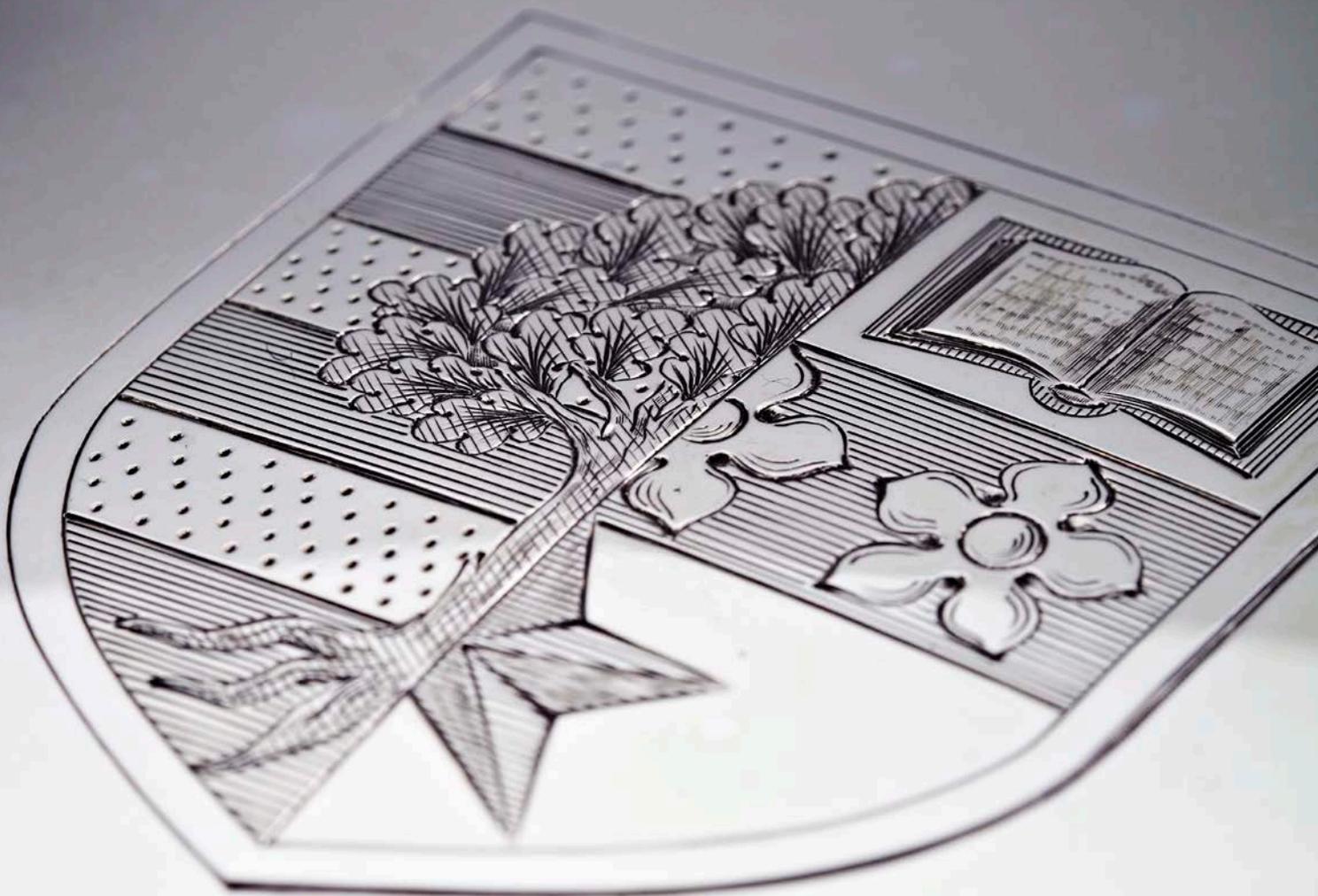


# Reports and Financial Statements

*For the year ended  
31 July 2019*





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# Introduction by Principal and Vice-Chancellor



As I reflect on our performance over the past year, despite being a period of immense change, I am heartened that Heriot-Watt University continues to perform strongly as we begin implementation of our new Strategy 2025 that was agreed in late 2018 and which provides the lens for this introduction. Our strategy is ambitious and clear. Such a strategy is needed in the current international and financial environment that is ever-changing and challenging, presenting financial risk but also opportunity for Heriot-Watt University. The unique educational offer at Heriot-Watt is for a global-minded education, studying at our different campuses in social-technological subjects that will drive our future economies. Last year student mobility between campuses grew by over 40%. This year we have seen substantial growth in partnership delivery of education in first degree apprenticeships and research degree partnership across the group.

Over recent years the University has seen sustained growth, underpinned by a welcome rise in student numbers - driven by an upward trend of fee-paying students in Edinburgh, Dubai, and particularly Malaysia; and by a notable improvement in the volume and quality of research. While, lately, those upward trends have plateaued, the ambition set out in Strategy 2025 is for a return to that growth. The outstanding level of education offered by UK-based universities is respected internationally and remains in high demand. One third of our on-campus students studying in Scotland are from outside the UK, making Heriot-Watt one of the most internationally diversified of any UK university. As a result of partnership agreements, notably with several Chinese universities, as well as the flow of inter-campus transfer students, there will be more overseas undergraduate students at the Edinburgh and Dubai campuses this coming year than ever before.

The external challenges I referred to earlier include constraints on public funding, the reduced number of 18-year-olds in the UK population, the global economic downturn in key geographic markets, uncertainty relating to Brexit and acute competition in overseas markets.

Across our global campuses, we have sought to mitigate risk through the introduction of new and refreshed taught post-graduate programmes and an intensification of our online provision. In addition, ahead we will ensure that our student offering remains highly attractive - providing greater flexibility in subject choice, location and mode of study.

Our job is to continue to push the case for future students to study at Heriot-Watt and deliver not only a world-class education but ensure they leave us with the skills and personal confidence and competencies for the global workplace. That is where our greatest strengths lie. Working closely with business and employers allows us to produce graduates who are industry ready, capable of rising to the challenges of today's world, and I am extremely proud that 95% of our graduates are in employment or further study within six-months of graduation.

## OUR FINANCIAL PERFORMANCE

The University's financial outturn for the year was a deficit before other gains and losses of £28.6m. The main contributor to the deficit for the year is a £33m charge arising from an increase in the University's provision for its contributions to a new Universities Superannuation Scheme (USS) deficit recovery plan, a charge that we know will, at least in part, reverse in the coming year, given the outcome of a more recent USS valuation concluded after the end of this financial year. After tax credits and recognition of a £7.0m unrealised actuarial loss on the Lothian Pension Fund, the total comprehensive income for the year is reported as a deficit of £34.7m.

At the end of the year, the University Group had net assets of £46.2m, a decrease of £34.7m on the previous year. That movement comprises a number of material components, including growth in the value of our fixed assets, reflecting the continuing execution of our ambitious capital development plans. Our cash reserves were boosted during the year by a positive operating cash flow of £24.9m, which meant that, despite our capital investment of £26.7m, we ended the year with cash reserves almost unchanged from the previous year.

The major driver of the reduction in net assets is, however, the £48.6m increase in pension provisions. This reflects the increases in our year-end assessment of the University's long-term obligation to fund its share of the USS recovery plan, and the actuarially assessed increase in the year-end net liability in relation to the Lothian Pension Fund mentioned above. Again, it is worth noting that the further valuation of the USS fund after the year end will result in a significant reduction in the size of that provision in the coming year.

The pension position remains a major concern from the viewpoint of future financial sustainability. It is a sensitive and complex area and we continue to urge faster and more effective reform through the representative joint negotiating body.

## STRATEGY 2025

In January this year, our global community launched our new 'Strategy 2025' – Shaping Tomorrow Together. Building on our proud history of providing access to education, ideas and solutions that make a real contribution to the world. This is the strategy of a truly international university, with five successful and connected campuses.

Our values-led strategy underpins who we are, how we behave and the ways we work together across every aspect of the University. By living our values - inspire, collaborate, belong, celebrate - we are defining our community and contributing to the University's distinctiveness.

Building on our strengths it comprises four themes, which will guide how we continue to pioneer in education, excel in research, build flourishing communities and develop our globally connected status. Some of the major developments underpinning last year's performance will be presented under these themes in this Report and you can read the Strategy 2025 in full at <https://strategy2025.hw.ac.uk>.

## BUILDING FLOURISHING COMMUNITIES

The experiences of our students and staff are at the heart of our organisation. This year we have achieved amazing things across our global community of over 28,000 students and 2,300 staff, plus an alumni community of over 132,000 people in 190 countries. Together with our Student Representative Bodies in the UK, Dubai and Malaysia we have developed an annual Student Partnership Agreement, which sets out our ambition to increase engagement; enhancing the student experience and engendering a sense of belonging to the University community.

In the National Student Survey 2019 we were one of one of the highest rising institutions, ranked 35th in the UK and 8th in Scotland for Overall Satisfaction, scoring 85.5%. These results are a testament to the students and staff who have collaborated to continuously improve the student experience at Heriot-Watt. There is still some more work to do to ensure consistency of experience across all our Schools. The refurbishment of existing

student residences has been successfully rolled out and the library refurbishment project is now complete, offering four floors of excellent study spaces, allowing us to keep pace with the growth in student numbers. Although a UK based survey, we now run NSS equivalent surveys across the whole group, including in Dubai and Malaysia.

Throughout 2019, we have been celebrating our Year of Health, promoting and sharing our health-related research. A calendar of public engagement spanning schools, communities, businesses and government, has reached over 10,000 people so far, showcasing the University's ground-breaking discoveries that drive innovations in healthcare diagnosis and treatment.

Scholarships provide a wonderful way to change lives and empower communities and I am very proud of our mission in this area. Each year, our team manage over 400 scholarship opportunities world-wide, with £6m a year managed in fee and stipend scholarships. Through our Development and Alumni Office and connections with the Scottish Government, this year funds from the Edinburgh Business School (EBS) were leveraged to create 10 flexible online MBAs for women in Zambia. Through this partnership, we are empowering more Zambian women to take on senior roles and playing our part in addressing underrepresentation. In Malaysia, 53 Heriot-Watt University Malaysia students were awarded with the Tan Sri Yeoh Tiong Lay Global Scholarship awards. This programme was launched this year in honour of the late Malaysian businessman and noble philanthropist, Yang Berbahagia Tan Sri Dato' Seri Yeoh Tiong Lay. This inspirational £1 million (RM 5.5 million) legacy fund is educating deserving individuals who would otherwise be denied opportunities to pursue higher education. As part of our growing commitment to widening access, our Brightest Watts Summer School, supported by Baillie Gifford, was held at our Edinburgh Campus for the ninth year this summer, with around 600 pupils having benefited from this initiative over the years.

## PIONEERING IN EDUCATION

Our strategy will develop a 'learning to learn' approach which will help our students and graduates to flourish, providing new pathways and globally accessible education. A new 'Learning and Teaching Academy' was officially launched on 11 September, ensuring excellence in teaching and inspiring learning is recognised, celebrated, shared and applied.

A very significant milestone for us this year was the successful integration of the Edinburgh Business School with the School of Social Sciences, creating the biggest business school in Scotland when measured by student numbers. With students in 166 countries, the new Business School has significant international reach, which provides opportunities for development in business, economics and social science in collaboration across the whole University group, both in terms of the curriculum and digital education. The renovation of the Edinburgh Business School main building and the release of the new MBA programme, together with refreshed online learning materials has created an academic portfolio which fits the ambitions of Strategy 2025. The restoration of economist Adam Smith's Panmure House in the heart of Edinburgh, cements the School as a home for world-leading economic and social debate and the latest academic thinking. We intend to build on this to develop the University's voice on policy. Panmure House saw the most eminent assembly of economists in the world during its launch in July and this marks a significant step change in the visibility of the Edinburgh Business School in academic and policy debates, both locally and globally.

Heriot-Watt's 'Team Esteem' is the only UK University in the final of the prestigious Solar Decathlon Middle East 2020 competition. This global, inter-university competition seeks out the enterprising 'home of the future' where students, working with industry partners, design and then build a full-size, fully functioning solar-powered house. It is an extraordinary achievement and opportunity for us to showcase our research and education programmes, to a huge audience as part of World Expo 2020 in Dubai, at which Heriot-Watt will play a key role through our sponsorship of the UK pavilion.

Our ambitions in this area are exemplified through our Malaysian Youth Transformation Programme offered to our Foundation students, and the unique EmPOWER programme which was also officially launched this year by Malaysia's Minister of Education, YB Dr Maszlee Malik.

In the UK this year, our Graduate Apprenticeships Programme has gone from strength-to-strength, and we now have 175 apprentices from over 80 companies including Barclays, Bosch, HSBC, Raytheon, Sainsbury's Bank and Scottish Government.

## EXCELLING IN RESEARCH AND ENTERPRISE

Creating a culture in which innovation and enterprise can flourish is a central pillar of our strategy, and one where significant investment has been made.

Our new £20m GRID building illustrates both our commitment to pioneering education and to personal talent development. It is also a critical resource in support of our ambition to be at the forefront of enterprise development. This creative space combines the education of our future technology experts with a hub for collaboration and incubation for start-ups and spinouts, and where we can spin-in external companies to benefit from the technology, talent and resources that we have. GRID is not just a building but a global concept for driving enterprise across all our campuses.

The newly launched Research Engagement Hub brings together research support colleagues from across the University to create a coherent and connected service for our global academic community and a welcoming hub of expertise. Our research reputation is founded on our ability to tackle problems of real significance to society. In growing our research and enterprise activities, our excellence and values-led approach to working relationships will ensure that we continue to be a partner of choice.

An example of this is our involvement in ReFLEX Orkney, a ground-breaking project launched in April. This pioneering £28.5m project, led from our newly relocated campus in Orkney, is creating the UK's first smart energy island, interlinking local power, heat and transport systems to create a Virtual Energy System - eventually eliminating the need for fossil fuels.

In just two years we will be opening the UK's first National Robotarium at our Edinburgh Campus. This world-leading centre for robotics and artificial intelligence will adopt a collaborative approach, creating innovative solutions to global challenges. As an integral part of the Data Driven Innovation theme of the Edinburgh and South East Scotland City Region Deal, its work will be a critical part of establishing Edinburgh as a hub for digital transformation and assuring its global reputation for innovation.

We also launched the Centre of Excellence in Smart Construction in Dubai in October 2019. This will undertake internationally recognised research and industry engagement, providing a creative environment for collaboration between multidisciplinary research teams, industry and government to solve challenges facing the construction sector.

The Malaysia Campus has continued to grow its research, with the total number of externally funded awards now reaching 25. The majority of these fund a full-time Research Associate, meaning the campus has a rapidly expanding and dynamic research community. In line with this, the number of research outputs is also growing quickly, something that is reflected in the University's MyRA (Malaysia Research Assessment) score which has jumped from 22 in 2017 to 34 as we near the end of 2019. The campus has also recently launched PhD degree programmes in: Business and Administration; Statistics; Engineering and Engineering Trades; and Social and Behavioural Science. Combined with the launch of the James Watt Scholarship scheme, this should see our PhD student cohort in Malaysia reach 20 - 25 by early 2020.

Looking ahead, the University will take a leadership position in the area of climate change mitigation and especially energy transition. Society is confused and frightened by this challenge and we need to do more to provide a clearer sense of direction and quantify options for future lifestyle and policies. During the last year we have been marshalling the University's significant expertise and capability to contribute to addressing climate change challenges, especially in our particular

areas of global repute in energy, optical physics, infrastructure and robotics. We have embarked on developing a coherent, distinctive and ambitious plan for our own organisational sustainability and world leading research. This is something that touches all our lives and is important to staff, students, alumni and our collaborating community and is being led by a new Associate Principal for Global Sustainability. This will help demonstrate our global leadership and the impact of the radical innovations in research and policy changes being developed.

In 2021, we celebrate our founding bicentenary as a university known for the creation and exchange of knowledge for the benefit of society. To drive our commitment to enhancing excellence, we set ourselves the target of recruiting one hundred outstanding research academics, our Bicentennial Research Leaders, between 2018 and 2021. We have now surpassed last year's target of 20, with 23 outstanding and highly qualified research leaders already appointed.

We were delighted to have our longstanding research and impact in social housing recognised by a Queens Award for Research in November, the UK's premier national research accolade for sustained excellence.

## A GLOBALLY CONNECTED UNIVERSITY

During the year, Heriot-Watt's distinctive global character and ambition was, again, externally validated through our rise in the Times Higher Education World University Rankings, moving up into the world 251-300 grouping – as well as rising to an impressive 49th place, out of 200 institutions from 44 countries, in the Golden Age University Rankings.

There has been a marked growth of 41% in student mobility between campus locations and intra-campus teaching, which together offers greater flexibility in subject choice, location and mode of study. 2019 also celebrates the 5th anniversary of our Scottish Confucius Institute for Business and Communication, promoting educational, economic and cultural links between Scotland and China.

