



17 December 2025

Mr. Richard Lenoard  
Convener of the Public Audit Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP

Dear Convenor and Members of the Public Audit Committee

**Reference: 2023/24 Audit of UHI Perth**

The University of the Highlands and Islands serving as the Regional Strategic Body (RSB) for the Highlands and Islands, Moray and Perthshire is grateful for the opportunity to provide information and evidence in advance of the session scheduled for 7 January 2026, which the Principal and Vice-Chancellor and Chief Financial Officer will attend alongside colleagues from UHI Perth and the Scottish Funding Council (SFC)

**1. Interim leadership arrangements at UHI Perth**

The RSB can confirm that the information provided in UHI Perth's letter of 21 November 2025 regarding interim leadership arrangements is correct. In addition, with the recent appointment of Gail Dunn as UHI Perth's new Chief Financial Officer on 8 December 2025, the college now benefits from enhanced financial leadership and a strengthened senior team to support stability and deliver long-term sustainability. The RSB took proactive steps to support UHI Perth during this period of change, including:

- Coordinating with the SFC for oversight and support
- Assisting with interim leadership appointments to ensure stability
- Deploying a senior UHI executive for operational and strategic guidance
- Providing independent financial expertise to strengthen governance
- Offering significant support from the UHI Executive Leadership team to key college leaders.

These actions reflect the RSB's commitment to due care and its obligations in responding to UHI Perth's challenges.

**2. Resignation of Mr Watson as Chair of UHI Perth:**

Mr Watson resigned as Chair of UHI Perth's Board in April 2025.

Seansalair: A h-Àirdeachd Rìoghail A' Bhana-phrionnsa Rìoghail  
Chancellor: HRH The Princess Royal

Prionnsapal agus Iar-Sheansalair: Vicki Nairn  
Principal and Vice-Chancellor: Vicki Nairn

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The RSB worked closely with UHI Perth and the SFC before and after his departure, providing guidance, senior executive support, and financial expertise.

We draw attention to Mr Watson’s letter of 20 December 2024 (acknowledged 6 January 2025 and replied 21 January 2025), and subsequent correspondence (see appendix 5).

On 2 April, the RSB formally expressed serious concerns about financial sustainability, controls, delayed budget approval, and late accounts. Following Mr Watson’s resignation, the RSB acted immediately to stabilise governance—meeting with Board members, addressing concerns, and appointing an interim Chair. The new Board, supported by the Interim Principal, has since taken decisive steps to address long-standing financial issues. The SFC was kept fully informed throughout.

### **3. Financial oversight arrangements**

The RSB confirms the accuracy of UHI Perth’s letter of 21 November 2025 regarding financial oversight. Please note that the RSB does not hold its own funds; it distributes funding on behalf of the SFC. When additional support is required, the RSB works with the SFC to ensure appropriate controls and, if necessary, secure extra funding.

As the RSB, the University is accountable to SFC for compliance with Financial Memoranda for FE and HE provision, including:

- Governance compliance with sector codes
- Proper use of public funds in line with Memoranda
- Financial sustainability and institutional viability
- Outcome delivery under SFC’s framework
- Monitoring and control through robust systems and accurate reporting
- College-specific Financial Memoranda agreed with the SFC
- Compliance with the Scottish Public Sector Finance Manual.

### **4. Accountability Chain**

- The governing body, in this case, the UHI Perth Board of Management, of each institution is responsible for compliance
- Principals of assigned colleges have accountability to both their governing body and the SFC for proper use of funds, as required by the Public Finance & Accountability (Scotland) Act 2000
- This creates a clear chain of responsibility from Parliament through the Minister, SFC, UHI as the RSB, and down to individual college principals.

### **5. Distinction of Responsibilities**

UHI is accountable for SFC funds for FE/HE provision, while Assigned College Boards—led by their Chair—retain responsibility for governance, legal compliance, resource management, and financial stewardship, acting in the college’s best interests and aligning with the RSB priorities.

For UHI Perth, the Board of Management holds primary responsibility for financial management and governance. As charity trustees, members must act in the institution’s best interests and comply with all legal and regulatory requirements.

