | -              | 55             | -             | 55             |
| Employer's pension contributions (note 26):  |                |                |               |                |
| USS                                          | 9,661          | 9,928          | 9,083         | 9,368          |
| LPF                                          | 2,940          | 3,214          | 2,855         | 3,143          |
| Other                                        | 575            | 584            | 45            | 42             |
| Movement in pension provisions (note 18):    |                |                |               |                |
| (Decrease) in USS provision                  | (2,741)        | (1,970)        | (2,659)       | (1,873)        |
| Increase in LPF pension deficit              | 1,971          | 1,861          | 1,921         | 1,811          |
| (Decrease) in other pension provisions       | (37)           | (28)           | (37)          | (28)           |
| <b>Total staff costs</b>                     | <b>106,926</b> | <b>113,881</b> | <b>95,223</b> | <b>102,466</b> |
| <b>Analysed between staff working in:</b>    |                |                |               |                |
| Academic schools                             | 79,541         | 81,064         | 70,973        | 72,672         |
| Administrative and central service functions | 18,180         | 23,910         | 15,236        | 21,033         |
| Premises functions                           | 4,581          | 3,799          | 4,473         | 3,739          |
| Residences and catering                      | 4,624          | 5,108          | 4,541         | 5,022          |
| <b>Total staff costs</b>                     | <b>106,926</b> | <b>113,881</b> | <b>95,223</b> | <b>102,466</b> |

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

|                                              | Consolidated   |                | University     |                |
|----------------------------------------------|----------------|----------------|----------------|----------------|
|                                              | 2018<br>Number | 2017<br>Number | 2018<br>Number | 2017<br>Number |
| Academic schools                             | 1,329          | 1,356          | 1,115          | 1,167          |
| Administrative and central service functions | 480            | 490            | 359            | 382            |
| Premises functions                           | 148            | 166            | 141            | 160            |
| Residences and catering                      | 118            | 130            | 114            | 127            |
| <b>Total staff costs</b>                     | <b>2,075</b>   | <b>2,142</b>   | <b>1,729</b>   | <b>1,836</b>   |

**EMOLUMENTS OF PRINCIPAL AND VICE-CHANCELLOR****Professor Richard A Williams, Principal from 1 September 2015**

Salary  
 Bonus  
 Benefits  
 Pension contributions to USS\*

| Consolidated & University |              |
|---------------------------|--------------|
| 2018<br>£000              | 2017<br>£000 |
| 269                       | 265          |
| -                         | 10           |
| 13                        | 10           |
| -                         | -            |
| 282                       | 285          |

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

**KEY MANAGEMENT PERSONNEL**

Aggregate key management personnel compensation,  
 including salary, benefits and employers' pension contributions

| Consolidated & University |              |
|---------------------------|--------------|
| 2018<br>£000              | 2017<br>£000 |
| 645                       | 654          |

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.

**PAY MULTIPLES**

The University is required to disclose the relationship between the remuneration of the highest-paid officer in the organisation and the median remuneration of the organisation's workforce:

Highest paid officer's remuneration (Principal and Vice-Chancellor)  
 Median total remuneration  
 Ratio  
 Remuneration includes salary and bonuses.

| Consolidated & University |              |
|---------------------------|--------------|
| 2018<br>£000              | 2017<br>£000 |
| 269                       | 275          |
| 37                        | 38           |
| 7:1                       | 7:1          |

**REMUNERATION OF HIGHER PAID STAFF, excluding pension contributions****Consolidated**

£100,001 - £110,000  
 £110,001 - £120,000  
 £120,001 - £130,000  
 £130,001 - £140,000  
 £140,001 - £150,000  
 £150,001 - £160,000  
 £160,001 - £170,000  
 £170,001 - £180,000  
 £180,001 - £190,000  
 £260,001 - £270,000  
 £280,001 - £290,000

**University**

£100,001 - £110,000  
 £110,001 - £120,000  
 £120,001 - £130,000  
 £130,001 - £140,000  
 £140,001 - £150,000  
 £150,001 - £160,000  
 £170,001 - £180,000  
 £180,001 - £190,000  
 £260,000 - £270,000  
 £280,001 - £290,000

| 2018<br>Number           |             | 2017<br>Number           |             |
|--------------------------|-------------|--------------------------|-------------|
| Key management personnel | Other staff | Key management personnel | Other staff |
| -                        | 17          | -                        | 16          |
| -                        | 10          | -                        | 8           |
| -                        | 8           | -                        | 9           |
| 1                        | 7           | 1                        | 5           |
| -                        | 2           | -                        | 1           |
| -                        | 1           | -                        | 2           |
| -                        | 1           | -                        | 1           |
| 1                        | 1           | -                        | -           |
| -                        | -           | 1                        | 1           |
| -                        | -           | -                        | -           |
| -                        | -           | -                        | -           |
| 1                        | -           | 1                        | -           |
| 3                        | 47          | 3                        | 43          |
|                          |             |                          |             |
| -                        | 16          | -                        | 16          |
| -                        | 10          | -                        | 8           |
| -                        | 8           | -                        | 8           |
| 1                        | 6           | 1                        | 3           |
| -                        | 2           | -                        | 1           |
| -                        | 1           | -                        | 2           |
| 1                        | -           | 1                        | 1           |
| -                        | -           | -                        | -           |
| -                        | -           | -                        | -           |
| 1                        | -           | 1                        | -           |
| 3                        | 43          | 3                        | 39          |

**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 14 and 16 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 (2017; nil).



**8. Interest payable and other finance costs**

|                               | Consolidated |              | University   |              |
|-------------------------------|--------------|--------------|--------------|--------------|
|                               | 2018<br>£000 | 2017<br>£000 | 2018<br>£000 | 2017<br>£000 |
| Loan interest                 | 3,580        | 2,845        | 3,603        | 2,987        |
| Net charge on pension assets  | 981          | 1,012        | 960          | 983          |
| (Gain)/loss on derivatives    | -            | (1,766)      | -            | (1,766)      |
| Investment management charges | 43           | 435          | -            | 390          |
|                               | <b>4,604</b> | <b>2,526</b> | <b>4,563</b> | <b>2,594</b> |