Internationally we continue to deliver on our ambitious plans. Our Dubai Campus was crowned 'Best University in Middle East' at the first ever Forbes Middle East Higher Education Awards 2019 and recently earned a prestigious five-star ranking from Dubai's Knowledge and Human Development Authority. Our recently announced relocation to a bespoke brand-new campus, in the Dubai Knowledge Park, from January 2021, demonstrates our ongoing commitment to delivering continued long-term benefits and growth to the University in line with our strategy. In particular providing opportunities for students and staff to be located right at the heart of the modern business and digital community in Dubai and to contribute development of the UAE economy and culture. In Malaysia and Dubai, we welcomed His Royal Highness Prince Edward, Earl of Wessex, to launch a special MBA partnership between our Edinburgh Business School and The Duke of Edinburgh's International Award Foundation

Our Orkney Campus remains most distinctive and highly internationalised, with students and businesses from around the world. This year we were excited to move into a new larger campus building in Stromness. This new research and collaborative space forms part of the wider Orkney Research and Innovation Campus (ORIC) project, in which £6.5m has been invested. This joint venture, by Highlands and Islands Enterprise and Orkney Islands Council, seeks to strengthen Orkney's global lead in the field of renewable energy research and innovation, providing purpose-built business and educational facilities within Stromness. From this campus, we continue to deliver our world-class teaching, research and knowledge exchange activities and our strategic commitment to the communities in which we are engaged.

## SHAPING TOMORROW TOGETHER

Through our Strategy 2025 - Shaping Tomorrow Together, Heriot-Watt is driving forward as an international university which places students and staff at the heart of everything we do.

I relish the opportunity to continue working with our students, colleagues, alumni and partners as we bring our strategy to life and grasp the many opportunities we are already cultivating; expanding GRID as a global engine across our campuses, developing the UK's first National Robotarium, and the intensification of our online provision. It is also time to deliver on our commitment to Environmental Sustainability, connecting into our entire operation and recognising our role as global leaders. Our newly appointed Chief Scientist, Professor Michel Kaiser, is also playing an important role in championing the University's expertise in the Blue Economy, as well as leading initiatives that further enhance and amplify our reputation for research excellence.

I wish to recognise the continued hard work and dedication of all our staff, the guidance of our Senate and Court members, the support of our Student Union and Councils across the University during the last year and for their eager contributions in shaping our future strategy. I appreciate how much our colleagues continue to strive to give the very best experience to all our students and staff.

Our long-term strategy is emerging during times of immense change, not only in our sector but also politically, socially and economically. This creates challenges but also many opportunities for us to realise our ambitions. I believe we have the purpose, ambition and confidence in our strengths to accomplish our goals.

### Professor Richard A. Williams

Principal and Vice-Chancellor  
13 December 2019

# Strategic Report



## Background

### HERITAGE

The establishment of the School of Arts of Edinburgh in 1821 as the world's first Mechanics Institute saw 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 through the Watt Institution and School of Arts (1852), Heriot-Watt College (1855) and, on receipt of its royal Charter in 1966, into Heriot-Watt University there remained a focus on innovating and responding to the needs of business and industry.

In more recent times, the University has developed and flourished: its Orkney campus opening in 1989, as part of the International Centre for Island Technology; the completion of the University's relocation to the purpose-built Edinburgh campus, by 1992; the creation of the Scottish Borders campus and the University's School of Textiles and Design, based in Galashiels, born of the merger with the Scottish College of Textiles in 1998; the establishment of the first UK University overseas campus in Dubai, in 2005; the opening of its state-of-the-art campus in Malaysia in 2014, serving the South East Asia region and beyond; and in 2018, the

opening of Panmure House, the final home of the father of economics Adam Smith, as Edinburgh Business School's contemporary centre of learning, debate and enlightenment.

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 27,839 students. Their location, the domicile of those on Scottish campuses and the level of study are portrayed in the charts below:

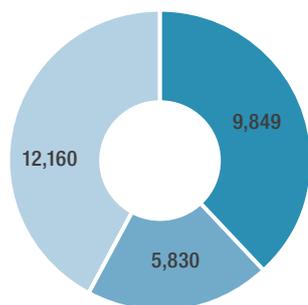
Beyond its campuses, Heriot-Watt University has an unsurpassed international in-country presence delivering degree programmes to almost 7,500 independent distance learning students and through an innovative Approved Learning Partner network where almost 5,000 students study in partner institutions across the globe.

### INSTITUTIONAL STRUCTURE

The University's teaching and research is structured around its five academic schools: the School of Energy, Geoscience, Infrastructure and Society, the School of Engineering and Physical Sciences, the School of Mathematical and Computer Sciences, the School of Social Sciences and the School of Textiles and Design; and one postgraduate institute: Edinburgh Business School.

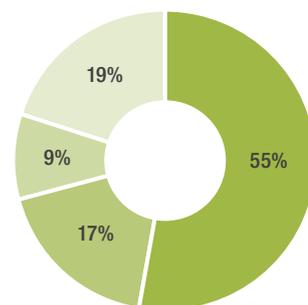
Edinburgh Business School is a wholly owned subsidiary of Heriot-Watt University and is an independent charity in which Heriot-Watt is the sole member. Recognising the mutual strategic benefit to both parties and to their staff and students, the Board of Edinburgh Business School and the Court of Heriot-Watt University agreed to effect a business combination of the two charities at 31 July 2019.

#### Study location



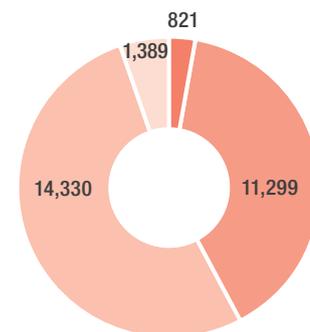
- Scottish campuses
- Overseas campuses
- International programmes

#### Domicile



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

#### Level of study



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



# SHAPING TOMORROW TOGETHER



## OUR PURPOSE

From a pioneering institute born out of the Scottish Enlightenment in 1821, to a leader in transnational education, Heriot-Watt has become a global university through a commitment to its vision, mission and ethos.

## OUR VISION

Our vision is to be world leading within all our areas of specialism.

## OUR MISSION

Our mission is to create and exchange knowledge that benefits society.

## OUR ETHOS

We put our community of students, staff and alumni at the heart of everything we do. Our distinctive strengths will continue to build a global University that pioneers innovation in education, research and enterprise.

## OUR STRATEGY

The University's previous strategic Plan 2013-2018 presented the University's direction and priorities for that five-year period; the outcomes for which were reported in previous years' Financial Statements.

This year saw the launch of our new strategy, Shaping Tomorrow Together, based on our heritage, our expertise, our relevance and our global presence. Heriot-Watt is a distinctive University with global reach and a proud history of providing access to education, ideas and solutions that make a real contribution to the world.

Our strategy is all about shaping tomorrow together. It comprises four high-level themes that connect to our activities and which will guide how we will continue to pioneer in education, excel in research, build flourishing communities and develop our globally connected status.

## Building flourishing communities

Heriot-Watt is a vibrant, international, intercultural and interdisciplinary community of staff, students and alumni. Our strategy will support all our communities in the United Kingdom, the United Arab Emirates and Malaysia, creating opportunities to engage staff and students with our vision, mission and values.

We will build flourishing communities by developing the wellbeing of our students and staff, promoting equality and diversity in all its forms across our locations, and embedding a culture of listening and engagement. Encouraging life-long learning and personal development will support our communities to achieve their ambitions and experience greater fulfilment.

Our alumni form an extensive, global community with whom we will build stronger relationships by encouraging new ways to grow their engagement with the University and to support their career development.

We will continue to work on the effectiveness, operation and structure of the University, to help our academics excel in their teaching, research and enterprise, creating opportunities for collaboration to flourish and encouraging partnerships between academia, business and industry.

Across all of our locations, we will seek to develop social and business partnerships that drive economic prosperity, deliver growth and increase our social impact. Encouraging mutually beneficial connections to flourish between our staff, students and wider society will underpin activities to share and exchange ideas, skills and learning.

Enabling our communities to be at the heart of the data revolution will also be a priority. We will grow our expertise in data-driven innovation and seek further opportunities to share that expertise, building on partnerships we have already formed, such as that with the Edinburgh and South East Scotland City Region Deal to become the 'data capital of Europe'.

The outcomes we seek from this theme are:

- > Happy, resilient, emotionally intelligent and future ready graduates
- > A supportive environment for staff and students to achieve their full potential and shape the future
- > A distinctive community that is values-led and purpose-driven
- > Synergistic relationships between research, education and business
- > An inspiring and dynamic environment to work and study

## Pioneering in education

Heriot-Watt is highly regarded for its degree programmes based on professional and real practical relevance. Through inspirational approaches to learning, our students already acquire the key attributes that are valued by employers, including specialist expertise, creativity, global thinking and professionalism.

Our strategy will support all our students to acquire not only knowledge and skills but also intercultural intelligence, increased personal resilience and the confidence to cope with a rapidly changing world. We will develop a learning to learn approach which will help our students and graduates to flourish, equipping them to succeed and able to meet the emerging challenges of the Fourth Industrial Revolution.

We are committed to enhancing the learning experience of all our students, regardless of their location, level, mode or duration of study. The range of ways in which a student can gain their education with us is part of how we enhance their experience and we will continue to develop new pathways; be that on campus; through transfer between campuses; learning remotely and primarily through digital media; in partnership between the University and their employer; or by combining modes to best suit their individual circumstances.

Our degree programmes are highly regarded for their professional relevance and the resultant employability of our graduates. Through our strategy, we will continue to innovate in the area of global curriculum design. We will further develop our distinctive approach through the latest research into learning, increasing digitalisation, and combining individual and collaborative modes of study. Offering transformative educational opportunities, locally and globally, will ensure that the learning experience of our students will be inspiring, challenging and fulfilling.

The outcomes we seek from this theme are:

- > Empowered graduates holistically developed through innovative learning and engagement methods
- > Highly sought-after graduates
- > Flexible, personalised and highly relevant programmes of studies to engage and upskill learners
- > Providing new pathways and globally accessible education

## Excelling in research and enterprise

Our strategy will capitalise on opportunities to grow research and enterprise across the University. We will implement a major expansion in our capacity and reputation through the creation of up to six research institutes. These will build on areas of existing excellence and strive to become internationally leading. They will exemplify our success in research of real value to society and will help to develop our enterprise activities worldwide. The new institutes will work with funders, businesses and other leading research organisations to co-create research propositions that place us at the forefront of intellectual discovery.

To grow our research portfolio, we will create a vigorous and supportive environment that develops opportunities to achieve excellence and which connects our international research communities across our locations and with our network of leading research partners. We will continue to recruit, retain and develop high calibre research leaders and support them through our values-led approach and our state-of-the-art infrastructure and facilities, enabling them to achieve world-class success in their areas of specialism.

Our strategy will substantially increase our research income and the contributions that our research will make to the economy and the environment. Through our interdisciplinary approach and close collaboration with industry and business, we will build on our reputation to seamlessly evolve our fundamental research to innovation and enterprise.

Developing the people and ideas that spark new businesses and transform organisations will help us to shape tomorrow through our approach to enterprise. We will integrate enterprise activities with our research and teaching, developing new partnerships and strengthening our interactions with business. Our aim will be to stimulate radical innovation, utilising state-of-the-art interactive spaces to develop creative relationships between our students, staff and business partners, leading to new funding streams and further accelerating the impact of our work.

The outcomes we seek from this theme are:

- > Excellence and financial growth in research income supported by up to six new interdisciplinary research institutes
- > Thought leadership that shapes the global research agenda
- > A new local and globally connected enterprise ecosystem connecting students, staff and society
- > Global reputation for transformative economic and societal impact that addresses Grand Challenges and contributes towards Sustainable Development Goals

## A globally connected University



Heriot-Watt is a globally connected, multi-campus University, where our students and staff form an integrated international community. Our strategy will see us consolidate our move towards a single organisation where geographical location does not limit staff or student opportunities. Interacting across time zones and locations will be further enhanced through infrastructure that supports and enables exchange, collaboration and partnership.

Building an organisational culture that reinforces our global, connected identity will be a priority and we will establish wider shared working, and take early actions to evolve our structures to deliver effectively across all our locations. We will optimise our balance of resources to deliver our core business smoothly and efficiently across our multi-campus structure and develop agility to respond to opportunities wherever they arise. We will also strengthen our capabilities in leadership throughout the University, so that our values-led approach is embraced by staff and students across our global community.

The University makes a significant contribution in each of its locations and we will work to further our impact and influence. We will increase our income and strengthen our financial sustainability by developing a more diverse portfolio of income in each of our locations, for example by expanding multi-modal teaching, through research funding, and from fundraising.

Heriot-Watt's reputation is based on a distinctive education and a pioneering approach: the extent to which we are taking forward our concept of a global university is part of that approach, and through it, we will provide stimulating, inspiring and exceptional opportunities for all students and staff.

The outcomes we seek from this theme are:

- > Globally connected students, staff and alumni community
- > Robust, effective and efficient systems and methods
- > Financially sustainable and diversified operations
- > Digital transformation

## Measuring our performance

We monitor what we do to ensure we operate in ways that live up to our purpose. Our operational plans are monitored to assess performance of both normal business activities and special initiatives, with our annual planning process driving refinement of plans as we adapt to a changing environment.

Our achievements are represented by a basket of strategic performance indicators (SPIs). The table below illustrates how our strategy themes principally align with the strategic performance indicators. Our Strategy 2025 website ([strategy2025.hw.ac.uk](http://strategy2025.hw.ac.uk)) details our SPIs and progress made to achieve them.

Deliberately two SPIs require further definition by our University community to pioneer a bold, new global approach.

- > Environmental Sustainability – in addition to ensuring delivery of any statutory environmental requirements across campus locations, we will develop: globally relevant targets for our emissions; our organisation practises and behaviours; and, importantly, to quantify the net societal and global impact of flagship ground-breaking research projects and policies.
- > Inclusion and Wider Access – we will grow accessibility of students to our graduate residential and on-line programmes. Although well defined in the UK, we will lead out in defining and progressing this in all our principal campus locations and other selected territories.

## 2025 Strategic Performance Indicators

Theme	Performance Indicator	2025 Target
Building Flourishing Communities	Staff Satisfaction	Sector Upper Quartile
	Economic Impact (Global)	Double impact by 2025
Pioneering in Education	Student Satisfaction	Upper Quartile
	Graduate Outcomes	Top Decile
	Inclusion and Wider Access	Pioneer a sector leading global approach
Excelling in Research and Enterprise	World University Ranking	Top 250
	Research Grant Income	Greater than £65m*
	Environmental Sustainability	Pioneer a sector leading global approach
Globally Connected University	Income Scale and Growth	Greater than £350m*
	Operating Surplus	Greater than 4%*
	Resource Efficiency	Greater than £150k*

\*annually

Given that our new Strategy was launched in January 2019, it is still too early to report against these detailed Strategic Performance Indicators. However, there is already positive progress to report against each of our strategic themes:

## BUILDING FLOURISHING COMMUNITIES

Establishment of the WattForum is an early milestone associated with this Strategic Plan theme. It recognises the strong interest, evident during the highly consultative process that led to the creation of Strategy 2025, for the Heriot-Watt community to come together to solve key global challenges. Global engagement identified a strong appetite for participation around the topic of environmental sustainability, which became the theme for the first WattForum, where actions identified ranged from local change to global implementation of our radical innovations.

A staff engagement project has commenced with a detailed plan for how to take forward the findings of the recent staff survey and we have developed processes to communicate the actions being taken in response to the survey. At the University level, four themes for action have been identified: a need for the University Executive to be less remote and better connected across the University community; a more balanced workload and improved workplace culture; more transparent decision-making and better communication and improved day-to-day management of our people. At a local level, actions are being led by Heads of Schools and Directors of Professional Services. A number of early actions to improve communications have included 'This Week at the University

Executive' videos, the 'Principal's Blog' and 'Let's Talk' sessions. Working groups have been established on day-to-day management issues including a review of Performance and Development Review, and on Academic workload. It has also been acknowledged that the changes to working practices as a result of Building Our Commonality project will impact positively on workload for both professional services and academics. Key to our engagement plan are the actions to embed the University's new values and to recognise and celebrate demonstration of our values on all of our campuses.

## PIONEERING IN EDUCATION

Recognising the closer relationship between the University and the Edinburgh Business School and exploiting the exceptional track record of our business school in on-line education, we have initiated a holistic approach to on-line education, based on three work streams that cover the academic systems and student journey, the digital systems and business objectives.