## **6. Note on UHI Observer status at UHI Perth Board**

To strengthen communication between University Court (as the RSB) and the UHI Perth Board, the Chair of Court—and more recently an independent court member—has attended selected Board meetings as an observer. This arrangement promotes understanding and collaboration across the UHI Partnership.

Observers do not participate in decisions, influence discussions, or assume governance responsibilities, and are often excluded from confidential or reserved business. Their role is purely to support communication while maintaining clear separation of governance.

At UHI Perth, attendance was authorised by the former Chair and generally limited to shared-interest items such as the UHI Transformation project. Observers frequently attended only relevant agenda items and were asked to leave during core business, strategic planning, financial matters, or recovery discussions.

## **7. Background to 2023/24 Audit of UHI Perth**

The RSB acknowledges the significant challenges faced by UHI Perth, including sector-wide funding pressures—amounting to a 20% real-terms reduction since 2021/22—and specific operational and financial difficulties during 2023/24 and beyond. Contributing factors include the failure to set a budget, finance team capacity issues, high staff turnover, knowledge gaps, and limitations in digital systems.

In response, the RSB has strengthened oversight and support in line with its statutory obligations, including:

- Enhanced monitoring of financial performance and governance
- Collaboration with the SFC to secure additional support and liquidity
- Deployment of senior UHI executives during leadership transitions
- Provision of independent financial expertise for planning and recovery
- Ongoing engagement with UHI Perth's leadership and board to develop robust plans.

The RSB remains committed to working proactively with UHI Perth and SFC to resolve issues and support recovery and transformation.

## **8. Response to the 2023/24 Audit Findings and Financial Management Improvements**

The RSB acknowledges the issues highlighted in the Section 22 report and welcomes UHI Perth's proactive steps to address them. Actions since April 2025—such as retrospective financial oversight review, approval of a revised baseline budget, improved documentation, strengthened budget processes, enhanced variance analysis, and more frequent reporting—demonstrate a clear commitment to improvement and transparency.

In parallel, the RSB has provided support and introduced additional assurance measures, including:

- Regular cashflow monitoring to maintain liquidity
- Input into the independent audit review of financial controls and governance
- An effectiveness review of governance and operational resilience
- Enhanced engagement with UHI Perth and SFC to secure long-term sustainability.

The RSB remains committed to working collaboratively with UHI Perth and SFC to ensure lessons from the Section 22 report are fully addressed and robust systems embedded for the future.

## **9. Budget and Financial forecasts**

The RSB confirms that the information provided by UHI Perth regarding the late preparation of the 2024/25 budget and subsequent identification of a significant accounting error is correct. The circumstances described—including the resource constraints within the Finance Team, the absence of a prior-year budget, and the discovery of a £765k omission in catering costs—accurately reflect the challenges faced by the college during this period.

## **10. Notification Procedure**

Under the Financial Memorandum and governance protocols, the notification process is as follows:

- Immediate notification to the RSB by the College Principal to the UHI Principal (as the Chief Officer of the RSB) must notify in writing without delay (same day or next working day) of any notifiable event—such as a major financial error, material non-compliance, or any issue likely to impact the college’s ability to meet commitments—detailing the issue, its impact, and mitigating actions.
- Cascade to SFC: The RSB must then inform the SFC’s Accountable Officer promptly, providing a clear description of the event, consequences, actions taken, and key contacts. This ensures timely escalation, transparency, and appropriate oversight.

In March 2025, UHI Perth notified the RSB of an accounting error, and the RSB informed SFC in line with this procedure. The matter was reported to UHI Perth’s Finance and Resources Committee and Board, and the internal audit scope was expanded to include budgeting and controls.

## **11. Financial Recovery Plan**

The RSB confirms the accuracy of UHI Perth’s information regarding the baseline budget and Financial Recovery Plan (FRP). The baseline budget approved on 30 June 2025 projected deficits of £2.4m (2025/26), £3.3m (2026/27), and £3.9m (2027/28), with approval conditional on an FRP to achieve breakeven within three years.

The RSB welcomes the proactive measures by UHI Perth’s new leadership, including emergency spending controls, a nine-stage FRP process, and staff engagement in income and savings initiatives. The FRP underwent independent scrutiny by Henderson Loggie before Board approval on 27 August 2025 and submission to the RSB and SFC.