**9. Analysis of operating expenses by activity**

|                                                      | Consolidated  |               | University    |               |
|------------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                      | 2018<br>£000  | 2017<br>£000  | 2018<br>£000  | 2017<br>£000  |
| Academic departments                                 | 16,471        | 17,953        | 10,220        | 10,564        |
| Academic services                                    | 8,812         | 8,197         | 8,405         | 7,840         |
| Administration and central services                  | 39,476        | 36,640        | 29,733        | 29,820        |
| Premises                                             | 18,570        | 19,899        | 15,459        | 15,980        |
| Residences, catering and conferences                 | 4,542         | 4,494         | 4,037         | 3,915         |
| Research grants and contracts                        | 11,063        | 11,779        | 11,047        | 11,793        |
|                                                      | <b>98,934</b> | <b>98,962</b> | <b>78,901</b> | <b>79,912</b> |
| Other operating expenses include:                    |               |               |               |               |
| External auditor's remuneration - audit              | 81            | 65            | 46            | 31            |
| External auditor's remuneration – non-audit services | 68            | 45            | 13            | 45            |
| Internal auditor's remuneration                      | 93            | 93            | 93            | 93            |
| Operating lease rentals                              |               |               |               |               |
| - Land & Buildings                                   | 4,003         | 2,225         | 1658          | 1,702         |
| - Other                                              | 327           | 163           | 134           | 163           |

**10. Taxation**

|                                          | Consolidated & University |              |
|------------------------------------------|---------------------------|--------------|
|                                          | 2018<br>£000              | 2017<br>£000 |
| UK Corporation tax at 19% (2017: 19.67%) | (756)                     | 559          |
| Provision for withholding tax            | -                         | 568          |
|                                          | <b>(756)</b>              | <b>1,127</b> |

**11. Fixed assets**

| Consolidated              | Land and<br>Buildings<br>£000 | Equipment<br>£000 | Assets in the<br>course of<br>construction<br>£000 | Total<br>£000  |
|---------------------------|-------------------------------|-------------------|----------------------------------------------------|----------------|
| <b>Cost or valuation</b>  |                               |                   |                                                    |                |
| At 1 August 2017          | 266,990                       | 59,232            | 13,512                                             | 339,734        |
| Additions                 | -                             | 3,092             | 23,307                                             | 26,399         |
| Transfers                 | 11,049                        | 1,197             | (12,246)                                           | -              |
| Foreign exchange movement | 131                           | 161               | (1)                                                | 291            |
| Disposals                 | -                             | (8)               | -                                                  | (8)            |
| <b>At 31 July 2018</b>    | <b>278,170</b>                | <b>63,674</b>     | <b>24,572</b>                                      | <b>366,416</b> |
| <b>Depreciation</b>       |                               |                   |                                                    |                |
| At 1 August 2017          | 90,572                        | 47,818            | -                                                  | 138,390        |
| Charge for year           | 6,913                         | 3,568             | -                                                  | 10,481         |
| Foreign exchange movement | 15                            | 105               | -                                                  | 120            |
| Disposals                 | -                             | 2                 | -                                                  | 2              |
| <b>At 31 July 2018</b>    | <b>97,500</b>                 | <b>51,493</b>     | <b>-</b>                                           | <b>148,993</b> |
| <b>Net Book Value</b>     |                               |                   |                                                    |                |
| <b>At 31 July 2018</b>    | <b>180,670</b>                | <b>12,181</b>     | <b>24,572</b>                                      | <b>217,423</b> |
| At 1 August 2017          | <b>176,418</b>                | <b>11,414</b>     | <b>13,512</b>                                      | <b>201,344</b> |
| <b>University</b>         |                               |                   |                                                    |                |
| <b>Cost or valuation</b>  |                               |                   |                                                    |                |
| At 1 August 2017          | 221,853                       | 54,874            | 10,124                                             | 286,851        |
| Additions                 | -                             | 3,003             | 17,830                                             | 20,833         |
| Transfers                 | 10,184                        | 1,017             | (11,201)                                           | -              |
| Disposals                 | -                             | -                 | -                                                  | -              |
| <b>At 31 July 2018</b>    | <b>232,037</b>                | <b>58,894</b>     | <b>16,753</b>                                      | <b>307,684</b> |
| <b>Depreciation</b>       |                               |                   |                                                    |                |
| At 1 August 2017          | 82,600                        | 45,362            | -                                                  | 127,962        |
| Charge for year           | 5,771                         | 2,906             | -                                                  | 8,677          |
| Disposals                 | -                             | -                 | -                                                  | -              |
| <b>At 31 July 2018</b>    | <b>88,371</b>                 | <b>48,268</b>     | <b>-</b>                                           | <b>136,639</b> |
| <b>Net Book Value</b>     |                               |                   |                                                    |                |
| <b>At 31 July 2018</b>    | <b>143,666</b>                | <b>10,626</b>     | <b>16,753</b>                                      | <b>171,045</b> |
| At 1 August 2017          | <b>139,253</b>                | <b>9,512</b>      | <b>10,124</b>                                      | <b>158,889</b> |

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

Included in cost for the Group is £24,572,000 (2017: £13,513,000) relating to assets in the course of construction, of which £22,908,000 (2017: £11,603,000) relates to freehold land and buildings and £1,387,000 (2017: £1,910,000) relates to equipment.

At 31 July 2018 land and buildings for the group included £5,852,397 (31 July 2017, £5,160,000) in respect of freehold land which is not depreciated.

## 12. Non-current investments

|                         | Long/ medium<br>term<br>investments<br>£000 | Investment<br>in UK<br>subsidiaries<br>£000 | Heriot-Watt<br>University<br>Malaysia<br>Sdn Bhd<br>£000 | Minority<br>investments in<br>unquoted<br>companies<br>£000 | Investment<br>properties<br>£000 | Total<br>£000 |
|-------------------------|---------------------------------------------|---------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------|----------------------------------|---------------|
| <b>Consolidated</b>     |                                             |                                             |                                                          |                                                             |                                  |               |
| <b>At 1 August 2017</b> | 22,046                                      | -                                           | -                                                        | 35                                                          | 11,450                           | 33,531        |
| Additions               | -                                           | -                                           | -                                                        | 1                                                           | -                                | 1             |
| Appreciation            | 714                                         | -                                           | -                                                        | -                                                           | 800                              | 1,514         |
| Disposals               | (2,090)                                     | -                                           | -                                                        | -                                                           | -                                | (2,090)       |
| <b>At 31 July 2018</b>  | <b>20,670</b>                               | <b>-</b>                                    | <b>-</b>                                                 | <b>36</b>                                                   | <b>12,250</b>                    | <b>32,956</b> |
| <b>University</b>       |                                             |                                             |                                                          |                                                             |                                  |               |
| <b>At 1 August 2017</b> | 9,253                                       | 7,000                                       | 3,553                                                    | 35                                                          | 11,450                           | 31,291        |
| Additions               | -                                           | -                                           | -                                                        | 1                                                           | -                                | 1             |
| Appreciation            | 610                                         | -                                           | 200                                                      | -                                                           | 800                              | 1,610         |
| Impairments             | -                                           | (3,796)                                     | -                                                        | -                                                           | -                                | (3,796)       |
| Gift aid received       | -                                           | (1,204)                                     | -                                                        | -                                                           | -                                | (1,204)       |
| Disposals               | (90)                                        | -                                           | -                                                        | -                                                           | -                                | (90)          |
| <b>At 31 July 2018</b>  | <b>9,773</b>                                | <b>2,000</b>                                | <b>3,753</b>                                             | <b>36</b>                                                   | <b>12,250</b>                    | <b>27,812</b> |

The University investment in subsidiary companies is stated at cost.