## EXCELLING IN RESEARCH AND ENTERPRISE

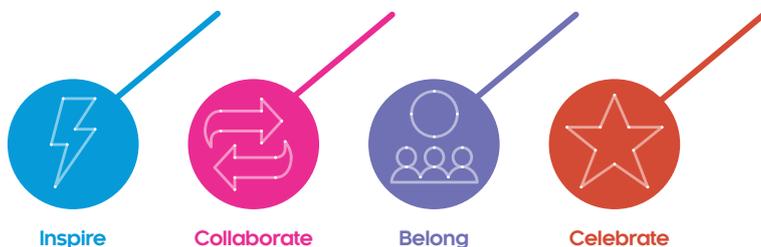
The University has developed a Research & Enterprise Strategy implementation plan, which will provide a framework to manage and monitor the activities of "task and finish" groups that will lead individual strand planning, delivery and performance reporting. Aligned to an early milestone in that plan, aimed at cultivating partnerships and supporting our researchers' initiatives that will drive increased research and enterprise revenues, we held two Smart Construction Symposia: the first in Dubai, attended by delegates from the UK construction sector,

representatives from Scottish innovation centres and more than 60 representatives from the UAE construction sector and clients; and a reciprocal one, which saw five Dubai based construction companies visiting our Edinburgh Campus. These symposia have identified an opportunity for the creation of a Centre of Excellence in Smart Construction at the Dubai Campus, which will represent a major step forward in intensifying research and enterprise on that campus. The Centre of Excellence will be multi-disciplinary and will work closely with key industry partners.

## BECOMING A GLOBALLY CONNECTED UNIVERSITY

'Building Our Commonality' is the overarching change programme to transform our global Professional Services to support the delivery of the Strategy and better meet the needs of our staff and students. This vision of a Globally Connected University will be achieved by putting our people first, engaging them in developing new structures and delivering customer focused professional families. Finding one Heriot-Watt way of doing things in partnership with our staff and students is a key objective and output for this project, the timeline for which has been accelerated: a new 'Research Engagement' Directorate went live in January 2019 and the projects associated with all other professional services are now launched.

Our Strategic Plan sharpens the University's focus on key markets and geographical regions. Early progress has come in the form of the establishment of a new India recruitment team, put in place in February this year and a Dubai based team for recruitment in the Middle East and Africa. An increased focus on strategic alignment of pathways and key touchpoints is evident in the international postgraduate advertising campaign that was launched to key markets in February 2019 and in our more focussed engagement with key recruitment agents in overseas markets. We have also been nurturing pathways with feeder schools and colleges, strengthening our support for recruitment of students associated with 'Widening Participation' and have centralised Edinburgh admissions staff to achieve better cohesion and consistency in our admissions.



# Scotland's National Performance Framework

The University recognises the part it must play in the performance framework for all of Scotland, which aims to create a more successful country; giving opportunities to and improving the wellbeing of all people living in Scotland; creating sustainable and inclusive growth; reducing inequalities and giving equal importance to economic, environmental and social progress. The framework sets out 'national outcomes' to help achieve these aims.

Scotland's National Performance Framework is aligned to The United Nations 'Sustainable Development Goals' (SDGs) which set targets that are part of an internationally agreed performance framework. These Goals are localised and implemented through Scotland's Framework, with each of the National Outcomes being mapped to a range of the SDGs.

The University seeks to contribute to the SDGs and National Outcomes across its areas of activity. In particular, our strategic themes have specific alignment with these key National Outcomes:



## BUILDING FLOURISHING COMMUNITIES

### Children & Young People

We grow up loved, safe and respected so that we realise our full potential

### Environment

We value, enjoy, protect and enhance our environment

### Culture

We are creative and our vibrant and diverse cultures are expressed and enjoyed widely

## PIONEERING IN EDUCATION

### Education

We are well educated, skilled and able to contribute to society

## EXCELLING IN RESEARCH AND ENTERPRISE

### Fair work and Business

We have thriving and innovative businesses, with quality jobs and fair work for everyone

### Economy

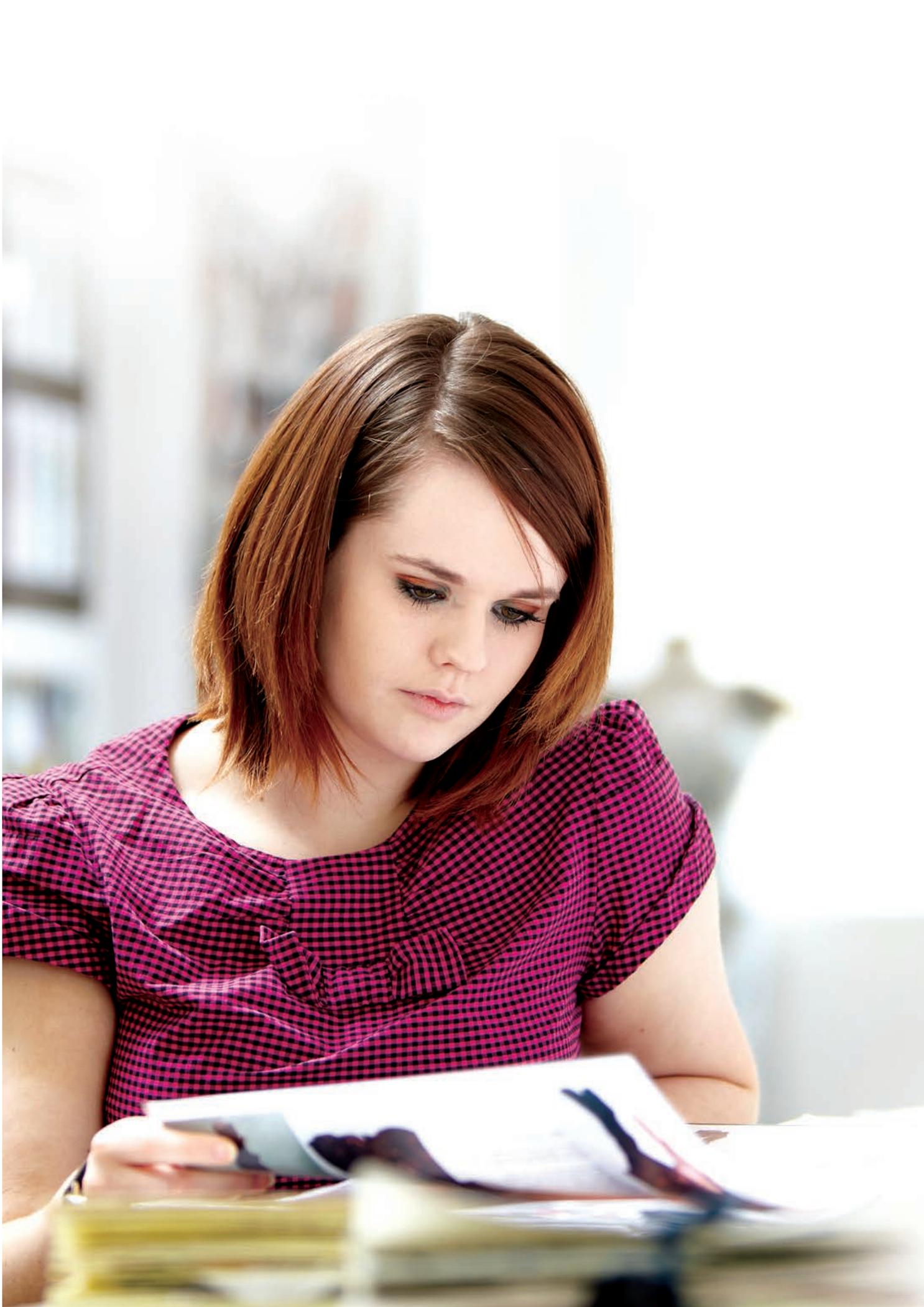
We have a globally competitive, entrepreneurial, inclusive and sustainable economy

## BECOMING A GLOBALLY CONNECTED UNIVERSITY

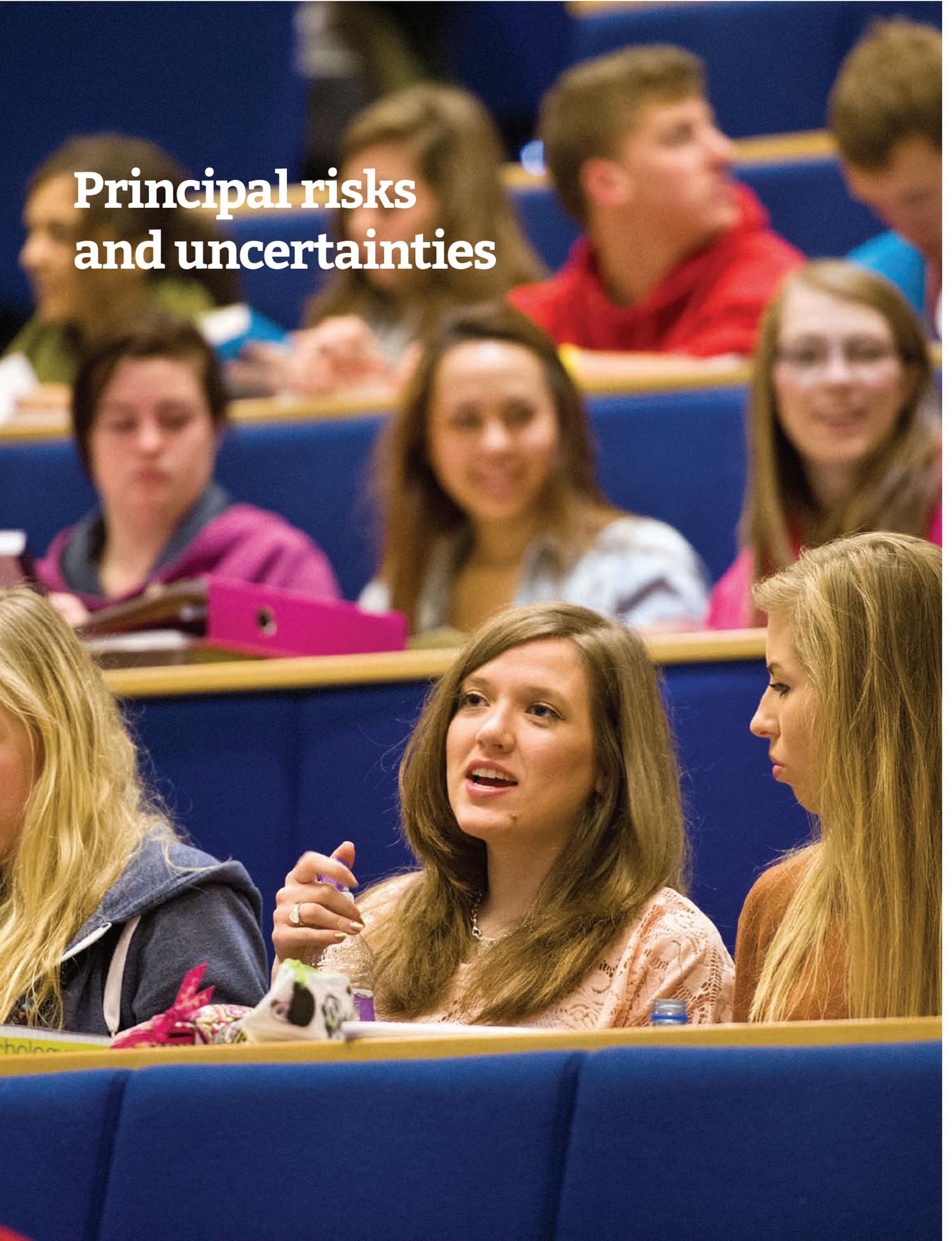
### International

We are open, connected and make a positive contribution internationally

Over the coming year we will develop our reporting framework to demonstrate how our strategic themes are contributing to the National Outcomes.



# Principal risks and uncertainties



Three themes emerge from the most significant strategic risks that the University currently faces:

- > The first is one driven by 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 uncapping of numbers of students loan-funded to attend English universities, the demography of a reduced number of 18 year-olds in the UK population, 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 an intensification of our online provision. In an environment of more dynamic income streams, we have also had to develop mechanisms to manage expenditure more responsively.

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; long-term borrowing with fixed-interest rates to give greater certainty over debt servicing costs; discretionary elements in potential capital investments.

- > The second is the risk of political, governmental and constitutional change, currently most acutely manifested in the risk 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, particularly the Universities Superannuation Scheme (USS). The conclusion of the 2017 USS actuarial valuation reported a deficit of £7.5bn and crystallised, absent any agreement over benefit re-design, a requirement for contribution increases from the pre-existing 26% of pay (employers 18%; employees 8%) in three steps: on 1 April 2019 to 28.3% of pay (19.5% employers; 8.8% employees); on 1 October 2019 to 32.9% of pay (22.5% employers; 10.4% employees); and on 1 April 2020 to 35.6% of pay (24.2% employers; 11.4% employees). Immediately following the conclusion of that valuation, USS opened a new 2018 valuation, in order to allow trustees, employers and employees to continue to engage around the valuation methodology and mitigation of the impact of the contribution increases associated with the 2017 valuation. The outcome of the valuation as at 31 March 2018, achieved subsequent to the balance sheet

date, reported that the scheme's deficit had reduced to £3.6bn and a contribution rate, fixed until 30 September 2021, of 30.7% of pay (21.1% employers; 9.6% employees), lower than would otherwise been the case on that date and avoiding the need for an April 2020 increase. The closure of the 2018 valuation provides a holding position, ahead of the Joint Expert Panel's (JEP) second report due in autumn 2019, and provides a two-year window for USS, Universities UK (UUK) and the Universities and Colleges Union (UCU) to explore new options for reforms to put the scheme on a more sustainable footing for the long term.

USS has signalled, notwithstanding the outcome of the next planned 2020 USS actuarial valuation and the outcomes of the ongoing deliberations of UUK, UCU and USS, that the overall contribution rate required to fund the current benefit arrangements would rise to 34.7% of pay (employers 23.7%; employees 11%) in October 2021. The University's current financial plans have been constructed to materially absorb the increases associated with the 2018 actuarial valuation, but our longer-term financial plans, as currently constructed, give little further capacity. An increase to 23.7% of pay would exceed our current provision by around £2m per-annum.

It should be noted that, currently, UCU has signalled its opposition to employees incurring any increase in members' contributions. The University Executive and the Court will continue to monitor the implications of this risk.

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 to support this aim. The University's governing body, the 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 derive from the University's Charter and Statutes, as 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 and, as such, are bound by the duties and responsibilities set out in that Act.

## 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 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 of Good Higher Education Governance (<http://www.scottishuniversitygovernance.ac.uk/2017-code/>). The Statement is published in full at: <https://www.hw.ac.uk/services/docs/secretariat/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/secretariat/court-delegated-authority.pdf>

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 of the University and each member of the Heriot-Watt Group; to review and approve the annual budget of the University and annual report of the University; to amend the Charter; to make, amend or revoke Statutes or Ordinances; to adopt the University's annual accounts; to appoint or remove the University's External Auditor; to decide the remuneration of any member of the Court; or to decide whether there should be a reduction in the Academic Staff as a whole or of any constituent part of the University or any member of the Heriot-Watt Group by way of compulsory redundancy.

In discharging its responsibilities, the Court met ten times during the year 2018/19, including at two full 'Strategy Discussion Days'. The first Strategy Discussion Day in the year, held in November 2018, focused on a detailed review of the outcomes against Key Performance Indicators for the 2013-18 Strategic Plan and key learning points. The Court also considered the Key Strategic Indicators underpinning the new Strategy 2025. At the Strategy Day, the Court had an opportunity to consider key topical areas of change in Strategy 2025, such as behaving as a values-led organisation, developing an ethos of positive and personalised education, and building thriving communities.

The Court Strategy Discussion Day held in May each year provides the opportunity for strategic discussion aligned to key institutional priorities. The key discussion topics in May 2019 centred on the University's strategy for platforms to support innovative and transformative learning methods globally.

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 a Vice-President Student Union member 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 June 2019, the Privy Council approved major revisions to the University's Charter and Statutes. These can be viewed at <https://www.hw.ac.uk/about/profile/governance/charter-and-statutes.htm>. The changes introduced reflect the requirements of the Higher Education Governance (Scotland) Act 2016. During the review of the Charter and Statutes, undertaken throughout 2017 and 2018, opportunities were also taken to clarify delegated powers and authority, including those between Heriot-Watt and the wider Heriot-Watt Group and, overall, to introduce more consistency, cohesion and clarity. Work was completed on a wide variety of new and revised University Ordinances underpinning the new Charter and Statutes. The most significant of these sets out revised procedures for the selection and election of the new Chair of Court in 2019/2020.

### **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.

The Chair of Court is assisted by a Deputy Chair of Court nominated by all Court members. Ms Morag McNeill was appointed as Deputy Chair of Court from 1 January 2019.

Elected members include those from the student body, the alumni body (the next alumni member will be appointed, not elected), 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 2018/19, 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. In the reporting year, 5 of the 13 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 2018/19 were as follows: Audit & Risk 57%, Finance 30%, Global Student Liaison 50%, Governance & Nominations 67%, Remuneration 60%, and Staff 67%. The Court receives an annual report on the gender diversity of Court and Court committee memberships.

In the reporting year the Court agreed to publish an equality and diversity statement that describes the University's approach to equality and diversity and social responsibility. This can be read at <https://www.hw.ac.uk/services/docs/secretariat/ED-Statement.pdf>. In parallel, a process has been established to collect information from applicants for vacancies on the Court and its committees in order that the University can monitor and evaluate effectiveness against its equality and diversity aims.

## Members of Court

The following persons served as members of Court during the year to 31 July 2019, and up to the date of approval of these financial statements.