To strengthen the FRP, the RSB appointed a senior finance consultant with higher education expertise to provide critical analysis and recommendations on structural deficits and financial resilience, ensuring alignment with sector best practice.

The RSB remains actively engaged in monitoring implementation through enhanced oversight, regular reporting, and a Recovery Plan Monitoring Committee. We fully support the direction taken by the Interim Chair, Interim Principal, and Board in addressing these significant challenges.

## **12. Cashflow and Liquidity Support Requests**

The RSB confirms the accuracy of UHI Perth's account of liquidity support requests during 2024/25. Factors included a 2023/24 deficit, backdated pay awards, voluntary severance costs, a deficit budget for 2024/25, a £0.8m HE grants clawback due to lower recruitment, and a catering cost error—all contributing to significant financial pressure. The RSB and UHI have worked constructively with the SFC to provide stability, including facilitating advances under SFC requirements to maintain operational continuity. Cashflow forecasts and variances have been closely monitored with timely escalation and transparency in line with agreed procedures. The RSB remains committed to supporting UHI Perth through enhanced oversight, collaboration with SFC, and provision of financial expertise to strengthen resilience and restore confidence in financial management.

### **Administration of Air Service Training (AST) Limited**

The RSB confirms the accuracy of information regarding AST, a wholly owned trading subsidiary of UHI Perth, which entered administration on 10 April 2025 after prolonged financial challenges. Contributing factors included limited investment, location constraints, regulatory and financial pressures, and poor facilities at Scone, all of which hindered student recruitment.

AST delivered the Part 66 element of UHI Perth's BSc (Hons) Aircraft Maintenance and Engineering Management course. Its administration posed a serious risk to student progression. Independent legal advice confirmed AST operated as an autonomous commercial entity, with decisions resting solely with its Board.

The RSB and SFC response:

- Engaged immediately with UHI Perth and SFC to assess impact and secure continuity of learning
- Explored alternative UK providers; identified Resource Group as the only viable option
- Negotiated delivery arrangements despite higher costs and secured SFC funding
- Oversaw transition to maintain quality and ensure students could complete their awards.

These actions underline the RSB's commitment to protecting student outcomes and working collaboratively to mitigate the impact of AST's administration.

## **13. Board Leadership and Governance Improvements**

The RSB confirms the accuracy of the information regarding the governance reset initiated by UHI Perth's Interim Chair. Actions taken—such as commissioning an urgent review, restructuring Board committees, revising delegation schemes, enhancing induction and training, and recruiting members to address skills gaps—are significant steps to strengthen accountability and governance.

**The RSB support has included:**

- Facilitating recruitment of independent Board members with appropriate skills
- Contributing to induction programmes covering charity law, fiduciary duties, and partnership obligations
- Working with the Interim Chair and governance leads to embed best practice and clarify roles
- Commissioning and delivering a governance effectiveness review via UHI Court
- Supporting continuous improvement through development sessions, financial literacy training, and culture change initiatives.

These measures reflect the RSB's commitment to robust, transparent governance aligned with sector standards and partnership responsibilities.

**Summary**

The RSB reaffirms its full support for UHI Perth and its commitment to working constructively to address the challenges identified. We recognise the importance of stability and sustainability for the college and remain actively engaged in providing assistance, oversight, and expertise.

We respect the role of the Public Audit Committee and welcome the scrutiny that ensures transparency and accountability in the use of public funds. We share the Committee's ambition to deliver better outcomes for learners and communities and acknowledge Audit Scotland's vital contribution. The RSB values this partnership and looks forward to working collaboratively with all stakeholders to strengthen governance, improve financial resilience, and enhance public services—objectives that align with our strategic priorities.

Our shared goal is to ensure UHI Perth and the wider UHI Partnership continue to deliver high-quality education and transformational impact for our region's people, communities, and economies.

Yours sincerely

**Vicki Nairn**  
**Principal and Vice-Chancellor**

## **Appendix one:**

### About UHI & Role of UHI as a Regional Strategic Body

The information within this briefing note has been provided by UHI

#### **Overview**

The University of the Highlands and Islands (UHI) is a tertiary university partnership with degree and research awarding powers. UHI was founded in 2011 to provide a regional University which would deliver high-quality education tailored to the unique needs and characteristics of the Highlands and Islands, Moray and Perthshire, fostering economic, cultural, and social development.