Minority investments in unquoted companies are stated at cost and include investments made by the group in spinout companies.

## 13. Stock

|                     | <b>Consolidated</b>  |                      | <b>University</b>    |                      |
|---------------------|----------------------|----------------------|----------------------|----------------------|
|                     | <b>2018<br/>£000</b> | <b>2017<br/>£000</b> | <b>2018<br/>£000</b> | <b>2017<br/>£000</b> |
| General consumables | 2                    | 6                    | -                    | -                    |
|                     | <b>2</b>             | <b>6</b>             | <b>-</b>             | <b>-</b>             |

## 14. Trade and other receivables

|                                               | <b>Consolidated</b>  |                      | <b>University</b>    |                      |
|-----------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                               | <b>2018<br/>£000</b> | <b>2017<br/>£000</b> | <b>2018<br/>£000</b> | <b>2017<br/>£000</b> |
| Amounts falling due within one year:          |                      |                      |                      |                      |
| Research grants receivables                   | 19,104               | 16,358               | 19,096               | 16,359               |
| Trade receivables                             | 23,799               | 26,774               | 22,188               | 24,512               |
| Trade debt provision                          | (1,785)              | (4,248)              | (1,152)              | (3,501)              |
| Prepayments and accrued income                | 10,675               | 10,931               | 10,797               | 10,374               |
| Amounts due from group undertakings           | -                    | -                    | 10,496               | 7,491                |
|                                               | <b>51,793</b>        | <b>49,815</b>        | <b>61,425</b>        | <b>55,235</b>        |
| Amounts falling due after more than one year: |                      |                      |                      |                      |
| Loans by parent undertakings                  | -                    | -                    | 12,809               | 9,280                |
| Prepayments and accrued income                | 1,903                | 2,174                | 1,903                | 2,174                |
|                                               | <b>53,696</b>        | <b>51,989</b>        | <b>76,137</b>        | <b>66,689</b>        |

Included in prepayments and accrued income is £1,903,000 (2017: £2,174,000) 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   |              |
|--------------------|--------------|--------------|--------------|--------------|
|                    | 2018<br>£000 | 2017<br>£000 | 2018<br>£000 | 2017<br>£000 |
| Short term deposit | -            | 962          | -            | 600          |
|                    | -            | 962          | -            | 600          |

**16. Creditors: amounts falling due within one year**

|                                         | Consolidated |              | University   |              |
|-----------------------------------------|--------------|--------------|--------------|--------------|
|                                         | 2018<br>£000 | 2017<br>£000 | 2018<br>£000 | 2017<br>£000 |
| Unsecured loans                         | 97           | 142          | 97           | 142          |
| Grants in advance for research          | 31,657       | 32,864       | 31,639       | 32,839       |
| Other grants in advance                 | 692          | 460          | 692          | 460          |
| Other creditors                         | 182          | -            | 182          | -            |
| Trade creditors                         | 4,171        | 3,964        | 3,319        | 3,870        |
| Other taxation and social security      | 4,048        | 4,576        | 4,127        | 3,997        |
| Accruals and deferred income            | 42,746       | 41,202       | 35,676       | 33,807       |
| Amounts owed to subsidiary undertakings | -            | -            | 1,591        | 1,028        |
|                                         | 83,593       | 83,208       | 77,323       | 76,143       |

**17. Creditors: amounts falling due after more than one year**

|                                             | Consolidated |              | University   |              |
|---------------------------------------------|--------------|--------------|--------------|--------------|
|                                             | 2018<br>£000 | 2017<br>£000 | 2018<br>£000 | 2017<br>£000 |
| Unsecured loans                             | 114,449      | 112,267      | 114,449      | 114,764      |
| Deferred income                             | 76,542       | 76,824       | 46,949       | 46,779       |
| Other creditors                             | -            | 129          | -            | 129          |
|                                             | 190,991      | 189,220      | 161,398      | 161,672      |
| Analysis of secure and unsecured bank loans |              |              |              |              |
| Due within one year or on demand            | 569          | 266          | 569          | 266          |
| Due between one and two years               | 298          | -            | 298          | -            |
| Due between two and five years              | 1,191        | -            | 1,191        | -            |
| Due in five years or more                   | 112,391      | 112,000      | 112,391      | 114,498      |
|                                             | 114,449      | 112,266      | 114,449      | 114,764      |