Name of Member/Category of membership	Court meetings attended 2018/19
<b>Chair of Court</b>	
Dame Frances Cairncross	9/10
<b>Deputy Chair of Court</b>	
Ms Morag McNeill (Deputy from 1 January 2019)	10/10
Mr Tony Strachan (Deputy until 31 December 2018, continuing as Member of Court until 31 July 2019)	08/10
<b>Principal &amp; Vice-Chancellor</b>	
Professor Richard A. Williams	9/10
<b>Vice-Principal</b>	
Professor Julian D C Jones	9/10
<b>Senate</b>	
Professor Patrick Corbett	9/10
Dr Fadi Ghaith	8/10
Dr Amos Haniff	10/10
Dr James Richards	10/10
<b>Staff</b>	
Dr Amanda Lyness	10/10
Dr Alicia Greated (Until 16 August 2019)	10/10
Professor Máiréad Nic Craith	8/10
Ms Dawn Skidmore (from 17 August 2019)	N/A
<b>Graduates</b>	
Mr Roger Murray	9/10
<b>Student Union</b>	
Ms Aoife Clark (from 1 June 2019)	2/2*
Ms Lucy Graham (until 31 May 2019)	6/7*
Mr Rahul Singh	9/10
<b>Independent Lay Members</b>	
Ms Tracey Ashworth-Davies	6/10
Mr Graeme Dickson	10/10
Mr Grant Innes	08/10
Mr Cameron Millar	10/10
Mr Andrew Milligan (until 31 July 2019)	7/10
Professor John Perkins (until 31 July 2019)	06/10
Mr Alan Robertson (from 1 August 2019)	N/A
Ms Marta Phillips	9/10
Mr Mike Tumilty (from 1 August 2019)	N/A
Ms Jandy Stevenson	10/10
Professor Ian Wall (until 31 July 2019)	10/10
Mr Graham Watson	10/10

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



## Effectiveness of the Court and Senate

In 2018, the University commissioned the Good Governance Institute to conduct a joint review of the effectiveness of the Court and the Senate. This arrangement was in compliance with the Scottish Code of Good Higher Education Governance, which requires that externally facilitated reviews of the Court and the Senate be undertaken at least every five years. A summary report of the outcomes of that review can be viewed at <https://www.hw.ac.uk/services/docs/secretariat/Summary-Outcome-Mar-19-Web.pdf>. An action plan has been developed and is being implemented in response to recommendations that emerged from the review.

### **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 that 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 IT infrastructure; 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. In 2018, the Terms of Reference of Court committees were reviewed and updated as a result of assurance mapping exercises undertaken in the previous year as well as revisions made to the University's Charter and Statutes, and the revised (2017) Scottish Code of Good Higher Education Governance. The membership of the Committees of Court is listed on page 24 and 25. The standing committees of the Court are described below.

- > The Interim Business Committee of Court may consider delegable items of business and take decisions on behalf of the Court during the summer recess, or as and when any urgent matter might require attention between ordinary scheduled meetings of the Court.
- > The 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 seven 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 approves the annual accounts and financial statements for the whole Heriot-Watt University 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 Infrastructure 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 which included an additional extended meeting to consider the outcomes of the 2018 Court and Senate Effectiveness Review. 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. In 2019, it was agreed that the membership of the Committee should be augmented with a staff member of the Court. The President of the Student Union is already a member 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 three 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.

- > From time to time, the Court will establish fixed life committees or groups which are delegated responsibility to oversee or advise on a particular project. Two such groups that were active in the reporting year included the Dubai Non-Executive Advisory Group, which has been overseeing and acting in an advisory capacity on a major Dubai Campus project, and the Charter and Statutes Review Group, which guided the review of the University's Charter and Statutes.

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>

In addition to membership of Court committees, the expertise and external perspectives of independent lay members of the Court are utilised through the invited involvement of such members in major organisational change projects. In addition, in 2019, the Court agreed to implement a 'Lead Governor Scheme' pairing up School and Campus Heads with independent lay members of the Court, to promote a cross-flow of ideas, and to enhance Court members' understanding of the academic work of the University.

### 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)	5/5
Mr Graeme Dickson (from 1 January 2019)	3/3*
Professor John Perkins (until 31 July 2019)	4/5
Ms Morag McNeill (until 31 December 2018)	2/2*
Mr Roger Murray	5/5
Ms Trish Gray	4/5
Mr Mike Tumilty	3/5
Ms Suzanne Wilson	5/5
<b>Interim Business Committee</b>	
Dame Frances Cairncross (Chair)	Committee
Ms Tracey Ashworth-Davies	does
Ms Morag McNeill (from 1 January 2019)	not
Ms Jandy Stevenson	routinely
Mr Tony Strachan (until 31 December 2018)	meet
Professor Ian Wall	
Mr Graham Watson	
Professor Patrick Corbett	
Professor Julian Jones	
Professor Richard A. Williams	
<b>Finance Committee</b>	
Mr Graham Watson (Chair)	7/7
Dame Frances Cairncross	6/7
Mr Graeme Dickson (until 31 December 2018)	2/3*
Ms Morag McNeill (from 1 January 2019)	4/4*
Mr Andrew Milligan (until 31 July 2019)	5/7
Ms Marta Phillips	6/7
Mr Tony Strachan (until 31 December 2018)	1/3*
Professor Ian Wall (until 31 July 2019)	5/7
Mr Gerard Cassels	6/7
Ms Judith Cruickshank	7/7
Mr Steve Heathcote	5/7
Professor Patrick Corbett	5/7
Professor Julian Jones	5/7
Professor Richard A. Williams	7/7

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

Name of Member/Committee	Attendance	Name of Member/Committee	Attendance
<b>Global Student Liaison Committee</b>		<b>Infrastructure Committee</b>	
Ms Marta Phillips (Interim Chair)	3/3	Professor Ian Wall (Chair)	4/4
Dame Frances Cairncross	2/3	Dame Frances Cairncross	2/4
Ms Morag McNeill (from 1 January 2019)	2/2*	Ms Morag McNeill (from 1 January 2019)	2/3*
Mr Tony Strachan (until 31 December 2018)	0/1*	Mr Tony Strachan (until 31 December 2018)	0/1*
Mr Liam Burns	2/3	Mr Alan Robertson	3/4
Mr Soehl Abraham (from 1 June 2019)	1/1*	Mr Jeremy Smart	4/4
Ms Jane Benson (until 31 May 2019)	2/3	Mr Norrie Westbrook	2/4
Mr Rafael Camacho (from 1 June 2019)	N/A	Mr Rahul Singh	3/4
Mr Antony Kingston D'Santos (until 31 May 2019)	3/3	Dr Alicia Greeted	2/4
Mr Ben Graham (from 1 June 2019)	N/A	Dr James Richards	2/4
Ms Lucy Graham (until 31 May 2019)	3/3	Professor Julian Jones	4/4
Ms Christina Nikolova (until 31 May 2019)	1/2*	Professor Richard A. Williams	2/4
Ms Jennifer Lantair (from 1 June 2019)	n/a		
Mr Abdul Mubin Mohd Hanafiah	3/3	<b>Remuneration Committee</b>	
Mr Rahul Singh	2/3	Ms Morag McNeill (Chair from 1 January 2019)	1/1*
Professor Richard A. Williams	2/3	Mr Tony Strachan (Chair until 31 December 2018)	1/1*
		Ms Tracey Ashworth-Davies	2/2
		Dame Frances Cairncross	2/2
		Mr Graham Watson	0/2
		Ms Evelyn Stevenson	2/2
		Mr Rahul Singh	1/2
		<b>Staff Committee</b>	
		Ms Tracey Ashworth-Davies (Chair)	4/4
		Dame Frances Cairncross	4/4
		Mr Grant Innes	3/4
		Ms Morag McNeill (from 1 January 2019)	2/2*
		Mr Tony Strachan (until 31 December 2018)	0/2*
		Dr Sue Paterson	4/4
		Dr Amanda Lyness	4/4
		Ms Lorrie Secrest-Osman (until 6 January 2019)	2/2*
		Dr Amos Haniff	4/4
		Professor Julian Jones	2/4
		Professor Richard A. Williams	4/4
<b>Governance And Nominations Committee</b>			
Dame Frances Cairncross (Chair)	5/5		
Ms Tracey Ashworth-Davies	3/5		
Ms Morag McNeill (from 1 January 2019)	3/3*		
Ms Jandy Stevenson	4/5		
Mr Tony Strachan (until 31 December 2018)	2/2*		
Mr Graham Watson	4/5		
Mr Rahul Singh	4/5		
Professor Máiréad Nic Craith	3/5		
Professor Richard A. Williams	3/5		
Professor Julian Jones	3/5		

## 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 that, 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. Significant work has been undertaken to review and update the University's Risk Appetite Statement in order to align with Strategy 2025, the University's new strategy, which was launched in early 2019. The updated Risk Appetite Statement will be published following approval by the University Court.

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 2019, 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 2019, it reported that the Internal Auditor 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 in relation to business-critical areas were generally satisfactory with some improvements required.

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 the 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;
- > 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 the 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 (SFC) and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the SFC and the Court of the University, the Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the surplus or deficit and cash flows for that year.

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

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

The Court has taken reasonable steps to:

- a. ensure that funds from SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and any other conditions that 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

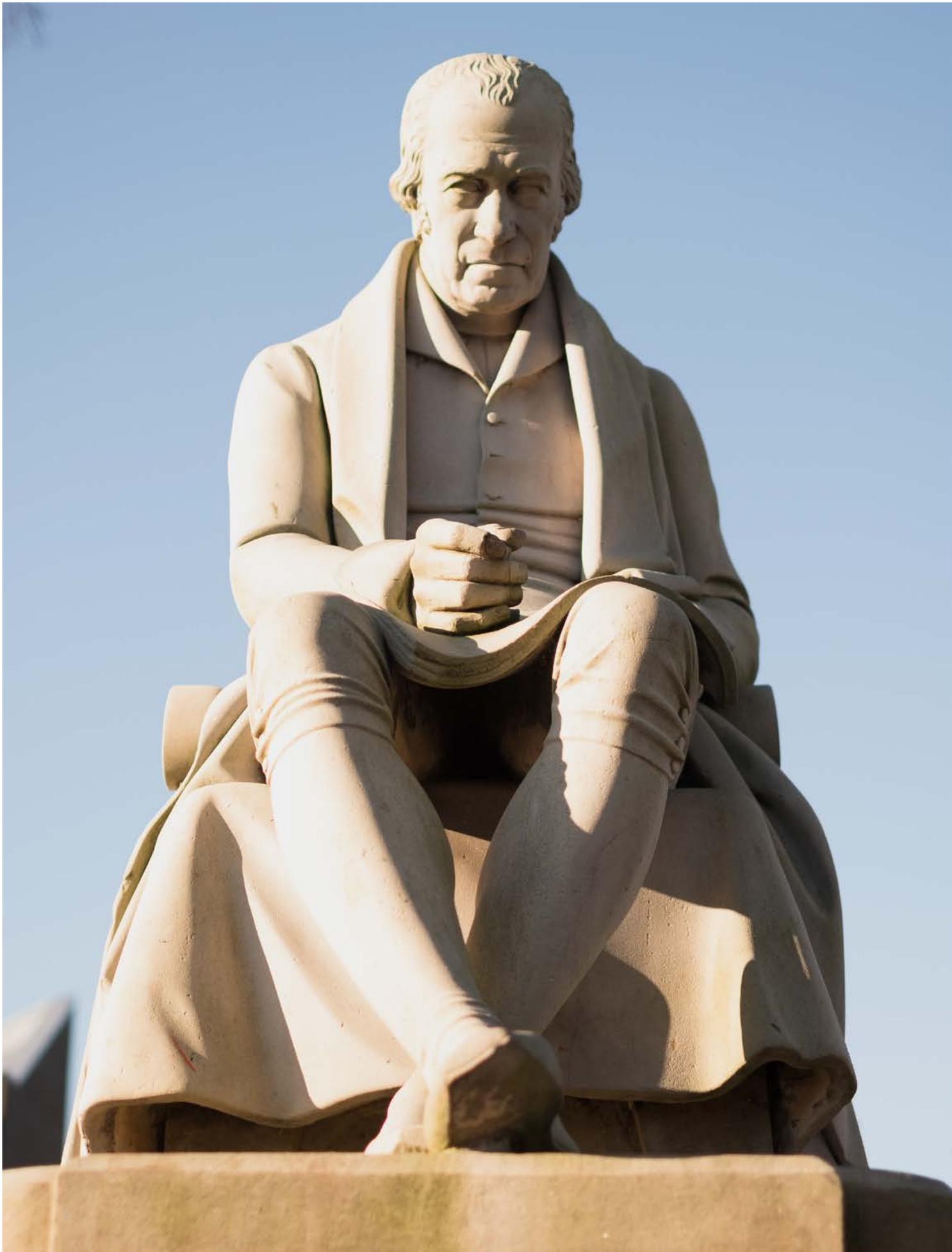
During the reporting year, the University operated in compliance with the Scottish Code of Good Higher Education Governance (2017).

## GOING CONCERN

The University's activities and the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 7-11. Its financial performance for the year to 31 July 2019 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 51-71. 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

**Morag McNeill**  
Deputy 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 targeted 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 higher education; 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 the Scottish Funding Council to advance the targeted outcomes. The Agreements negotiated between the University and the Scottish Funding Council in 2017/18 and 2018/19 have responded constructively to the 'intensification' agenda and seek to advance our positive approach to delivering the well-aligned objectives of the University's Strategy 2025 and the Scottish Government in education, research and innovation.

## COLLEAGUE COMMUNICATION

Engaging our community with Shaping Tomorrow Together, our new University's Strategy is a key communication priority. We have supported the consultation process and the development of the new Strategy through regular communication and opportunities for discussion. Our work has included the development of an interactive and dedicated microsite, blog posts, polls, videos, animations, and briefing packs for managers to lead regular conversations with their teams about the Strategy and what their role is in delivery. A series of launch events were held at all of our five campuses and included a video-presentation and a number of stalls representing the great work we do as we continue to shape our future together.

As part of the ongoing improvements to enhance our internal communications, we carried out a review of our channels, content and processes across all our campuses. Staff expressed a desire for a better understanding of executive decision-making and the reasoning behind it, more information on best practices within the Schools, with more connectivity across schools/campuses/services and more regular opportunities for face-to-face communications with managers/supervisors. Work continues to implement these recommendations.

The launch of our global staff portal, myHWU in October 2018 was the first milestone in our plans to modernise the way we work and communicate at Heriot-Watt. MyHWU provides quick and easy access to online services and global and local news and events. It is available 24/7 from any device and location across the world and can be personalised further at an individual level. The portal has introduced new channels and delivers targeted video and written content by campus, school/service and role. The next phase of the digital transformation project includes the upgrade of our Intranet and making better use of Office 365 applications to enhance global online communication, interaction and collaboration between staff across the University.

We also continue to provide support and advice for key strategic programmes as we make progress to become a more globally integrated and connected university. This includes the planning and delivery of communication activity for Building Our Commonality, our new Learning and Teaching strategy, Staff engagement and Values programmes.

## 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.

In April 2019, we published a mid-point mainstreaming report for our Equality Outcomes along with an update of our action plan and equal pay information.

The University is particularly committed to progressing through the Athena SWAN Charter Awards. We hold a University-wide Bronze Award with 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) also currently holding Bronze awards. The School of Social Sciences submitted a bronze application in April 2019. 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 is a hybrid scheme providing benefits based on a combination of final pensionable pay and defined contributions. USS published a triennial valuation report, for which the reference date is 31 March 2017, in February 2019. At the valuation date, the value of the assets of the Scheme was £60.0 billion and the value of the Scheme's technical provisions was £67.5 billion indicating a shortfall of £7.5 billion and a funding ratio of 89%. For USS, the institution, along with all other member employers, has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, and so recognises, as a provision in its balance sheets, a liability for the net present value of the future contributions payable that arise from the agreement. The significant increase in required deficit contributions associated with the 2017 valuation has given rise to a substantial increase in the deficit provision from £15.9m at 31 July 2018 to £48.9m at 31 July 2019 (note 18).

Since the balance sheet date, a further valuation, as at March 2018 has been completed, revealing a reduction in the shortfall in the assets, when measured against the Scheme's technical provisions, to £3.6bn. With that improved funding position, a new deficit recovery plan has been agreed, which has the intention of eliminating the £3.6bn shortfall over the 10-year period to 31 March 2028. At the University's next year-end, this new recovery plan will result in a revised provision of £28.0m, a decrease of £20.9m from the current year-end provision, that sum being released during 2019/20 through the Statement of Comprehensive Income.

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 provides benefits to members based on final pensionable 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 present 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 grew by £11.1m to £20.9m (note 18).

STSS provides benefits to members based on final pensionable pay. 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 which has informed employer contribution rate increases to 23% from September 2019. The age discrimination case around transitional protection (McCloud/Sargeant) has caused work on the valuation to be paused pending a decision on remedies.