#### **UHI 2030 Strategy**

The UHI Strategic Plan 2030 outlines a bold vision for transforming education, research, and regional impact across the Highlands and Islands, Moray, and Perthshire.

Vision and Mission - to be a globally recognised tertiary institution that delivers transformational impact through: Lifelong learning, sustainable development and regional economic and social growth.

#### **Five Strategic Themes**

1. **Teaching, Learning and Student Support**
  - Deliver a connected, flexible curriculum shaped by student needs and employer demands.
  - Support integrated learning pathways from school to PhD.
2. **Research and Innovation Impact**
  - Lead world-class research rooted in local environments, heritage, and global relevance.
  - Foster co-created research with communities and industries.
3. **Enterprise and Growth**
  - Drive regional economic transformation through entrepreneurship and innovation.
  - Align curriculum and research with workforce and industry needs.
4. **Environmental Sustainability**
  - Champion a just transition to net zero.
  - Protect and enhance local ecosystems and promote sustainable practices.
5. **Operational Excellence**
  - Create a streamlined, efficient, and people-focused institution.
  - Ensure financial sustainability and institutional agility.

#### **UHI Scope and Scale**

UHI is a fully integrated tertiary university combining further and higher education, the only institution of its kind in Scotland, and one of few in Europe. We offer more than a college and more than a traditional university: UHI is a diverse, flexible partnership, that is rooted within our communities and driven by their needs.

UHI delivers further education, higher education, apprenticeships, short courses, knowledge exchange and research to over 36,000 students each year across 45 teaching and learning centres in the Highlands and Islands, Moray and Perthshire. Collectively, the UHI partnership covers two thirds of Scotland's land mass and all of Scotland's inhabited coastal islands except for Great Cumbrae. The area extends over 400 miles north to south and over 200 miles east to west, with most partners more than 100 miles distant from each other. Some partners are based in the urban centres of Perth, Inverness and Elgin whereas other institutions cover wider rural geographical and island areas through a network of learning centres.

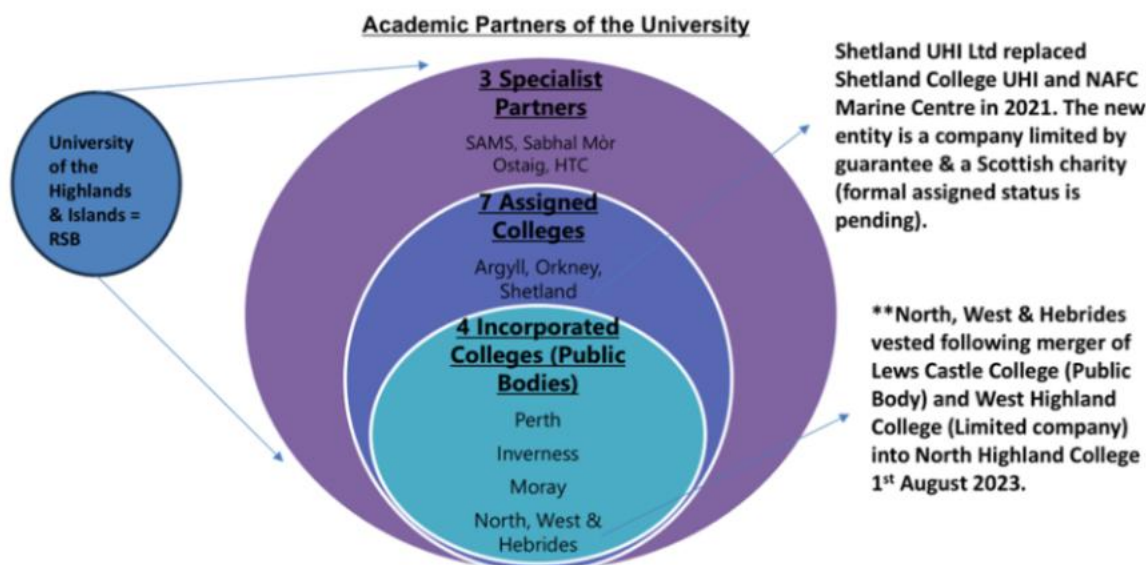
## Governance Structures

The UHI Partnership comprises 11 independent partners (University+10 Academic Partners).