**18. Provisions for liabilities**

|                                              | Pension Provisions                                     |                                                      |                                                      |                 |
|----------------------------------------------|--------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|-----------------|
|                                              | Obligation to<br>fund USS deficit <sup>1</sup><br>£000 | Lothian pension<br>fund deficit <sup>2</sup><br>£000 | Unfunded<br>pension<br>benefits <sup>3</sup><br>£000 | Total<br>£000   |
| <b>Consolidated</b>                          |                                                        |                                                      |                                                      |                 |
| <b>At 1 August 2017</b>                      | 18,311                                                 | 22,459                                               | 367                                                  | 41,137          |
| Utilised in year                             | (9,661)                                                | (3,400)                                              | (37)                                                 | (13,098)        |
| Additions                                    | 7,269                                                  | (9,302)                                              | -                                                    | (2,033)         |
| <b>At 31 July 2018</b>                       | <b>15,919</b>                                          | <b>9,757</b>                                         | <b>330</b>                                           | <b>26,006</b>   |
| <b>Analysis of net movement in provision</b> |                                                        |                                                      |                                                      |                 |
| Charged to staff costs (note 7)              | (2,741)                                                | 1,971                                                | (37)                                                 | (807)           |
| Net charge on pension assets (note 8)        | 349                                                    | 632                                                  | -                                                    | 981             |
| Actuarial gain on pension schemes            | -                                                      | (15,305)                                             | -                                                    | (15,305)        |
| Total movement                               | <b>(2,392)</b>                                         | <b>(12,702)</b>                                      | <b>(37)</b>                                          | <b>(15,131)</b> |
| <b>University</b>                            |                                                        |                                                      |                                                      |                 |
| <b>At 1 August 2017</b>                      | 17,632                                                 | 22,142                                               | 367                                                  | 40,141          |
| Utilised in year                             | (9,158)                                                | (3,314)                                              | (37)                                                 | (12,509)        |
| Additions                                    | 6,837                                                  | (9,749)                                              | -                                                    | (2,912)         |
| <b>At 31 July 2018</b>                       | <b>15,311</b>                                          | <b>9,079</b>                                         | <b>330</b>                                           | <b>24,720</b>   |
| <b>Analysis of net movement in provision</b> |                                                        |                                                      |                                                      |                 |
| Charged to staff costs (note 7)              | (2,659)                                                | 1,921                                                | (37)                                                 | (775)           |
| Net return on pension assets (note 8)        | 337                                                    | 623                                                  | -                                                    | 960             |
| Actuarial gain on pension schemes            | -                                                      | (15,607)                                             | -                                                    | (15,607)        |
| Total movement                               | <b>(2,322)</b>                                         | <b>(13,063)</b>                                      | <b>(37)</b>                                          | <b>(15,422)</b> |

<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 2.21% (31 July 2017, 1.91%).

<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<br>permanent<br>endowments<br>£000 | Unrestricted<br>permanent<br>£000 | Expendable<br>endowments<br>£000 | Consolidated  |               |
|-------------------------------------------|-----------------------------------------------|-----------------------------------|----------------------------------|---------------|---------------|
|                                           |                                               |                                   |                                  | 2018          | 2017          |
|                                           |                                               |                                   |                                  | Total<br>£000 | Total<br>£000 |
| <b>Balances at 1 August 2017</b>          |                                               |                                   |                                  |               |               |
| Capital                                   | 6,054                                         | 1,829                             | 1,888                            | 9,771         | 9,636         |
| Accumulated Income                        | 564                                           | -                                 | 385                              | 949           | 375           |
|                                           | 6,618                                         | 1,829                             | 2,273                            | 10,720        | 10,011        |
| New endowments                            | 7                                             | -                                 | 210                              | 217           | -             |
| Investment income                         | 228                                           | 87                                | 72                               | 387           | 365           |
| Expenditure                               | (196)                                         | (87)                              | (158)                            | (441)         | (487)         |
|                                           | 6,657                                         | 1,829                             | 2,397                            | 10,883        | 9,889         |
| Increase in market value of investments   | 410                                           | 9                                 | 129                              | 548           | 831           |
| <b>As at 31 July 2018</b>                 | <b>7,067</b>                                  | <b>1,838</b>                      | <b>2,526</b>                     | <b>11,431</b> | <b>10,720</b> |
| <b>Represented by:</b>                    |                                               |                                   |                                  |               |               |
| Capital                                   | 6,518                                         | 1,838                             | 2,095                            | 10,451        | 9,771         |
| Accumulated income                        | 549                                           | -                                 | 431                              | 980           | 949           |
|                                           | <b>7,067</b>                                  | <b>1,838</b>                      | <b>2,526</b>                     | <b>11,431</b> | <b>10,720</b> |
| <b>Analysis by type and purpose:</b>      |                                               |                                   |                                  |               |               |
| Lectureships                              |                                               |                                   |                                  | 2,290         | 2,165         |
| Scholarships and bursaries                |                                               |                                   |                                  | 4,310         | 3,962         |
| Research support                          |                                               |                                   |                                  | -             | -             |
| Prize funds                               |                                               |                                   |                                  | 1,332         | 1,243         |
| General                                   |                                               |                                   |                                  | 3,499         | 3,350         |
|                                           |                                               |                                   |                                  | <b>11,431</b> | <b>10,720</b> |
| <b>Analysis by assets:</b>                |                                               |                                   |                                  |               |               |
| Current and non-current asset investments |                                               |                                   |                                  | 10,451        | 9,993         |
| Cash and cash equivalents                 |                                               |                                   |                                  | 980           | 727           |
|                                           |                                               |                                   |                                  | <b>11,431</b> | <b>10,720</b> |

**20. Restricted reserves**

|                                                                          | Unspent<br>capital<br>grants<br>£000 | Research<br>grants<br>£000 | Donations<br>£000 | Consolidated   |                |
|--------------------------------------------------------------------------|--------------------------------------|----------------------------|-------------------|----------------|----------------|
|                                                                          |                                      |                            |                   | 2018           | 2017           |
|                                                                          |                                      |                            |                   | Total<br>£000  | Total<br>£000  |
| <b>Balances at 1 August 2017</b>                                         | -                                    | 9,213                      | 1,289             | <b>10,502</b>  | <b>14,450</b>  |
| New grants                                                               | -                                    | -                          | -                 | -              | <b>2,312</b>   |
| New donations                                                            | -                                    | -                          | 988               | <b>988</b>     | <b>660</b>     |
| Investment income                                                        | -                                    | -                          | 40                | <b>40</b>      | <b>40</b>      |
| Capital grants utilised                                                  | -                                    | -                          | -                 | -              | <b>(20)</b>    |
| Expenditure                                                              | -                                    | (2,454)                    | (495)             | <b>(2,949)</b> | <b>(7,035)</b> |
| Increase in market value of investments                                  | -                                    | -                          | 72                | <b>72</b>      | <b>95</b>      |
|                                                                          | -                                    | (2,454)                    | 605               | <b>(1,849)</b> | <b>(3,948)</b> |
| <b>As at 31 July 2018</b>                                                | -                                    | <b>6,759</b>               | <b>1,894</b>      | <b>8,653</b>   | <b>10,502</b>  |
| <b>Analysis of other restricted funds/donations by type and purpose:</b> |                                      |                            |                   |                |                |
| Lectureships                                                             |                                      |                            |                   | -              | -              |
| Scholarships and bursaries                                               |                                      |                            |                   | <b>1,223</b>   | <b>30</b>      |
| Research support                                                         |                                      |                            |                   | <b>6,762</b>   | <b>9,213</b>   |
| Prize funds                                                              |                                      |                            |                   | -              | <b>1</b>       |
| General                                                                  |                                      |                            |                   | <b>668</b>     | <b>1,258</b>   |
|                                                                          |                                      |                            |                   | <b>8,653</b>   | <b>10,502</b>  |