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 fully committed to meeting its responsibilities toward sustainability and environmental protection, and fully recognises the scale and urgency of related challenges. Our prominence in research and teaching in diverse areas of sustainability, including clean energy transition and sustainable building design, positions us strongly as enablers of change with broad reach and global impact.

Development of the University's new Strategic Plan 2019-2025 "Shaping Tomorrow Together" provided an opportunity for the further embedding of sustainability within strategic objectives and within the University's governance arrangements. A key outcome within the Plan is for the University to hold a global reputation for transformative economic and societal impact that addresses Grand Challenges and contributes towards the UN Sustainable Development Goals. The University is currently working to establish an environmental sustainability metric that, alongside a system of ambitious emission reduction targets and associated reporting, will allow us to quantify the net societal and global impact of flagship research projects and policies.

Leading the University's bold vision for sustainability, a new role of Associate Principal (Global Sustainability) has been created to provide senior leadership to develop our sustainability agenda and to co-ordinate University-wide initiatives across all our campus locations. Engaging our whole community and fostering successful collaboration will form an important focus as we develop the next stages of our sustainability journey.

Monitoring under the University's existing Carbon Management Plan (Scotland campuses) indicates that emission reduction continues to meet or exceed target performance, with emissions in 2017/18 calculated to be 12.9% lower than 2014/15 baseline against a 9.0% interim target. These reductions were achieved despite substantial

growth in the estate during the intervening years, with the addition of facilities including GRID, Oriam, The Lyell Centre and new halls of residence. Data to support reporting of the University's 2018/19 emissions is currently being collated, while development work has also commenced on an ambitious new Climate Action Plan to be launched in 2020.

Sustainability projects and initiatives in 2018/19 included:

- > The replacement of inefficient boiler plant serving some of the larger heat demands (three halls of residence) at the Edinburgh Campus with modern high efficiency units, reducing gas consumption by the equivalent of 55 UK households and emissions by at least 125 tCO<sub>2</sub>e/yr.
- > A variety of LED lighting projects yielding lighting energy savings in excess of 100,000 kWh and a reduction in emissions of around 28 tCO<sub>2</sub>e/yr.
- > Ongoing water leakage reduction works at the Edinburgh Campus, reducing water consumption by 70,000 m<sup>3</sup> and associated emissions by more than 70 tCO<sub>2</sub>e/yr.
- > Successful funding applications to support further building fabric upgrades (double glazing projects) and infrastructure efficiency projects (the replacement of antiquated electrical transformers with new super low loss equivalents), due for implementation in 2019/20.

## 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 2019 there were 21 days (2018: 22 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 2019 the Group held 20 minority investments in a range of different companies (2018: 20).

The largest single minority investment relates to the University's shares held in CVCP Properties, a company wholly owned by Universities UK and those universities who are members of 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 2019 there were 19 investments in a range of different companies.

All of these minority investments are stated at cost.



# Financial Review



## FINANCIAL STRATEGY

Consistent with our recent strategic plans, the University has seen rapid and sustained growth. The planned growth in total income, has been underpinned by growth in student numbers, significant contributions to that teaching income having come from the development of post-graduate and transnational activities, driven by an upward trend for fee-paying students in Edinburgh, Dubai, and particularly Malaysia; and by research income increases, associated with the increases in volume and quality of research, stimulated by a targeted approach to academic recruitment.

In more recent times, the rate of growth in both tuition fee and research income has slowed, and a range of risks to the pace of growth have 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), coupled with an ability to slow medium-term investments if required (e.g., in staffing) and have included an explicit centrally held contingency. With the risks crystallising at a scale and pace at the upper limit of what had been envisaged, we have also intervened with actions to achieve significant reductions in cost.

Strategy 2025 places an emphasis on renewed income growth, with a target to grow income from its current £237m to £350m pa by 2025. Early progress is associated with several projects for income generation and business improvement initiated, as a pre-cursor for more substantial 'step-change' income generating projects likely to be associated with the establishment of a foundation education provision and with a substantial expansion of online delivery. Research Grant Income too, is planned to grow, from its current £34m to £65m by 2025. This will be fuelled by a major expansion in our capacity and reputation through the creation of up to six research institutes, building on areas of existing excellence and our aim to become internationally leading, and working with funders, businesses and other leading research organisations to co-create research propositions that place us at the forefront of intellectual discovery, connected with our international research communities across our locations and with our network of leading research partners.

Strategy 2025 sets a target for operating surplus greater than 4%.

Our ambition for continued growth recognises the need for 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. That investment has been funded, in large part, through 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. The debt has maturities between 2031 and 2046, but the Court has committed to making arrangements to service the Private Placement Debt through the establishment of a Loan Servicing Fund, designed to accumulate a proportion of the required repayments as they fall due.

Investment in the University's estate and infrastructure is well underway. We have already seen the completion 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, including 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.

This year saw the completion of the major 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 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; a rolling-refurbishment project for the Library to transform it into a modern, flexible and comfortable learning environment, with over 1,000 study spaces, a variety of collaborative study spaces, double the number of accessible study rooms and improved layout of library stock; the continued development of the Lyell support building to support our endeavours in the field of 'Enhanced Oil Recovery'; and a further iteration of the rolling programme of refurbishment of existing student residences.

In addition, the Edinburgh Business School utilised some of its accumulated reserves to invest in its future, through completion of significant improvements to its building; refurbishment of the historic Panmure House, the last home of Adam Smith; and through investment in the preparation of new learning materials.

Our current three-year financial plan proposes continued investment in the quality and capacity of space, consistent with the objectives of our new Strategy 2025. Building Flourishing Communities will be physically manifested by embarking on the enhancement of Student Union facilities; continuation of the rolling refurbishment of the Library and of Residential accommodation; and by developing a student hub at the Borders campus, bringing together disparately located student services to provide a cohesive and coherent service for students. Pioneering in Education will be expressed in the continuation of work across the University to upgrade a variety of Learning and Teaching spaces, including, the creation of a new 'mini' Learning Commons in the Postgraduate Centre. Excellence in Research and Enterprise will benefit from participation in the Edinburgh and South East Scotland City deal, primarily through utilisation of UK government funding for the development of a National Robotarium at Heriot-Watt; maintenance of capacity to develop new research centres, most likely aligned with our efforts to recruit

'Bicentennial Leaders', including a nascent proposal in relation to brewing and distilling; and utilisation of the research capital grant, funded jointly by the SFC and the UK Government's Department for Business, Energy and Industrial Strategy (DBEIS). We will advance our ambition to be Globally Connected through continued investment in the University's general IT infrastructure; in the development of a new Enterprise and Resource Planning System (bringing together Finance, Procurement, Payroll, HR, Planning); and in other business systems.

The transformation of our offering in Dubai, precipitated a specific need to fund the fit-out of our new campus. Through the extension of our relationship with our existing private placement investors, we secured £30m of capital funding to realise our vision. This additional debt will mature in 2027 and 2029, but the Court has committed to making arrangements to service the Private Placement Debt through the establishment of a Loan Servicing Fund, designed to accumulate all of the required repayments as they fall due.

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 strategy that expects 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. Once again, our revised near-term 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. In this environment, we have gained certainty over debt servicing costs through use of long-term, fixed low-rate interest bonds.

**SCOPE OF THE FINANCIAL STATEMENTS**

The financial statements for the year-ended 31 July 2019, 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**

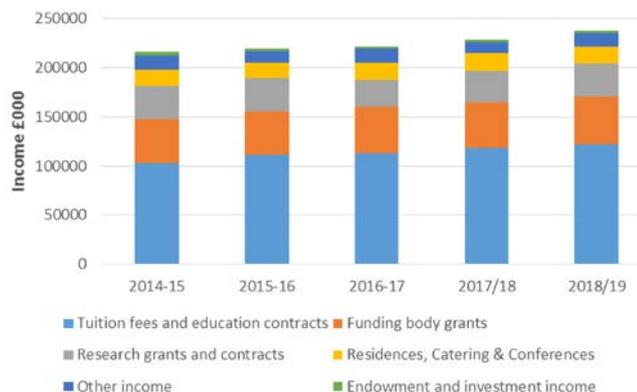
**Results for the year**

The Group reported a deficit, before other gains and losses, of £28.5m. After other gains, the reported deficit for the year was £27.7m. The main contributor to that deficit for the year is the reflection of a new USS deficit recovery plan. Following the 2017 actuarial valuation, there has been a consequential increase on the University's USS pension deficit provision, which has increased, from £15.9 million to £48.9 million, precipitating a charge of £33.0m; an increase that will be transient given the conclusion of the subsequent 2018 valuation, which suggests that there will be a £20.9m decrease in the University's USS pension deficit provision in the coming year.

After the tax credits and recognition of the unrealised actuarial loss on pension schemes, the total comprehensive income for the year is reported as a deficit of £34.7m. That actuarial loss comprising £21.3m loss arising from changes in the actuary's financial assumptions set against a £8.3m gain associated with a return on assets beyond that anticipated by the actuary, and a £6.1m gain arising from changes in demographic assumptions.

**Income**

In 2018/19, the Group achieved total income growth of 3.9%, with total income increasing by £9.0m to £237.3m (2018: £228.3m). That growth was driven primarily by continued growth in tuition fee income and research grant income.



Continued growth in on-campus student numbers and associated tuition fees, saw that category of income grow by £4.0m over the year to £121.8m (2018: £117.8m):

Although there was a small amount of growth in student numbers on Scottish campuses fee income fell by £1.9m: a reduction in income from Home/EU students and students attending Heriot-Watt from England Wales and Northern Ireland being offset by fee income from international students which grew.

Dubai saw a £2.5m increase in income despite a small decrease in student numbers of 0.1%. At our Malaysian Campus, the growth in fee income in the year was £1.8m, reflecting the 6% growth in student numbers, associated, in large part, with larger cohorts.

There was, once again, a net reduction in student numbers associated with Independent Distance Learning and Approved Learning Partners. In relation to Independent Distance Learning, largely reflecting the downturn in the fortunes of Edinburgh Business School reported in previous years, associated with currency fluctuation, conflicts and keen competition; and in relation to Approved Learning Partners reflecting the decision to shift away from high volume-low revenue partnerships to more rewarding activity.

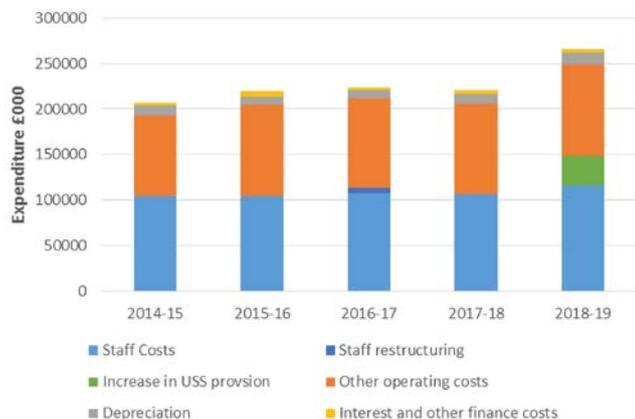
Funding body grants have increased by £1.1m to £48.4m (2018: £47.3m). This reflects relatively little movement in the number of funded places. At 20.4% (2018: 20.7%) of total income, Heriot-Watt's proportion of income derived from this source is likely to remain among the lowest in Scotland, reflecting the diversity of our income streams.

This year saw an increase in research grant and contract income to £33.6m (2018: £31.4m), indicating a continued trend of growth from research grants income, but also continuing to reflect the volatility related to FRS 102's income recognition requirements for contracts that lack performance conditions.

Other income has increased by £1.7m, mainly due to a rise in other commercial income of £1.4m. This shows a recovery from last year where this category fell significantly due to the challenges being encountered within the oil and gas sector.

## Student numbers

	2017/18	Change	2018/19
<b>Scottish Campuses</b>			
Undergraduates	7,156	3.2%	7,383
Taught Postgraduates	1,571	-8.0%	1,445
Research Postgraduates	1,050	-2.8%	1,021
	9,777	0.7%	9,849
<b>Dubai Campus</b>			
Undergraduates/foundation	2,193	-3.0%	2,127
Taught Postgraduates	1,398	4.1%	1,456
Research Postgraduates	21	19.0%	25
	3,612	-0.1%	3,608
<b>Malaysia Campus</b>			
Undergraduates/foundation	1,845	8.2%	1,996
Taught Postgraduates	252	-10.3%	226
Research Postgraduates	-	0.0%	-
	2,097	6.0%	2,222
<b>TOTAL ON-CAMPUS</b>	<b>15,486</b>	<b>1.2%</b>	<b>15,679</b>
<b>Independent Distance Learners and Students at Approved Learning Partners</b>			
Undergraduates	901	-31.9%	614
Taught Postgraduates	11,837	-5.4%	11,203
Research Postgraduates	416	-17.5%	343
	13,154	-7.6%	12,160
<b>GRAND TOTAL</b>	<b>28,640</b>	<b>-2.8%</b>	<b>27,839</b>



**Expenditure**

At £116.0m (2018: £109.2m), total staff costs, excluding any restructuring costs and movement in the USS pension provision, increased by £6.8m (6.2%). The underlying salary costs of £90.3m (2018: £86.6m) represented an increase of 4.3% on the previous year; reflecting staff numbers growth associated with growth in our research activity and the continued growth of our Malaysian operation; as well as salary increases associated with both natural incremental salary growth and a base pay award of 2% with additional increases of up to 2.7% for lower grades.

The University’s contributions to various pension schemes increased to £14.4m (2018: £13.2m), the 9.1% rise reflects the increase in pensionable staff pay and an increase of 1.5% in the employer’s contributions payable in respect of the Universities Superannuation

Scheme from 1 April 2019. The consequences of the 2017 actuarial valuation of USS has also precipitated a charge associated with an increase in the USS deficit recovery provision of £32.6m (2018: £2.7m decrease). Given its materiality, that sum has been disclosed as a line item on the face of the Statement of Comprehensive Income. We now know, following the conclusion of a subsequent 2018 valuation of the scheme, that increase is transient, with an expected reduction of £20.9m likely in the coming year.

Other operating expenses have increased by £1.3m. Increases of £2.5m in academic services and £2.7m in administration and central services have been partially offset by a credit of £2.0m to premises costs following a beneficial renegotiation of the Malaysian campus lease. At £4.3m (2018: £4.6m), interest and other finance costs are lower than in the previous year, mainly due to a decrease in the net charge on pension assets.

**FINANCIAL POSITION**

**Net assets**

At the end of the year, the Group had net assets of £46.2m (2018: £80.9m), a decrease of £34.7m on the previous year.

The £14.2m net increase in intangible and tangible fixed assets to £231.6m (2018: £217.4m) reflects capital development during the current year, which saw further construction work on GRID: a pioneering innovation building, integrating twenty-first century learning and teaching spaces, research laboratories and workspaces, innovation and enterprise space; interim work on refurbishment of the Library; space improvements within the Edinburgh Business School and other learning and teaching space as well as redevelopment of Lord Thomson Hall.

The net £1.0m reduction in investment assets to £32.0m (2018: £33.0m) reflects £2.2m of disposals (mainly due to Edinburgh Business School’s further realisation of investments to fund in year capital investment) and a small decrease in the market value of investment properties. This is offset by £1.0m of increases in market value and £0.5m reinvestment of income earned from investments.

A net decrease of £4.8m in trade and other receivables to £48.9m (2018: £53.7m) reflects decreases in research grants

receivables and trade receivables due at the year-end; partly offset by an increase in prepayments and accrued income.

Creditors due within one year decreased by £0.8m to £82.8m (2018: £83.6m) with a £2.1m decrease in accruals and deferred income offset by increases in Grants received in advance for research and other taxation and social security.

Creditors falling due after more than one year have decreased by £1.1m to £189.9m (2018: £191.0m). An additional £2.0m has been received in loans from the Scottish Funding Council's Universities Carbon Reduction Fund but this is offset by a small amount of repayments on previous loans and a decrease of £2.8m in deferred capital grants.

Measuring long-term borrowings as a percentage of income gives an indication of the level of borrowings relative to the size of the institution and gives an indication of both the institution's exploitation of its potential to support development and the risks associated with servicing repayments and interest on such debt. Having raised £112m by way of a private placement during 2016/17, Heriot-Watt's borrowings now represent 48.9% (2018: 50.0%) 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 £44.1m increase in pension provisions to £70.1m (2018: £26.0m) reflects a £33.0m increase 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 £11.2m increase in the year-end net liability in relation to the Lothian Pension Fund. As mentioned above, a further valuation of the USS fund following the balance sheet date indicates a significant reduction in the required provision, in next year's financial statements.

## RESERVES

The Group's reserves fell by £34.7m to £46.2m (2018: £80.9m) during the year.