**21. Cash and cash equivalents**

|                             | Consolidated & University |              |
|-----------------------------|---------------------------|--------------|
|                             | 2018<br>£000              | 2017<br>£000 |
| <b>Balances at 1 August</b> | <b>81,648</b>             | 15,609       |
| Cash flows, in year         | <b>(4,283)</b>            | 66,039       |
| <b>As at 31 July</b>        | <b>77,365</b>             | 81,648       |

**22. Capital and other commitments**

|                                                                                    | Consolidated & University |               |
|------------------------------------------------------------------------------------|---------------------------|---------------|
|                                                                                    | 2018<br>£000              | 2017<br>£000  |
| Provision has not been made for the following capital commitments at 31 July 2018: |                           |               |
| Commitments contracted                                                             | <b>15,127</b>             | <b>7,412</b>  |
| Authorised but not contracted                                                      | <b>34,780</b>             | <b>34,516</b> |
|                                                                                    | <b>49,907</b>             | <b>41,928</b> |

## 23. Lease obligations

At 31 July 2018 commitments under operating leases as follows:

|                                              | 31 July 2018               |                             |                      | 2018           | 2017           |
|----------------------------------------------|----------------------------|-----------------------------|----------------------|----------------|----------------|
|                                              | Land and buildings<br>£000 | Plant and machinery<br>£000 | Other leases<br>£000 | Total<br>£000  | Total<br>£000  |
| <b>Consolidated</b>                          |                            |                             |                      |                |                |
| <b>Payable during the year</b>               | 4,003                      | 168                         | 159                  | <b>4,330</b>   | <b>2,388</b>   |
| <b>Future minimum lease payments due:</b>    |                            |                             |                      |                |                |
| Not later than 1 year                        | 2,395                      | 199                         | 114                  | <b>2,708</b>   | <b>2,542</b>   |
| Later than 1 year and not later than 5 years | 19,003                     | 254                         | 150                  | <b>19,407</b>  | <b>14,590</b>  |
| Later than 5 years                           | 73,902                     | 0                           | 0                    | <b>73,902</b>  | <b>81,812</b>  |
| <b>Total lease payments due</b>              | <b>99,303</b>              | <b>621</b>                  | <b>423</b>           | <b>100,347</b> | <b>101,332</b> |
| <b>University</b>                            |                            |                             |                      |                |                |
| <b>Payable during the year</b>               | 1658                       | 6                           | 128                  | <b>1,792</b>   | <b>1,865</b>   |
| <b>Future minimum lease payments due:</b>    |                            |                             |                      |                |                |
| Not later than 1 year                        | 1,219                      | 7                           | 114                  | <b>1,340</b>   | <b>1,825</b>   |
| Later than 1 year and not later than 5 years | 4,326                      | 6                           | 150                  | <b>4,482</b>   | <b>5,334</b>   |
| Later than 5 years                           | 2,954                      | 0                           | 0                    | <b>2,954</b>   | <b>3,939</b>   |
| <b>Total lease payments due</b>              | <b>10,157</b>              | <b>19</b>                   | <b>392</b>           | <b>10,568</b>  | <b>12,963</b>  |

## 24. 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               | Operation of Heriot Watt's Sports Academy, under licence from Heriot-Watt Services Limited, prior to that activity being fully absorbed into Heriot-Watt Services Limited from 1 August 2018 and the company subsequently being dissolved after the balance sheet date. | 1                | 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%             |



## 25. 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 £13,350,000 (2017: £14,601,000); and is analysed as follows:

|                                         | Employers' pension contributions<br>(note 7) | Net charge on pension assets<br>(note 8) | Provision movement<br>(note 18) | Consolidated  |               |
|-----------------------------------------|----------------------------------------------|------------------------------------------|---------------------------------|---------------|---------------|
|                                         |                                              |                                          |                                 | 2018<br>£000  | 2017<br>£000  |
| Universities Superannuation Scheme      | 9,661                                        | 349                                      | (2,741)                         | 7,269         | 8,303         |
| Lothian Pension Fund                    | 2,940                                        | 632                                      | 1,971                           | 5,543         | 5,742         |
| Scottish Teachers Superannuation Scheme | 36                                           | -                                        | -                               | 36            | 43            |
| Other pension costs                     | 539                                          | -                                        | (37)                            | 502           | 513           |
|                                         | <b>13,176</b>                                | <b>981</b>                               | <b>(807)</b>                    | <b>13,350</b> | <b>14,601</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 was on 31 March 2014, of the Lothian Pension Fund (LPF) scheme on 31 March 2017, of the Scottish Teachers Superannuation Scheme on 31 March 2012 and of the Supplementary Pension Scheme (SPS) on 31 July 2004.

### a. Universities Superannuation Scheme

Heriot-Watt participates in the Universities Superannuation Scheme ('the scheme'). The scheme was a defined benefit only pension scheme until 31 March 2016, after which it was a hybrid scheme with two parts: a defined benefit section (the USS Retirement Income Builder) and a defined contribution section (USS Investment Builder). The scheme is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. 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% (2017: 18%). 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%.

The total cost charged to the statement of comprehensive income is £7,269,000 (2017: £8,303,000) as shown above.

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is at 31 March 2014 (the valuation date), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway but not yet completed.

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

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. These figures will be revised once the 2017 Scheme Valuation is complete.

Defined benefit liability numbers for the Scheme for accounting purposes have been produced using the following assumptions as at 31 March 2017 and 2018.

|                           | 2018  | 2017  |
|---------------------------|-------|-------|
| Discount rate             | 2.64% | 2.57% |
| Pensionable salary growth | N/A   | N/A   |
| Pension increases (CPI)   | 2.02% | 2.41% |

The main demographic assumption used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the Scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

|                                  | 2018                                                                                                                                                                                                                       | 2017                                               |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Mortality base table             | <p><b>Pre-retirement:</b><br/>71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.</p> <p><b>Post-retirement:</b><br/>96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females</p> | 98% of SAPS S1NA "light" YOB unadjusted for males. |
| Future improvements to mortality | CMI_2016 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% pa for males and 1.6% pa for females.                                                                                                  | CMI_2014 with a long term rate of 1.5% p.a.        |

The current life expectancies on retirement at age 65 are:

|                                   | 2018 | 2017 |
|-----------------------------------|------|------|
| Males currently aged 65 (years)   | 24.5 | 24.4 |
| Females currently aged 65 (years) | 26.0 | 26.6 |
| Males currently aged 45 (years)   | 26.5 | 26.5 |
| Females currently aged 45 (years) | 27.8 | 29.0 |

|                              | 2018    | 2017    |
|------------------------------|---------|---------|
| Scheme assets                | £63.6bn | £60.6bn |
| Total scheme liabilities     | £72.0bn | £77.5bn |
| FRS 102 total scheme deficit | £8.4bn  | £17.5bn |
| FRS 102 total funding level  | 88%     | 77%     |

In accordance with the requirements of the SORP, the University currently recognises a provision for its obligation to fund past deficits arising within the Universities Superannuation Scheme (USS). The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. Details of this provision, which has been discounted at a rate of 1.91% as at 31 July 2018, are included in note 18 to the financial statements.

The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges. In the judgement of the University, as the 2017 valuation has not formally completed, and there remain various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contributions required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation. However, there is a significant risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. The University expects to have greater clarity in this respect during the next financial year. Based on the inputs to the model, the following sensitivity analysis outlines the potential impact on the existing liability of £15.9 million (assuming the same discount rate of 2.21%) and of the potential charge to the income statement:

| Change in assumptions at 31 July 2018:                                                               | Estimate of increase/(reduction) in Provision to fund USS deficit recovery (£000) |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Increase of 1% in employers contribution                                                             | (838)                                                                             |
| Increase in the element of the employers' contribution relating to deficit reduction from 2.1% to 6% | 29,564                                                                            |
| Increase in the deficit repayment term from 12 years to 20 years                                     | 10,368                                                                            |

**b. 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 based on 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 2018.

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

|          | 2018 | 2017 |
|----------|------|------|
| Equities | 77%  | 78%  |
| Bonds    | 10%  | 12%  |
| Property | 7%   | 6%   |
| Cash     | 6%   | 4%   |

**The major assumptions at 31 July 2018 used by the actuary**

|                       | 2018 | 2017 |
|-----------------------|------|------|
| Pension increase rate | 2.4% | 2.5% |
| Salary increase rate  | 4.1% | 4.5% |
| Discount rate         | 2.8% | 2.7% |

**Life expectancy**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI2016 model with an allowance for smoothing of recent mortality experience and long-term rate of 1.25%p.a.

|                    | Males      | Females    |
|--------------------|------------|------------|
| Current Pensioners | 21.7 years | 24.3 years |
| Future Pensioners* | 24.7 years | 27.5 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 VitaCurves with an allowance for future improvements as shown below:

| Period ending | Prospective pensioners                                                                                                             | Pensioners                                                                                                                |
|---------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| 31 July 2017  | CMI2012 model assuming that the current rate of improvement has reached a peak and will converge to a long term rate of 1.25% p.a. | CMI2012 model assuming current rate of improvement has reached a peak and will converge to a long term rate of 1.25% p.a. |

The mortality assumptions used to value the obligations in the employer's closing position are different to those used to value the obligations in the employer's opening position.

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

| Period Ended 31 July                                                       | 2018           |                     |                                   | 2017           |                     |                                   |
|----------------------------------------------------------------------------|----------------|---------------------|-----------------------------------|----------------|---------------------|-----------------------------------|
|                                                                            | Assets<br>£000 | Obligations<br>£000 | Net Asset/<br>(Liability)<br>£000 | Assets<br>£000 | Obligations<br>£000 | Net Asset/<br>(Liability)<br>£000 |
| <b>Opening Position as at 31 July, previous year</b>                       |                |                     |                                   |                |                     |                                   |
| Fair value of plan assets                                                  | 124,193        | -                   | 124,193                           | 110,158        | -                   | 110,158                           |
| Present value of funded liabilities                                        | -              | (146,437)           | (146,437)                         | -              | (136,759)           | (136,759)                         |
| Present value of unfunded liabilities                                      | -              | (215)               | (215)                             | -              | (241)               | (241)                             |
|                                                                            | 124,193        | (146,652)           | (22,459)                          | 110,158        | (137,000)           | (26,842)                          |
| <b>Defined benefit costs recognised in Profit or (Loss)</b>                |                |                     |                                   |                |                     |                                   |
| Service Cost                                                               |                |                     |                                   |                |                     |                                   |
| Current service cost*                                                      | -              | (5,146)             | (5,146)                           | -              | (5,071)             | (5,071)                           |
| Past service cost (including curtailments)                                 | -              | (225)               | (225)                             | -              | (4)                 | (4)                               |
|                                                                            | -              | (5,371)             | (5,371)                           | -              | (5,075)             | (5,075)                           |
| Net interest                                                               |                |                     |                                   |                |                     |                                   |
| Interest income on plan assets                                             | 3,360          | -                   | 3,360                             | 2,652          | -                   | 2,652                             |
| Interest cost on defined benefit obligation                                | -              | (3,992)             | (3,992)                           | -              | (3,319)             | (3,319)                           |
|                                                                            | 3,360          | (3,992)             | (632)                             | 2,652          | (3,319)             | (667)                             |
|                                                                            | 3,360          | (9,363)             | (6,003)                           | 2,652          | (8,394)             | (5,742)                           |
| <b>Cashflows</b>                                                           |                |                     |                                   |                |                     |                                   |
| Plan participants' contributions                                           | 736            | (736)               | -                                 | 793            | (793)               | -                                 |
| Employer contributions                                                     | 3,386          | -                   | 3,386                             | 3,200          | -                   | 3,200                             |
| Contributions in respect of unfunded benefits                              | 14             | -                   | 14                                | 14             | -                   | 14                                |
| Benefits paid                                                              | (3,492)        | 3,492               | -                                 | (3,316)        | 3,316               | -                                 |
| Unfunded benefits paid                                                     | (14)           | 14                  | -                                 | (14)           | 14                  | -                                 |
|                                                                            | 630            | 2,770               | 3,400                             | 677            | 2,537               | 3,214                             |
| <b>Expected closing position</b>                                           | 128,183        | (153,245)           | (25,062)                          | 113,487        | (142,857)           | (29,370)                          |
| Remeasurements                                                             |                |                     |                                   |                |                     |                                   |
| Changes in demographic assumptions                                         | -              | (50)                | (50)                              | -              | -                   | -                                 |
| Changes in financial assumptions                                           | -              | 6,991               | 6,991                             | -              | (3,816)             | (3,816)                           |
| Other experience                                                           | -              | 7,917               | 7,917                             | -              | 21                  | 21                                |
| Return on assets excluding amounts included in net interest                | 447            | -                   | 447                               | 10,706         | -                   | 10,706                            |
| <b>Total remeasurements recognised in Other Comprehensive Income (OCI)</b> | 447            | 14,858              | 15,305                            | 10,706         | (3,795)             | 6,911                             |
| <b>Closing Position as at 31 July 2018</b>                                 | 128,630        | (138,387)           | (9,757)                           | 124,193        | (146,652)           | (22,459)                          |
| <b>Represented by:</b>                                                     |                |                     |                                   |                |                     |                                   |
| Fair value of plan assets                                                  | 128,630        | -                   | 128,630                           | 124,193        | -                   | 124,193                           |
| Present value of funded liabilities                                        | -              | (138,183)           | (138,183)                         | -              | (146,437)           | (146,437)                         |
| Present value of unfunded liabilities**                                    | -              | (204)               | (204)                             | -              | (215)               | (215)                             |
| <b>Closing position as at 31 July</b>                                      | 128,630        | (138,387)           | (9,757)                           | 124,193        | (146,652)           | (22,459)                          |