Disaggregating that movement:

- > Endowment reserves fell by £0.9m to £10.5m (2018: £11.4m) during the year (note 19) with the fall being mainly attributable to a decrease in the market value of endowment investments of £1.0m.
- > Restricted reserves fell by £1.8m to £6.9m (2018: £8.7m) during the year (note 20). That fall was attributable to expenditure of £2.5m (£2.1m research, £0.4m donations), offset by £0.5m of new philanthropic donations and £0.1m increase in the market value of invested donations.
- > The Revaluation Reserve has reduced by £0.1m from £3.1m to £3.0m following the transfer of revalued assets from Edinburgh Business School to Heriot-Watt University as part of the business combination.
- > Unrestricted reserves fell by £31.8m to £25.9m (2018: £57.7m) during the year. That fall being attributable to an unrestricted deficit of £27.8m and an actuarial loss arising of £7.0m from the Lothian Pension Fund valuation, offset by transfers from restricted reserves of £3.2m.

## CASH FLOW

At 31 July 2019, cash and cash equivalents sat at £76.4m, a reduction of £1.0m on the previous year-end (2018: £77.4m). This represents 32% (2018: 34%) of total income, or net liquidity of 117 days (2018: 124 days).

Chief among the contributors to the decrease of £1.0m in cash and cash equivalents were the payments to acquire fixed assets of £26.4m, which is at a very similar level to the spend 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 in 2016/17 which has resulted in an increase in interest payable since then but the interest rate is lower than that associated with the pre-existing borrowings. The payments for fixed assets are offset by an increase in the actuarial loss in respect of pension schemes of £7.0m (2018: gain of £15.3m).

In addition to the loss for the year of £27.7m, adjustment for depreciation charges, movements in debtor and creditor balances and a range of unrealised gains and losses result in net cash inflow from operating activities of £26.6m. Taken together with the cash outflows from investing activities of £24.0m and the net costs of financing of £3.5m, there is an overall reduction in cash and cash equivalents over the year of £0.9m.

# 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 2019 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 the 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 2019, 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.

### The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the University Court, such as in respect of the value of defined benefit pension obligations and the carrying value of fixed assets and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group and the University's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### Going concern

The University Court has prepared the financial statements on the going concern basis as it does not intend to liquidate the Group or the University or to cease their operations, and as it has concluded that the Group and the University's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the University Court's

conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group and the University's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the University will continue in operation.

### Other information

The University Court 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.

# Independent auditor's report (continued)

## 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.

## The University Court's 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 they either intend to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

## 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

16 December 2019



## Consolidated and University Statement of Comprehensive Income and Expenditure for the year ended 31 July 2019

	Note	Consolidated		University	
		2019 £000	2018 £000	2019 £000	2018 £000
<b>Income</b>					
Tuition fees and education contracts	1	121,844	117,824	98,767	96,464
Funding body grants	2	48,393	47,280	48,393	47,276
Research grants and contracts	3	33,642	31,424	33,563	31,323
Other income	4	31,022	29,365	25,288	24,989
Investment income	5	1,357	1,097	1,388	1,115
Endowments and donations	6	1,091	1,313	850	1,056
Donation from EBS	30	-	-	10,273	-
		<b>237,349</b>	<b>228,303</b>	<b>218,522</b>	<b>202,223</b>
<b>Expenditure</b>					
Staff costs	7	116,402	109,667	102,649	97,882
Increase/(decrease) in USS Pension Provision	18	32,613	(2,741)	32,613	(2,659)
Other operating expenses	9	100,223	98,934	85,190	78,901
Depreciation and impairment		12,392	10,484	10,293	8,677
Interest and other finance costs	8	4,273	4,604	4,225	4,563
		<b>265,903</b>	<b>220,948</b>	<b>234,970</b>	<b>187,364</b>
<b>(Deficit)/Surplus before other gains and losses</b>		<b>(28,554)</b>	<b>7,355</b>	<b>(16,448)</b>	<b>14,859</b>
(Loss)/gain on disposal of fixed assets		(2)	37	-	37
(Loss)/gain on investment property		(150)	800	(150)	800
Gain/(loss) on investments		953	689	947	(3,210)
<b>(Deficit)/Surplus before tax</b>		<b>(27,753)</b>	<b>8,881</b>	<b>(15,651)</b>	<b>12,486</b>
Taxation	10	49	756	107	-
<b>(Deficit)/Surplus for the year</b>		<b>(27,704)</b>	<b>9,637</b>	<b>(15,544)</b>	<b>12,486</b>
Actuarial (loss)/gain in respect of pension schemes	25	(6,976)	15,305	(6,604)	15,607
<b>Total comprehensive income for the year</b>		<b>(34,680)</b>	<b>24,942</b>	<b>(22,148)</b>	<b>28,093</b>
Represented by:					
Endowment comprehensive income for the year		(972)	711	866	702
Restricted comprehensive income for the year		(1,799)	(1,849)	(1,649)	(1,999)
Unrestricted comprehensive income for the year		(31,909)	26,080	(21,365)	29,390
		<b>(34,680)</b>	<b>24,942</b>	<b>(22,148)</b>	<b>28,093</b>

All items of income and expenditure relate to continuing activities.

The accounting policies on pages 46-50 and the notes on pages 51-71 form an integral part of these financial statements.

## Statement of Changes in Reserves for the year ended 31 July 2019

	Income and Expenditure reserve			Revaluation Reserve	Total
	Endowment	Restricted	Unrestricted		
	£000	£000	£000	£000	£000
<b>Consolidated</b>					
<b>Balance at 1 August 2017</b>	10,720	10,502	31,635	3,058	<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>Balance at 1 August 2018</b>	<b>11,431</b>	<b>8,653</b>	<b>57,715</b>	<b>3,058</b>	<b>80,857</b>
(Deficit)/Surplus from income and expenditure statement	(545)	962	(28,121)	-	<b>(27,704)</b>
Other comprehensive income	-	-	(6,976)	-	<b>(6,976)</b>
Transfers between revaluation and unrestricted reserve	-	-	94	(94)	-
Transfers between restricted and unrestricted reserve	-	(3,188)	3,188	-	-
Transfers between endowment and restricted reserve	(427)	427	-	-	-
<b>Total comprehensive income for the year</b>	<b>(972)</b>	<b>(1,799)</b>	<b>(31,815)</b>	<b>(94)</b>	<b>(34,680)</b>
<b>Balance at 31 July 2019</b>	<b>10,459</b>	<b>6,854</b>	<b>25,900</b>	<b>2,964</b>	<b>46,177</b>
<b>University</b>					
<b>Balance at 1 August 2017</b>	8,891	10,502	30,295	2,875	<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>Balance at 1 August 2018</b>	<b>9,593</b>	<b>8,503</b>	<b>59,685</b>	<b>2,875</b>	<b>80,656</b>
Surplus from income and expenditure statement	1,221	814	(17,579)	-	<b>(15,544)</b>
Other comprehensive income	-	-	(6,604)	-	<b>(6,604)</b>
Transfers between restricted and unrestricted reserve	-	(2,818)	2,818	-	-
Transfers between endowment and restricted reserve	(355)	355	-	-	-
<b>Total comprehensive income for the year</b>	<b>866</b>	<b>(1,649)</b>	<b>(21,365)</b>	<b>-</b>	<b>(22,148)</b>
<b>Balance at 31 July 2019</b>	<b>10,459</b>	<b>6,854</b>	<b>38,320</b>	<b>2,875</b>	<b>58,508</b>

The accounting policies on pages 46-50 and the notes on pages 51-71 form an integral part of these financial statements

## Consolidated and University Balance Sheet for the year ended 31 July 2019

	Note	Consolidated		University	
		2019 £000	2018 £000	2019 £000	2018 £000
<b>Non-current assets</b>					
Intangible assets and goodwill	11	1,171	6	1,171	-
Tangible fixed assets	12	230,460	217,423	192,839	171,045
Investments	13	32,010	32,956	37,997	27,812
		<b>263,641</b>	<b>250,385</b>	<b>232,007</b>	<b>198,857</b>
<b>Current Assets</b>					
Stock	14	2	2	-	-
Trade and other receivables	15	48,883	53,696	71,849	76,137
Cash and cash equivalents		76,443	77,365	67,571	69,103
		<b>125,328</b>	<b>131,063</b>	<b>139,420</b>	<b>145,240</b>
<b>Less Creditors:</b> amounts falling due within one year	16	<b>82,812</b>	83,593	<b>81,397</b>	77,323
<b>Net current assets</b>		<b>42,516</b>	<b>47,470</b>	<b>58,023</b>	<b>67,917</b>
<b>Total assets less current liabilities</b>		<b>306,157</b>	<b>297,855</b>	<b>290,030</b>	<b>266,774</b>
<b>Creditors:</b> amounts falling due after more than one year	17	<b>189,857</b>	190,991	<b>161,399</b>	161,398
<b>Provisions</b>					
Pension provisions	18	70,123	26,007	70,123	24,720
<b>Total net assets</b>		<b>46,177</b>	<b>80,857</b>	<b>58,508</b>	<b>80,656</b>
<b>Restricted reserves</b>					
Income and expenditure – endowment reserve	19	10,459	11,431	10,459	9,593
Income and expenditure – restricted reserve	20	6,854	8,653	6,854	8,503
<b>Unrestricted reserves</b>					
Income and expenditure - unrestricted		25,900	57,715	38,320	59,685
Revaluation reserve		2,964	3,058	2,875	2,875
<b>Total reserves</b>		<b>46,177</b>	<b>80,857</b>	<b>58,508</b>	<b>80,656</b>

The accounting policies on pages 46-50 and the notes on pages 51-71 form an integral part of these financial statements, which were approved by the University Court on 13 December 2019 and signed on its behalf by:

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

13 December 2019

**Morag McNeill**  
Deputy Chair of Court

13 December 2019

**Andrew Menzies**  
Director of Finance

13 December 2019

## Consolidated Statement of Cash Flows for the year ended 31 July 2019

		Consolidated & University	
		2019	2018
Note		£000	£000
<b>Cash flow from operating activities</b>			
	(Loss)/Surplus for the year	(27,704)	9,637
<b>Adjustment for non-cash items</b>			
	Depreciation and impairment of tangible fixed assets	12,397	10,484
	(Gain) on restatement of tangible fixed assets in overseas entities	(205)	(164)
	(Increase) in fixed asset investments	(960)	(714)
	Decrease in stock	-	4
	Decrease/(increase) in debtors	4,813	(1,707)
	(Decrease)/increase in creditors within one year	(781)	385
	(Decrease)/increase in creditors after one year	(1,134)	1,771
	Increase/(decrease) in provisions	44,116	(15,131)
	Loss/(gain) on investment land revaluation	13	150
	Actuarial (loss)/gain in respect of pension schemes	18	(6,976)
			15,305
<b>Adjustment for investing or financing activities</b>			
	Interest receivable	5	(1,357)
	Net return on pension assets	25	679
	Interest payable	8	3,594
	Gain/(loss) on disposal of tangible fixed assets	12	2
	Net amounts drawn down		(1,723)
	Repayments of amounts borrowed		-
			45
	<b>Net cash inflow from operating activities</b>	<b>24,911</b>	<b>20,402</b>
<b>Cash flows from investing activities</b>			
	Payments to acquire fixed assets	12	(25,229)
	Payments to acquire fixed asset investments	13	(2,291)
	Payments to acquire intangible assets and goodwill	11	(1,165)
	Proceeds from sale of fixed assets and investments	13,12	(2)
	Interest receivable	5	1,357
	Disposals of fixed asset investments	13	4,047
	Net return on pension assets	25	(679)
			(23,962)
			(24,162)
<b>Cash flows from financing activities</b>			
	Interest payable	8	(3,594)
	Disposal of current asset investments		-
	Net amounts drawn down		1,723
	Repayments of amounts borrowed		-
			(1,871)
			(523)
	<b>(Decrease) in cash and cash equivalents in the year</b>	<b>(922)</b>	<b>(4,283)</b>
	Cash and cash equivalents at beginning of the year	77,365	81,648
	Cash and cash equivalents at end of the year	76,443	77,365

The accounting policies on pages 46-50 and the notes on pages 51-71 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 2019. 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 or other restrictions 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).

Up to 31 July 2019, the date on which Heriot-Watt and Edinburgh Business School effected their business combination, the scheme available to new members of staff on Edinburgh Business School contracts of employment was the Universities Superannuation Scheme (USS). Existing employees were entitled to maintain their membership of the Lothian Pension Fund (LPF). Following the business combination, all staff have assumed Heriot-Watt conditions of employment, but those members of staff who under Heriot-Watt conditions of service would be ineligible for USS membership, retain their right to maintain such membership.

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 equivalent 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. Intangible assets

Intangible assets are amortised over their estimated remaining economic lives as follows:

Software:	3-5 years
Intellectual property:	7 years

Intangible assets are subject to periodic impairment reviews as appropriate.

## 10. 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

With the exception of Panmure House, 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.

Panmure House is considered to have historical value and has been included in the balance sheet at depreciated replacement cost (see accounting policy 19b for further details). It will be depreciated on a straight line basis as above.

### 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.

### 11. 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.

### 12. 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.

### 13. 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.

### 14. 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.

### 15. 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.

### 16. Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

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

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

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

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

### 17. 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.

### 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 periods.

#### 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.

- **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.

Traditionally, the scheme actuary has reviewed 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. These accounts reflect the triennial valuation, as at 31 March 2017. Since the balance sheet date, a further valuation, as at March 2018 has been completed. The more recent valuation indicates a reduction in the scheme's funding shortfall, with agreement of a new deficit recovery plan; and a consequential decrease in the provision for the obligation to fund the deficit on the USS pension, an adjustment that will be reflected in the University's Financial Statements for the year ended 31 July 2020. The flux in the value of that provision highlights the degree of uncertainty that prevails over the adequacy, at any point in time, 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. Recognising that, the financial impact of that uncertainty is quantified in the sensitivity analysis of the principal assumptions used to construct the provision, included in note 18.

- **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. Recognising that, the financial impact of that uncertainty is quantified in the sensitivity analysis of the principal assumptions used to measure the scheme liabilities included in note 25b.

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

- **Pension Schemes**

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 University is satisfied that the 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.

- **Valuation of Panmure House**

Panmure House, the final home of the economist Adam Smith, was transferred from Edinburgh Business School to Heriot-Watt University as part of the business combination. It was valued during 2018/19 by an external valuer who adopted the Operational Asset (Specialised) basis of valuation, making a valuation on an existing use value, determined on a depreciated replacement cost basis. It is recognised that the value of Panmure House is significantly impacted by its history which, whilst not directly related to its current use, is an important consideration of the selection of this property for use as an educational asset. The University is satisfied that the historic nature of the building is an intrinsic part of its value to the University and therefore has been correctly reflected in the value included in the accounts.

## Notes to the accounts

**1. Tuition fees and education contracts**

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Home and EU Students	13,719	15,775	13,765	15,600
Rest of UK Students	13,341	14,155	13,418	14,155
International Students	80,643	75,075	66,952	63,537
Higher education contracts	8,493	7,408	1,677	197
Research training support grants	2,092	1,795	2,068	1,792
Short course fees	319	272	210	227
Examination and graduation fees	3,237	3,344	677	960
	<b>121,844</b>	<b>117,824</b>	<b>98,767</b>	<b>96,464</b>

**2. Funding body grants**

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
SFC teaching grants	26,559	26,950	26,559	26,950
SFC research and knowledge exchange grants	17,459	16,989	17,459	16,989
Release of deferred capital grants	2,727	2,101	2,727	2,094
Other grants	1,648	1,240	1,648	1,243
	<b>48,393</b>	<b>47,280</b>	<b>48,393</b>	<b>47,276</b>

**3. Research grants and contracts**

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Research councils	15,644	14,366	15,644	14,367
Charities	1,610	1,634	1,610	1,634
UK Government	2,165	1,976	2,165	1,976
UK Industry	3,175	3,627	3,135	3,574
EU Commission	5,977	5,549	5,977	5,549
EU other	815	701	815	701
Other overseas	2,902	2,328	2,902	2,328
Other sources	1,354	1,243	1,315	1,194
	<b>33,642</b>	<b>31,424</b>	<b>33,563</b>	<b>31,323</b>

**4. Other income**

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Residences, catering and conferences	17,693	18,019	17,051	17,361
Income from governments and other funding bodies	957	1,184	781	986
Release of deferred capital grants	1,687	1,799	932	964
Other commercial income	4,894	3,535	2,665	1,790
Sports and exercise	3,000	2,825	-	-
Other income, including foreign currency gains	2,791	2,003	3,859	3,888
	<b>31,022</b>	<b>29,365</b>	<b>25,288</b>	<b>24,989</b>

## 5. Investment income

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Investment income on endowments	362	387	292	300
Investment income on restricted reserves	43	40	43	40
Other investment income	952	670	1,053	775
	<b>1,357</b>	<b>1,097</b>	<b>1,388</b>	<b>1,115</b>

## 6. Endowments and donations

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
New endowments	121	217	121	217
Donations with restrictions	812	1,093	661	836
Unrestricted donations	158	3	68	3
	<b>1,091</b>	<b>1,313</b>	<b>850</b>	<b>1,056</b>

## 7. Staff costs

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Salaries	90,325	86,578	77,802	76,602
Social security costs	7,744	7,485	7,164	6,970
Staff restructuring costs	73	494	30	443
Employer's pension contributions (note 25):				
USS	10,539	9,661	10,539	9,083
LPF	3,220	2,940	3,220	2,855
Other	650	575	43	45
Movement in LPF and other pension provisions (note 18):				
Increase in LPF pension deficit	3,869	1,971	3,869	1,921
(Decrease) in other pension provisions	(18)	(37)	(18)	(37)
<b>Total staff costs before movement in USS pension provision</b>	<b>116,402</b>	<b>109,667</b>	<b>102,649</b>	<b>92,564</b>
Increase/(decrease) in USS provision (note 18)	32,613	(2,741)	32,613	(2,659)
<b>Total staff costs</b>	<b>149,015</b>	<b>106,926</b>	<b>135,262</b>	<b>95,223</b>
<b>Analysed between staff working in:</b>				
Academic schools	84,079	79,541	73,994	70,973
Administrative and central service functions	57,106	18,180	53,628	15,236
Premises functions	3,564	4,581	3,448	4,473
Residences and catering	4,266	4,624	4,192	4,541
<b>Total staff costs</b>	<b>149,015</b>	<b>106,926</b>	<b>135,262</b>	<b>95,223</b>

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

	Consolidated		University	
	2019 Number	2018 Number	2019 Number	2018 Number
Academic schools	1,358	1,329	1,126	1,115
Administrative and central service functions	545	480	402	359
Premises functions	143	148	135	141
Residences and catering	106	118	102	114
<b>Total staff numbers</b>	<b>2,152</b>	<b>2,075</b>	<b>1,765</b>	<b>1,729</b>

**EMOLUMENTS OF PRINCIPAL AND VICE-CHANCELLOR****Professor Richard A Williams**

Salary  
Benefits\*  
Pension contributions to USS\*\*

Consolidated & University	
2019 £000	2018 £000
276	269
27	13
6	-
<b>309</b>	<b>282</b>

- A revaluation of Hermiston House during the year precipitated an increase in the apportioned benefit associated with the Principal's residence in that property.

\*\*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	
2019 £000	2018 £000
<b>683</b>	<b>645</b>

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

Consolidated & University	
2019 £000	2018 £000
276	269
38	37
7:1	7:1

Remuneration includes salary and bonuses.

**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  
£200,001 - £210,000  
£280,001 - £290,000  
£300,001 - £310,000

**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  
£200,001 - £210,000  
£280,001 - £290,000  
£300,001 - £310,000

	2019 Number		2018 Number	
	Key management personnel	Other staff	Key management personnel	Other staff
	-	26	-	17
	-	5	-	10
	-	9	-	8
	1	3	1	7
	-	4	-	2
	-	1	-	1
	-	1	-	-
	1	2	1	1
	-	-	-	1
	-	1	-	-
	-	-	1	-
	1	-	-	-
	<b>3</b>	<b>52</b>	<b>3</b>	<b>47</b>
	-	25	-	16
	-	5	-	10
	-	8	-	8
	1	3	1	6
	-	4	-	2
	-	1	-	1
	1	2	1	-
	-	1	-	-
	-	-	1	-
	1	-	-	-
	<b>3</b>	<b>49</b>	<b>3</b>	<b>43</b>

**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 23 and 24 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 (2018: nil).

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

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Loan interest	3,565	3,580	3,580	3,603
Net charge on pension assets	679	981	645	960
Investment management charges	29	43	-	-
	<b>4,273</b>	<b>4,604</b>	<b>4,225</b>	<b>4,563</b>

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

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Academic departments	16,489	16,471	9,655	10,220
Academic services	11,292	8,812	10,824	8,405
Administration and central services	42,175	39,476	35,131	29,733
Premises	15,304	18,570	14,953	15,459
Residences, catering and conferences	4,421	4,542	4,071	4,037
Research grants and contracts	10,542	11,063	10,556	11,047
	<b>100,223</b>	<b>98,934</b>	<b>85,190</b>	<b>78,901</b>
Other operating expenses include:				
External auditor's remuneration – audit	93	91	52	57
External auditor's remuneration – non-audit services	56	68	49	13
Internal auditor's remuneration	97	93	97	93
Operating lease rentals				
- Land & Buildings*	(103)	4,003	1,321	1658
- Other	343	327	173	134

\*The credit associated with operating lease rentals of land and building reflects the effect of the beneficial renegotiation of the Malaysian campus lease.

**10. Taxation**

	Consolidated	
	2019 £000	2018 £000
UK Corporation tax at 19% (2018: 19%)	(49)	(756)

## 11. Intangible fixed assets

Consolidated	Assets in the course of construction	
	£000	Total £000
<b>Cost or valuation</b>		
At 1 August 2018	6	6
Additions	1,165	1,165
<b>At 31 July 2019</b>	<b>1,171</b>	<b>1,171</b>
<b>Amortisation</b>		
At 1 August 2018	-	-
Charge for year	-	-
<b>At 31 July 2019</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>		
<b>At 31 July 2019</b>	<b>1,171</b>	<b>1,171</b>
At 1 August 2018	6	6
<b>University</b>		
<b>Cost or valuation</b>		
At 1 August 2018	-	-
Purchase from EBS	1,171	1,171
<b>At 31 July 2019</b>	<b>1,171</b>	<b>1,171</b>
<b>Amortisation</b>		
At 1 August 2018	-	-
Charge for year	-	-
<b>At 31 July 2019</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>		
<b>At 31 July 2019</b>	<b>1,171</b>	<b>1,171</b>
At 1 August 2018	-	-

Intangible assets comprise the development costs of new online course content.

**12. Tangible fixed assets**

Consolidated	Land and Buildings	Equipment	Assets in the course of construction	Total
	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 August 2018	278,170	63,674	24,572	366,416
Additions	-	1,777	23,452	25,229
Transfers	37,229	3,600	(40,829)	-
Intra group transfers	(782)	(278)	-	(1,060)
Foreign exchange movement	186	235	2	423
Disposals	-	(5)	-	(5)
<b>At 31 July 2019</b>	<b>314,803</b>	<b>69,003</b>	<b>7,197</b>	<b>391,003</b>
<b>Depreciation</b>				
At 1 August 2018	97,500	51,493	-	148,993
Charge for year	7,499	4,451	-	11,950
Impairments	447	-	-	447
Foreign exchange movement	35	183	-	218
Intra group transfers	(782)	(278)	-	(1,060)
Disposals	-	(5)	-	(5)
<b>At 31 July 2019</b>	<b>104,699</b>	<b>55,844</b>	<b>-</b>	<b>160,543</b>
<b>Net Book Value</b>				
<b>At 31 July 2019</b>	<b>210,104</b>	<b>13,159</b>	<b>7,197</b>	<b>230,460</b>
At 1 August 2018	180,670	12,181	24,572	217,423
<b>University</b>				
<b>Cost or valuation</b>				
At 1 August 2018	232,037	58,894	16,753	307,684
Additions	-	1,459	21,952	23,411
Transfers	28,610	3,600	(32,210)	-
Purchase from EBS	8,388	286	-	8,674
Disposals	-	-	-	-
<b>At 31 July 2019</b>	<b>269,035</b>	<b>64,239</b>	<b>6,495</b>	<b>339,769</b>
<b>Depreciation</b>				
At 1 August 2018	88,371	48,268	-	136,639
Charge for year	6,132	3,712	-	9,844
Impairments	447	-	-	447
Disposals	-	-	-	-
<b>At 31 July 2019</b>	<b>94,950</b>	<b>51,980</b>	<b>-</b>	<b>146,930</b>
<b>Net Book Value</b>				
<b>At 31 July 2019</b>	<b>174,085</b>	<b>12,259</b>	<b>6,495</b>	<b>192,839</b>
At 1 August 2018	143,666	10,626	16,753	171,045

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 £7,197,000 (2018: £24,572,000) relating to assets in the course of construction, of which £2,594,000 (2018: £22,908,000) relates to freehold land and buildings and £4,603,000 (2018: £1,387,000) relates to equipment.

At 31 July 2019 land and buildings for the group included £5,852,397 (31 July 2018, £5,852,397) in respect of freehold land which is not depreciated.

### 13. Non-current investments

	Long/ medium term investments	Investment in UK subsidiaries	Heriot-Watt University Malaysia Sdn Bhd	Minority investments in unquoted companies	Investment properties	Total
	£000	£000	£000	£000	£000	£000
<b>Consolidated</b>						
<b>At 1 August 2018</b>	20,670	-	-	36	12,250	32,956
Additions	2,291	-	-	-	-	2,291
Appreciation	960	-	-	-	(150)	810
Disposals	(4,047)	-	-	-	-	(4,047)
<b>At 31 July 2019</b>	<b>19,874</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>12,100</b>	<b>32,010</b>
<b>University</b>						
<b>At 1 August 2018</b>	9,773	2,000	3,753	36	12,250	27,812
Additions	490	-	-	-	-	490
Transfers	8,902	-	-	-	-	8,902
Appreciation	918	-	235	-	(150)	1,003
Gift aid received	-	-	-	-	-	-
Disposals	(210)	-	-	-	-	(210)
<b>At 31 July 2019</b>	<b>19,873</b>	<b>2,000</b>	<b>3,988</b>	<b>36</b>	<b>12,100</b>	<b>37,997</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.

### 14. Stock

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
General consumables	2	2	-	-
	2	2	-	-

**15. Trade and other receivables**

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Amounts falling due within one year:				
Research grants receivables	17,410	19,104	17,340	19,096
Trade receivables	17,946	23,799	17,479	22,188
Trade debt provision	(1,304)	(1,785)	(1,262)	(1,152)
Prepayments and accrued income	13,199	10,675	12,308	10,797
Amounts due from group undertakings	-	-	11,543	10,496
	<b>47,251</b>	<b>51,793</b>	<b>57,408</b>	<b>61,425</b>
Amounts falling due after more than one year:				
Loans by parent undertakings	-	-	12,809	12,809
Prepayments and accrued income	1,632	1,903	1,632	1,903
	<b>48,883</b>	<b>53,696</b>	<b>71,849</b>	<b>76,137</b>

Included in prepayments and accrued income is £1,632,000 (2018: £1,903,000) 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.

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

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Unsecured loans	52	97	52	97
Grants in advance for research	32,984	31,657	32,896	31,639
Other grants in advance	246	692	246	692
Other creditors	279	182	279	182
Trade creditors	4,117	4,171	2,994	3,319
Other taxation and social security	4,495	4,048	4,664	4,127
Accruals and deferred income	40,639	42,746	37,686	35,676
Amounts owed to subsidiary undertakings	-	-	2,580	1,591
	<b>82,812</b>	<b>83,593</b>	<b>81,397</b>	<b>77,323</b>

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

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Unsecured loans	116,172	114,449	116,172	114,449
Deferred income	73,685	76,542	45,227	46,949
	<b>189,857</b>	<b>190,991</b>	<b>161,399</b>	<b>161,398</b>
Analysis of secure and unsecured bank loans				
Due within one year or on demand	681	569	681	569
Due between one and two years	497	298	497	298
Due between two and five years	1,987	1,191	1,988	1,191
Due in five years or more	113,007	112,391	113,007	112,391
	<b>116,172</b>	<b>114,449</b>	<b>116,172</b>	<b>114,449</b>

## 18. Provisions for liabilities

	Pension Provisions			Total £000
	Obligation to fund USS deficit <sup>1</sup> £000	Lothian pension fund deficit <sup>2</sup> £000	Unfunded pension benefits <sup>3</sup> £000	
<b>Consolidated</b>				
<b>At 1 August 2018</b>	15,919	9,757	330	26,006
Utilised in year	(10,539)	(3,220)	(18)	(13,777)
Additions	43,502	14,392	-	57,894
<b>At 31 July 2019</b>	<b>48,882</b>	<b>20,929</b>	<b>312</b>	<b>70,123</b>
<b>Analysis of net movement in provision</b>				
Charged to staff costs (note 7)	32,613	3,869	(18)	36,464
Net charge on pension assets (note 8)	352	327	-	679
Actuarial loss on pension schemes	-	6,976	-	6,976
Total movement	<b>32,965</b>	<b>11,172</b>	<b>(18)</b>	<b>44,119</b>
<b>University</b>				
<b>At 1 August 2018</b>	15,311	9,079	330	24,720
Transfers	608	678	-	1,286
Utilised in year	(10,539)	(3,220)	(18)	(13,777)
Additions	43,502	14,392	-	57,894
<b>At 31 July 2019</b>	<b>48,882</b>	<b>20,929</b>	<b>312</b>	<b>70,123</b>
<b>Analysis of net movement in provision</b>				
Charged to staff costs (note 7)	32,613	3,869	(18)	36,464
Net return on pension assets (note 8)	338	307	-	645
Actuarial loss on pension schemes	-	6,976	-	6,976
Transfers from EBS	621	697	-	1,318
Total movement	<b>33,572</b>	<b>11,849</b>	<b>(18)</b>	<b>45,403</b>

<sup>1</sup>The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the USS to fund deficit payments in accordance with the deficit recovery plan. In calculating this provision, management have estimated future staff levels within the USS scheme for the duration of the contractual obligation and salary inflation. The adoption of the new deficit recovery plan following the 2017 actuarial valuation has given rise to a significant increase in the deficit provision, which has increased, from £15.9 million to £48.9 million. Since the year end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed of which more detail is given in note 25a. As at 31 July 2019 and with all other assumptions used to calculate the provision unchanged, this would have resulted in a revised provision of £28.0 million, a decrease of £20.9 million from the current year-end provision. Key assumptions are set out below and further information, including details on the 2017 actuarial valuation is provided in note 25a.

	2019	2018
Discount rate	1.58%	2.16%
Pensionable salary growth	N/A	N/A

As set out in the accounting policies, there are some critical judgements made in estimating the obligation to fund the USS deficit. The sensitivity of the principal assumptions used to measure the USS deficit provision are set out below:

**Change in assumptions at 31 July 2019:**

	<b>Estimate of increase in Provision to fund USS deficit recovery (£000)</b>
0.5% pa decrease in discount rate	2,144
0.5% pa increase in salary inflation over duration	2,116
0.5% pa increase in salary inflation year 1 only	239
0.5% pa increase in staff changes over duration	2,137
0.5% pa increase in staff changes year 1 only	241
1.0% increase in deficit contributions from April 2020	4,957
1 year increase in term	4,377

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

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

**19. Endowment reserves**

	Restricted permanent endowments £000	Unrestricted permanent £000	Expendable endowments £000	Consolidated	
				2019	2018
				Total £000	Total £000
<b>Balances at 1 August 2018</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>
New endowments	5	-	116	<b>121</b>	217
Investment income	219	71	72	<b>362</b>	387
Expenditure	(111)	(71)	(245)	<b>(427)</b>	(441)
	<b>7,180</b>	<b>1,838</b>	<b>2,469</b>	<b>11,487</b>	10,883
Increase/(decrease) in market value of investments	613	(1,838)	197	<b>(1,028)</b>	548
<b>As at 31 July 2019</b>	<b>7,793</b>	<b>-</b>	<b>2,666</b>	<b>10,459</b>	11,431
<b>Represented by:</b>					
Capital	7,466	-	2,366	9,832	10,451
Accumulated income	327	-	300	627	980
	<b>7,793</b>	<b>-</b>	<b>2,666</b>	<b>10,459</b>	11,431
<b>Analysis by type and purpose:</b>					
Lectureships				<b>2,497</b>	2,290
Scholarships and bursaries				<b>4,670</b>	4,310
Prize funds				<b>1,464</b>	1,332
General				<b>1,828</b>	3,499
				<b>10,459</b>	11,431
<b>Analysis by assets:</b>					
Current and non-current asset investments				<b>9,832</b>	10,451
Cash and cash equivalents				<b>627</b>	980
				<b>10,459</b>	11,431

**20. Restricted reserves**

	Research grants £000	Donations £000	Consolidated	
			2019 Total £000	2018 Total £000
<b>Balances at 1 August 2018</b>	6,759	1,894	<b>8,653</b>	10,502
New donations	-	811	<b>811</b>	988
Investment income	-	43	<b>43</b>	40
Expenditure	(2,064)	(697)	<b>(2,761)</b>	(2,949)
Increase in market value of investments	-	108	<b>108</b>	72
	(2,064)	265	<b>(1,799)</b>	(1,849)
<b>As at 31 July 2019</b>	<b>4,695</b>	<b>2,159</b>	<b>6,854</b>	8,653
<b>Analysis of other restricted funds/donations by type and purpose:</b>				
Lectureships			<b>130</b>	-
Scholarships and bursaries			<b>1,362</b>	1,223
Research support			<b>4,694</b>	6,762
General			<b>668</b>	668
			<b>6,854</b>	8,653

**21. Cash and cash equivalents**

	Consolidated	
	2019 £000	2018 £000
<b>Balances at 1 August 2018</b>	<b>77,365</b>	81,648
Cash flows, in year	<b>(922)</b>	(4,283)
<b>As at 31 July 2019</b>	<b>76,443</b>	77,365

**22. Capital and other commitments**

	Consolidated & University	
	2019 £000	2018 £000
Provision has not been made for the following capital commitments at 31 July 2019:		
Commitments contracted	<b>3,015</b>	15,127
Authorised but not contracted	<b>22,224</b>	34,780
	<b>25,239</b>	49,907

## 23. Lease obligations

At 31 July 2019 commitments under operating leases were as follows:

	31 July 2019			2019	2018
	Land and buildings £000	Plant and machinery £000	Other leases £000	Total £000	Total £000
<b>Consolidated</b>					
<b>Payable during the year*</b>	(103)	142	201	<b>240</b>	4,330
<b>Future minimum lease payments due:</b>					
Not later than 1 year	2,129	226	67	<b>2,422</b>	2,708
Later than 1 year and not later than 5 years	13,659	382	62	<b>14,103</b>	19,407
Later than 5 years	71,694	-	-	<b>71,694</b>	73,902
<b>Total lease payments due</b>	<b>87,379</b>	<b>750</b>	<b>330</b>	<b>88,459</b>	100,347
<b>University</b>					
<b>Payable during the year</b>	1,321	6	167	<b>1,494</b>	1,792
<b>Future minimum lease payments due:</b>					
Not later than 1 year	1,389	1	67	<b>1,457</b>	1,340
Later than 1 year and not later than 5 years	5,462	-	62	<b>5,524</b>	4,482
Later than 5 years	2,914	-	-	<b>2,914</b>	2,954
<b>Total lease payments due</b>	<b>11,086</b>	<b>7</b>	<b>296</b>	<b>11,389</b>	10,568

\*The credit associated with lease rentals payable during the year reflects the effect of the beneficial renegotiation of the Malaysian campus lease.