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

\*\* The liability comprises of approximately £204,000 in respect of LGPS unfunded pensions £0 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 July 2018, 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 2018 | Liability split (%)<br>as at 31 July 2018 | Weighted average duration<br>at previous formal valuation |
|-------------------|----------------------------------------------|-------------------------------------------|-----------------------------------------------------------|
| Active members    | 78,569                                       | 56.9%                                     | 23.9                                                      |
| Deferred members  | 16,401                                       | 11.9%                                     | 24.4                                                      |
| Pensioner members | 43,213                                       | 31.3%                                     | 11.8                                                      |
| <b>Total</b>      | <b>138,183</b>                               | <b>100.0%</b>                             | <b>19.7</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 date of the most recent actuarial valuation of the employer.

#### Analysis of projected amount to be charged to operating profit for the period to 31 July 2019

##### Period Ended 31 July 2019

|                                             | Assets<br>£000 | Obligations<br>£000 | Net (liability)/asset |                |
|---------------------------------------------|----------------|---------------------|-----------------------|----------------|
|                                             |                |                     | £000                  | % of pay       |
| Projected Current service cost*             | -              | (4,665)             | (4,665)               | (37.2)%        |
| <b>Total Service Cost</b>                   | -              | <b>(4,665)</b>      | <b>(4,665)</b>        | <b>(37.2)%</b> |
| Interest income on plan assets              | 3,608          | -                   | 3,608                 | 28.8%          |
| Interest cost on defined benefit obligation | -              | (3,903)             | (3,903)               | (31.1)%        |
| <b>Total Net Interest Cost</b>              | <b>3,608</b>   | <b>(3,903)</b>      | <b>(295)</b>          | <b>(2.4)%</b>  |
| <b>Total Included in Profit and Loss</b>    | <b>3,608</b>   | <b>(8,568)</b>      | <b>(4,960)</b>        | <b>(39.5)%</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 £12,543,000.

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 2017), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2021 are set out in the Rate and Adjustments certificate.

The Employer's contributions are estimated for the period to 31 July 2019 to be approximately £3,117,000.

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.

The monetary amount of the projected service cost for the period to 31 July 2019 may be adjusted to take account of actual pensionable payroll for the period.

#### Sensitivity analysis

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

| Change in assumptions at 31 July 2018:     | Approximate % increase to<br>Employer Liability | Approximate monetary<br>amount (£000) |
|--------------------------------------------|-------------------------------------------------|---------------------------------------|
| 0.5% decrease in Real Discount Rate        | 10%                                             | 13,962                                |
| 0.5% increase in the Salary Increase Rate  | 2%                                              | 2,681                                 |
| 0.5% increase in the Pension Increase Rate | 8%                                              | 11,029                                |

In order to quantify the impact of a change in the financial assumptions used, the value of the scheme liabilities as at 31 July 2018 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.

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, we estimate that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. 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 predominantly apply at younger or older ages).

Please note 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.

#### Implications of the High Court judgement relating to Guaranteed Minimum Pension benefits.

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, 'GMP'. The UK Government will need to consider this outcome in conjunction with its recent consultation on GMP indexation in public sector schemes before concluding on any changes required to Local Government Pension Schemes, such as The Lothian Pension Fund.

#### C. Scottish Teachers' Superannuation Scheme

Heriot-Watt University participates in the Scottish Teachers' Superannuation Scheme, an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019.

Heriot-Watt University has no liability for other employers' obligations to the multi-employer scheme. As the scheme is unfunded, there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. Due to the nature of the scheme, the University is unable to identify its share of the underlying assets and liabilities 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 Statement of Comprehensive Income and Expenditure is equal to the total of contributions payable by the employer in the year.

The employer contribution rate from 1 September 2015 was 17.2% of pensionable pay, which includes a supplementary rate of 4.5% of employers pension contributions (for fifteen years from 1 April 2015) to meet a shortfall of £1.3 billion that was identified in the notional fund at the last valuation. While the employee rate applied is a variable it will provide an actuarial yield of 9.6% of pensionable pay.

The amount charged to the Statement of Comprehensive Income and Expenditure represents the employer's contributions payable to the scheme in respect of the year. The total contribution made for the year ended 31 July 2018 was £58,605 (2017: £73,000), of which employer's contributions totalled £35,991 (2017: £43,000) and employee's contributions totalled £22,614 (2017: £30,000). The employer's contributions include £4,884 (2017: £2,949) of outstanding contributions at the balance sheet date.

The total employer contributions received for the Scottish Teachers' scheme in the year to 31 March 2017 were £409.8 million. Contributions collected in the year to 31 March 2018 will be published in October 2018. Heriot-Watt University's level of participation in the scheme is 0% based on the proportion of employer contributions paid in 2016-17.

#### d. National Employment Savings Trust (NEST)

The University and Edinburgh Business School have implemented arrangements to meet the UK statutory requirement for employers to automatically enrol certain workers who are not already pension scheme members into a qualifying pension scheme. In addition to the existing pension schemes, staff can opt to join NEST.

A total of 79 employees were active members at the year-end. The employer's costs for the year ended 31 July 2018 was £9,522 (2017: £7,114).

#### e. 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.

The employer's costs for the year ended 31 July 2018 was £32,887 (2017: £28,764).