## 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. The Board of Edinburgh Business School and the Court of Heriot-Watt University agreed to effect a business combination of the two charities at 31 July 2019. From that date, the company will fall dormant.	-	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. The company was dissolved on 20 November 2018.	-	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.

Up to 31 July 2019, the date on which Heriot-Watt and Edinburgh Business School effected their business combination, the scheme available to new members of staff on Edinburgh Business School contracts of employment was the Universities Superannuation Scheme (USS). Existing employees were entitled to maintain their membership of the Lothian Pension Fund (LPF). Following the business combination, all staff have assumed Heriot-Watt conditions of employment, but those members of staff who under Heriot-Watt conditions of service would be ineligible for USS membership, retain their right to maintain such membership.

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.

Full provision has been made for those pension costs that do not arise from externally funded defined benefit 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 £51,245,000 (2018: £13,350,000); and is analysed as follows:

	Employers' pension contributions (note 7)	Net charge on pension assets (note 8)	Provision movement (note 18)	Consolidated	
				2019 £000	2018 £000
Universities Superannuation Scheme	10,539	352	32,613	43,504	7,269
Lothian Pension Fund	3,220	327	3,869	7,416	5,543
Scottish Teachers Superannuation Scheme	37	-	(18)	19	36
Other pension costs	613	-	-	613	502
	<b>14,409</b>	<b>679</b>	<b>36,464</b>	<b>51,552</b>	<b>13,350</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 2017, of the Lothian Pension Fund (LPF) scheme on 31 March 2018, of the Scottish Teachers Superannuation Scheme on 31 March 2016 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 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 University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee benefits", the University 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 University 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 equivalent expense is recognised.

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 the 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 is recognised in profit or loss in accordance with section 28 of FRS102. The University is satisfied that the 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.

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 2019, the percentage was 19.5%; between 1 April 2016 and 31 March 2019, it was 18%, prior to that, it was 16%.

The total cost charged to the statement of comprehensive income is £43,504,000 (2018: £7,269,000) as shown above.

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is at 31 March 2017 (the valuation date), which was carried out using the projected unit method. A valuation as at 31 March 2018 was completed beyond the balance sheet date.

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

The 2017 valuation was the fourth valuation for the scheme 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 £60.0 billion and the value of the Scheme's technical provisions was £67.5 billion indicating a shortfall of £7.5 billion and a funding ratio of 89%.

The key financial assumptions used in the 2017 valuation are described below. More detail is set out in the statement of Funding Principles.

## Notes to the accounts

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% pa.
Discount rate (forward Rates)	Years 1-10: CPI -0.53% reducing linearly to CPI -1.32% Years 11-20: CPI +2.56% reducing linearly to CPI +1.7% by year 21 Years 21+: CPI +1.7%

The main demographic assumption used relates to the mortality assumptions. These assumptions are based on 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:

	2017 Valuation
Mortality base table	<u>Pre-retirement:</u> 71% of AMCO0 (duration 0) for males and 112% of AFC00 (duration 0) for females. <u>Post-retirement:</u> 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females
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.

The current life expectancies on retirement at age 65 are:

	2019	2018
Males currently aged 65 (years)	24.5	24.5
Females currently aged 65 (years)	26.5	26.0
Males currently aged 45 (years)	26.0	26.5
Females currently aged 45 (years)	27.8	27.8

The funding position of the scheme has since been updated on an FRS 102 basis:

	2019	2018
Scheme assets	£67.4bn	£63.6bn
Total scheme liabilities	£79.2bn	£72.0bn
FRS 102 total scheme deficit	£11.8bn	£8.4bn
FRS 102 total funding level	85%	88%

Key assumption used are:

	2019	2018
Discount rate	2.44%	2.64%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.11%	2.02%

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). A new deficit recovery plan was put in place as part of the 2017 valuation and is set out in the new Schedule of Contributions dated 28 January 2019. This requires payment of 5% of salaries over the period 1 April 2020 to 30 June 2034. In accordance with the requirements of FRS 102 and the SOP, the University has made provision for this contractual commitment to fund the past deficit. In the prior year, the deficit payments were 2.1% of salaries up to March 2021. As set out in note 18, the significant increase in deficit contributions has given rise to a substantial increase in the deficit provision from £15.9 million to £48.9 million.

The 2018 actuarial valuation was finalised after the year-end, which indicated a shortfall of £3.6 billion and a funding ratio of 95%. Following completion of the 2018 valuation, a new deficit recovery plan has been agreed. This amends the existing deficit recovery plan as set out in the 2017 valuation Schedule of Contributions. This new plan requires deficit payments of 2% of salaries from 1 October 2019 to 30 September 2021 and then payments of 6% of salaries from 1 October 2021 to 31 March 2028. As at 31 July 2019 and assuming all other assumptions used to calculate the provision remain unchanged, this would have resulted in a revised provision of £28.0m, a decrease of £20.9m from the current year end provision and a lower charge on the face of the Statement of Comprehensive Income of £11.8m.

## 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 2019.

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

	2019	2018
Equities	74%	77%
Bonds	12%	10%
Property	7%	7%
Cash	7%	6%

### The major assumptions at 31 July 2019 used by the actuary

	2019	2018
Pension increase rate	2.4%	2.4%
Salary increase rate	4.1%	4.1%
Discount rate	2.1%	2.8%

### Life expectancy

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a. for males and females. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	20.9 years	23.3 years
Future Pensioners*	22.8 years	25.5 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 2018	CMI2016 model assuming an allowance for smoothing of recent mortality experience and long-term rate of 1.25% p.a.	CMI2016 model assuming an allowance for smoothing of recent mortality experience and long-term rate of 1.25% p.a.

The mortality assumptions used to value the obligations in the employer's closing position are identical 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	2019			2018		
	Assets £000	Obligations £000	Net Asset/ (Liability) £000	Assets £000	Obligations £000	Net Asset/ (Liability) £000
<b>Opening Position as at 31 July, previous year</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>128,630</b>	<b>(138,387)</b>	<b>(9,757)</b>	<b>124,193</b>	<b>(146,652)</b>	<b>(22,459)</b>
<b>Defined benefit costs recognised in Profit or (Loss)</b>						
<b>Service Cost</b>						
Current service cost*	-	(4,765)	(4,765)	-	(5,146)	(5,146)
Past service cost (including curtailments)	-	(2,324)	(2,324)	-	(225)	(225)
	-	(7,089)	(7,089)	-	(5,371)	(5,371)
<b>Net interest</b>						
Interest income on plan assets	3,608	-	3,608	3,360	-	3,360
Interest cost on defined benefit obligation	-	(3,935)	(3,935)	-	(3,992)	(3,992)
	<b>3,608</b>	<b>(3,935)</b>	<b>(327)</b>	<b>3,360</b>	<b>(3,992)</b>	<b>(632)</b>
	<b>3,608</b>	<b>(11,024)</b>	<b>(7,416)</b>	<b>3,360</b>	<b>(9,363)</b>	<b>(6,003)</b>
<b>Cashflows</b>						
Plan participants' contributions	768	(768)	-	736	(736)	-
Employer contributions	3,206	-	3,206	3,386	-	3,386
Contributions in respect of unfunded benefits	14	-	14	14	-	14
Benefits paid	(3,371)	3,371	-	(3,492)	3,492	-
Unfunded benefits paid	(14)	14	-	(14)	14	-
	<b>603</b>	<b>2,617</b>	<b>3,220</b>	<b>630</b>	<b>2,770</b>	<b>3,400</b>
<b>Expected closing position</b>	<b>132,841</b>	<b>(146,794)</b>	<b>(13,953)</b>	<b>128,183</b>	<b>(153,245)</b>	<b>(25,062)</b>
<b>Remeasurements</b>						
Changes in demographic assumptions	-	6,055	6,055	-	(50)	(50)
Changes in financial assumptions	-	(21,280)	(21,280)	-	6,991	6,991
Other experience	-	(9)	(9)	-	7,917	7,917
Return on assets excluding amounts included in net interest	8,258	-	8,258	447	-	447
<b>Total remeasurements recognised in Other Comprehensive Income (OCI)</b>	<b>8,258</b>	<b>(15,234)</b>	<b>(6,976)</b>	<b>447</b>	<b>14,858</b>	<b>15,305</b>
<b>Closing Position as at 31 July 2019</b>	<b>141,099</b>	<b>(162,028)</b>	<b>(20,929)</b>	<b>128,630</b>	<b>(138,387)</b>	<b>(9,757)</b>
<b>Represented by:</b>						
Fair value of plan assets	141,099	-	141,099	128,630	-	128,630
Present value of funded liabilities	-	(161,825)	(161,825)	-	(138,183)	(138,183)
Present value of unfunded liabilities**	-	(203)	(203)	-	(204)	(204)
<b>Closing position as at 31 July 2019</b>	<b>141,099</b>	<b>(162,028)</b>	<b>(20,929)</b>	<b>128,630</b>	<b>(138,387)</b>	<b>(9,757)</b>

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

\*\* The liability comprises of approximately £203,000 in respect of LGPS unfunded pensions £0 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 July 2019, 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) as at 31 July 2019	Liability split (%) as at 31 July 2019	Weighted average duration at previous formal valuation
Active members	97,238	60.1%	23.9
Deferred members	19,112	11.8%	24.4
Pensioner members	45,475	28.1%	11.8
<b>Total</b>	<b>161,825</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 2020

Period Ending 31 July 2020	Assets	Obligations	Net (liability)/asset	
	£000	£000	£000	% of pay
Projected Current service cost*	-	(5,736)	(5,736)	(44.8%)
<b>Total Service Cost</b>	-	<b>(5,736)</b>	<b>(5,736)</b>	<b>(44.8%)</b>
Interest income on plan assets	2,970	-	2,970	23.4%
Interest cost on defined benefit obligation	-	(3,437)	(3,437)	(26.8%)
<b>Total Net Interest Cost</b>	<b>2,970</b>	<b>(3,437)</b>	<b>(467)</b>	<b>(3.6%)</b>
<b>Total Included in Profit and Loss</b>	<b>2,970</b>	<b>(9,173)</b>	<b>(6,203)</b>	<b>(48.4%)</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 £12,497,000.

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 2020 to be approximately £3,278,000.

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 2020 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 2019:	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	16,926
0.5% increase in the Salary Increase Rate	2%	3,045
0.5% increase in the Pension Increase Rate	8%	13,475

In order to quantify the impact of a change in the financial assumptions used, the value of the scheme liabilities as at 31 July 2019 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.

#### 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, which has informed employer contribution rate increases to 23% from September 2019. The age discrimination case around transitional protection (McCloud/Sargeant) has caused work on the valuation to be paused pending a decision on remedies.

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 2019 was £60,305 (2018: £58,605), of which employer's contributions totalled £37,089 (2018: £35,991) and employee's contributions totalled £23,215 (2018: £22,614).

The total employer contributions received for the Scottish Teachers' scheme in the year to 31 March 2018 were £417.5 million. Contributions collected in the year to 31 March 2019 will be published in October 2019. Heriot-Watt University's level of participation in the scheme is 0% based on the proportion of employer contributions paid in 2017-18.

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

The University and, prior to the business combination, 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 168 employees were active members at the year-end. The employer's costs for the year ended 31 July 2019 was £6,382 (2018: £9,522).

#### 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 2019 was £49,163 (2018: £32,887).

## 26. Events after the reporting period

### Non-adjusting Post Balance Sheet Events

As set out in note 25a in respect of the USS pension scheme, a new Schedule of Contributions based on the 2018 actuarial valuation has been agreed. This results in a decrease of £21m in the provision for the Obligation to fund the deficit on the USS pension which would instead be £28m. This adjustment will be reflected in the University's Financial Statements for the year ended 31 July 2020.

## 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)	42,121	-	42,121	-
Other financial liabilities	116,224	-	52	116,172
	<b>158,345</b>	<b>-</b>	<b>42,173</b>	<b>116,172</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	
	2019 £000	2018 £000
<b>Financial assets</b>		
Trade debtors and other receivables	34,052	41,118
Cash and cash equivalents	76,443	77,365
Current investments	-	-
	<b>110,495</b>	<b>118,483</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:

	2019 £000	2018 £000
<b>Fixed rate instruments</b>		
Financial assets	-	-
Financial liabilities	(112,000)	(112,000)
	<b>(112,000)</b>	<b>(112,000)</b>
<b>Variable rate instruments</b>		
Financial assets	19,874	20,670
Financial liabilities	-	-
	<b>19,874</b>	<b>20,670</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	
	2019 £000	2018 £000
Trade debtors and other receivables	34,052	41,118
Cash and cash equivalents	76,443	77,365
Current investments	-	-
Trade creditors and other payables	(42,121)	(40,750)
Other financial liabilities	(116,224)	(114,546)
	<b>(47,850)</b>	<b>(36,813)</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 £000	Group hardship £000	Total £000
<b>At 1 August 2018</b>	3	37	40
Repaid to funding body	(3)	(37)	(40)
Funding council grants	70	219	289
Disbursed to students	(113)	(79)	(192)
Vired between funds	48	(48)	-
<b>Balance unspent at 31 July 2019</b>	<b>5</b>	<b>92</b>	<b>97</b>
<b>Repayable to funding body</b>	<b>5</b>	<b>92</b>	<b>97</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).

Year ended 31 July 2019	Payments received £000	Balance due to University at 31/7/2019 £000	Payments made £000	Balance due from University at 31/7/2019 £000
Innovate UK	500	-	-	-
Cala Group	16	-	-	-
Geological Society	39	-	-	-
Aberdeen Standard Investments	15	-	-	-
National Museums of Scotland	-	-	1	-
Edinburgh International Festival of Science and Technology	-	-	7	-
Student Union	-	-	1	-
Edinburgh Business School	-	-	15	-
HEFESTIS	-	-	36	37
The Royal Society of Edinburgh	118	-	-	-

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 £622,296 (2018: £603,600).

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 2019 £000
Arts and Humanities Research Council	14
Biotechnology and Biological Sciences Research Council	255
Engineering and Physical Sciences Research Council	12,679
Economic and Social Research Council	393
Medical Research Council	55
Natural Environment Research Council	653
Science and Technology Facilities Council	448
Other (British's Academy, Royal Societies, etc.)	1,147

### 30. Impact of business combination

The following tables show the impact of the combination of Heriot-Watt University and Edinburgh Business School on the numbers reported as University totals in the financial statements. They reflect the timing of the business combination which was effected on 31 July 2019 with all income and expenses being incurred by Edinburgh Business School prior to the combination continuing to be reported in their financial statements for the year. Edinburgh Business School made a donation of distributable reserves to the University, who purchased the remaining assets of the School in consideration for accepting the liabilities outstanding at the time of the business combination.

	Heriot-Watt University (pre combination)	Edinburgh Business School (pre combination)	Combined Total
	£000	£000	£000
<b>Analysis of Principal components of the Statement of Comprehensive Income and Expenditure for the current reporting period</b>			
Total income	218,522	11,296	229,818
Total expenditure	234,664	26,138	260,802
Net expenditure	(16,142)	(14,842)	(30,984)
Other losses	(10,479)	(365)	(10,844)
<b>Net movement in funds</b>	<b>(26,621)</b>	<b>(15,207)</b>	<b>(41,828)</b>
<b>Analysis of net assets at the date of combination</b>			
	£000	£000	£000
Net assets	43,761	10,273	54,034
Represented by:			
Unrestricted funds	26,448	10,273	36,721
Restricted income funds	6,854	-	6,854
Endowment funds	10,459	-	10,459
<b>Total funds</b>	<b>43,761</b>	<b>10,273</b>	<b>54,034</b>



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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)*