## 26. Events after the reporting period

### Non-adjusting Post Balance Sheet Events

- As set out in note 25, on 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. We are working with the trustees of USS to understand the extent to which the judgment crystallises additional liabilities for the USS pension scheme. The USS provision will only be impacted to the extent the change in benefits increases cash financing.
- Following an application to Companies House to strike off Heriot-Watt Sports Village Limited, the company was dissolved on 20 November 2018.

## 27. Financial instruments

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

### a. 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 amount | Contractual cash flows | Within one year | After more than one year |
|----------------------------------------------------|-----------------|------------------------|-----------------|--------------------------|
|                                                    | £000            | £000                   | £000            | £000                     |
| <b>Financial liabilities</b>                       |                 |                        |                 |                          |
| Trade creditors and other payables (less accruals) | 40,750          | -                      | 40,750          | -                        |
| Other financial liabilities                        | 114,546         | -                      | 97              | 114,449                  |
|                                                    | <b>155,296</b>  | <b>-</b>               | <b>40,847</b>   | <b>114,449</b>           |

### 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 that are not expected to fail. The maximum exposure to credit risk at the reporting date was:

---

Carrying amount

**Financial assets**

Trade debtors and other receivables  
Cash and cash equivalents  
Current investments

| 2018<br>£000   | 2017<br>£000   |
|----------------|----------------|
| 41,118         | 38,884         |
| 77,365         | 81,648         |
| -              | 962            |
| <b>118,483</b> | <b>121,494</b> |

**C. 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.

- Interest rate risk**

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

**Fixed rate instruments**

Financial assets  
Financial liabilities

| 2018<br>£000                     | 2017<br>£000     |
|----------------------------------|------------------|
| -                                | -                |
| <b>(112,000)</b>                 | <b>(112,000)</b> |
| <b>(112,000)</b>                 | <b>(112,000)</b> |
| <b>Variable rate instruments</b> |                  |
| Financial assets                 |                  |
| 20,670                           | 23,008           |
| -                                | -                |
| <b>20,670</b>                    | <b>23,008</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.

**d. 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 |                  |
|------------------------------|------------------|
| 2018<br>£000                 | 2017<br>£000     |
| 41,118                       | 38,884           |
| 77,365                       | 81,648           |
| -                            | 962              |
| (40,750)                     | (41,159)         |
| <b>(114,546)</b>             | <b>(112,409)</b> |
| <b>(36,813)</b>              | <b>(32,074)</b>  |

The following methods and assumptions were used to estimate 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.

|                                        | Childcare<br>£000 | Group<br>hardship<br>£000 | Total<br>£000 |
|----------------------------------------|-------------------|---------------------------|---------------|
| <b>At 1 August 2017</b>                | 36                | 24                        | 60            |
| Repaid to funding body                 | (36)              | (24)                      | (60)          |
| Funding council grants                 | 63                | 216                       | 279           |
| Disbursed to students                  | (145)             | (94)                      | (239)         |
| Vired between funds                    | 85                | (85)                      | 0             |
| <b>Balance unspent at 31 July 2018</b> | <b>3</b>          | <b>37</b>                 | <b>40</b>     |
| <b>Repayable to funding body</b>       | <b>3</b>          | <b>37</b>                 | <b>40</b>     |

## 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, it is inevitable that transactions will 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 donate varying amounts to assist the University in achieving its goals. All transactions involving organisations in which a member of Court or of the senior officers may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

A register of the interests of the members of Court and of the University's senior officers is maintained and regularly updated. Court Members' interests can be viewed within their individual profiles on the University's website at <https://www.hw.ac.uk/about/profile/governance/court.htm>. Included in these financial statements are the following transactions between the University and related parties where a member of the University Court or Senior Officer was also a director or trustee of the related party (as defined in Section 33 of FRS 102).

|                                        | Income<br>£000 | Expenditure<br>£000 |
|----------------------------------------|----------------|---------------------|
| <b>Year ended 31 July 2018</b>         |                |                     |
| Cala Group                             | 10             | -                   |
| Carnegie Trust                         | 78             | -                   |
| Institute of Physics Group             | 88             | 9                   |
| Non-Standard Finance plc               | 38             | -                   |
| PSB Academy                            | 13             | -                   |
| Royal Academy of Engineering           | 5              | -                   |
| Royal Botanic Gardens Edinburgh        | 4              | -                   |
| Scottish Squash and Racketball Limited | 163            | -                   |
| Social Investment Scotland             | 5              | -                   |

The University has taken advantage of the exemption allowed by FRS 102 not to disclose transactions between wholly owned group companies.

During the year, the University made grants to the Heriot-Watt Students Union totalling £603,600 (2017:£579,600).

In common with many universities, senior members of the University sit on Research Councils and other grant awarding bodies, or their sub committees, which have their own internal procedures to avoid potential conflicts of interest. The Income from such sources were:

|                                                        | Consolidated<br>2018<br>£000 |
|--------------------------------------------------------|------------------------------|
| Arts and Humanities Research Council                   | 13                           |
| Biotechnology and Biological Sciences Research Council | 233                          |
| Engineering and Physical Sciences Research Council     | 11,439                       |
| Economic and Social Research Council                   | 470                          |
| Medical Research Council                               | 188                          |
| Natural Environment Research Council                   | 466                          |
| Science and Technology Facilities Council              | 401                          |
| Other (British's Academy, Royal Societies, etc.)       | 1,157                        |





Published February 2019

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# Contact us

## HERIOT-WATT UNIVERSITY

### Edinburgh Campus

Edinburgh EH14 4AS  
0131 449 5111

### Scottish Borders Campus

Galashiels TD1 3HF  
0870 050 5152

### Orkney Campus

Old Academy, Back Road, Stromness  
Orkney Islands  
Scotland KW16 3AW  
01856 850 605

### Dubai Campus

Dubai International Academic City  
PO Box 294345  
Dubai  
UAE  
00 971 4 435 8700

### Heriot-Watt University Malaysia

No 1 Jalan Venna P5/2  
Precinct 5  
62200 Putrajaya  
Malaysia  
00 603 8894 3888  
hwum@hw.ac.uk

### Marketing and Communications

0131 451 3242  
pr@hw.ac.uk

### Student Recruitment

0131 451 3451  
edu.liaison@hw.ac.uk

### Research and Enterprise Services

0131 451 3192  
res@hw.ac.uk

*[www.hw.ac.uk](http://www.hw.ac.uk)*