The University is an autonomous institution, a Scottish Company (limited by guarantee), a Registered Scottish Charity and a Regional Strategic Body (RSB).

The University achieved University status in 2011 and receives funding from the Scottish Funding Council in accordance with The Fundable Bodies (University of the Highlands and Islands) Order 2011.

The Post 16 Education (Scotland) Act 2013 defines the University of the Highlands and Islands as an “Other Regional Strategic Body” and Scottish Ministers may by Order assign colleges to a Regional Strategic Body (RSB).



The academic partners comprise: UHI Argyll, Highland Theological College UHI, UHI Inverness, UHI Moray, UHI North, West & Hebrides, UHI Orkney, UHI Perth, Sabhal Mòr Ostaig UHI, Scottish Association for Marine Science UHI, and UHI. Each institution is autonomous, and all partners are separate registered charities.

UHI has 7 Assigned colleges\* (\*UHI Shetland Assigned Status pending) and 3 Specialist Colleges/Research Institutions.

**UHI Perth**, UHI Inverness, UHI Moray and UHI North, West and Hebrides are classified as Public Bodies.

UHI Argyll and UHI Shetland are companies limited by guarantee.

UHI Orkney is a part of Orkney Islands Council.

Highland Theological College, Scottish Association for Marine Science and Sabhal Mor Ostaig are not assigned colleges.

## RSB Duties & Obligations

The key obligations which UHI is accountable to the SFC for as an RSB include:

- responsibility for administering all funds provided to UHI by the SFC.
- a general duty to secure coherent provision of FE and HE in the region; and
- an obligation to monitor the performance of assigned colleges.



## The key powers conferred on the University as an RSB include:

- I. a right for an RSB to attend and address any meeting of any of its colleges where the RSB is concerned about any matter relating to financial support provided or to be provided by the RSB.
- II. rights for an RSB to demand information from and issue directions to any of its colleges, provided that the ability to issue directions only applies to assigned colleges constituted under the Further & Higher Education (Scotland) Act 1992 and that directions cannot require the transfer of any staff, property, rights, liabilities or obligations.
- III. a power to require its colleges to transfer any staff, property, rights, liabilities or obligations to the RSB or to any other college assigned to it, ***provided that the college consents to the transfer*** - The requirement for consent limits the ability of the University to move assets (and cash) between Academic Partners. The powers do not extend to an ability to require the transfer of funds from Academic Partners to the University or to require the transfer of funds from one Academic Partner to another, unless there is consent from the Academic Partner.

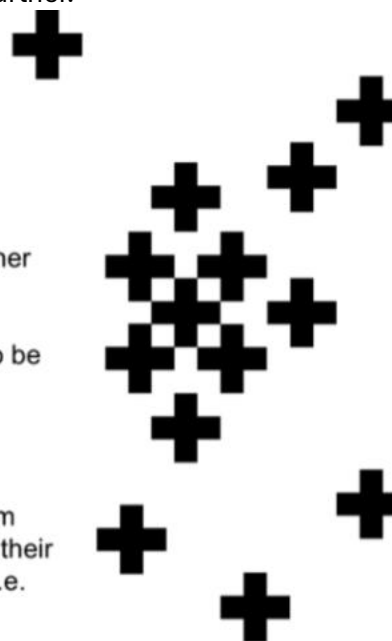
## Key Responsibilities

### University Court as the Regional Strategic Body

- Strategic leadership including the strategic plan
- To secure the coherent provision of high quality fundable further and higher education throughout our region
- To monitor the performance of assigned colleges
- Accountable to SFC under the Financial Memorandum and to be responsible for delivery of the Regional Outcome Agreement

### Assigned College Boards of Management

- Financial management of the college
- To be accountable to the RSB under a Financial Memorandum between the college and RSB and responsible for delivery of their individual contribution to the Regional Outcome Agreement (i.e. provision and delivery of quality education/research against agreed targets)



There are four key documents in terms of which the University is accountable and responsible to the Scottish Funding Council ("SFC"), and therefore ultimately, the Scottish Government for funding provided by the SFC.

1. The Further & Higher Education (Scotland) Act 2005 ("the 2005 Act"), which includes the amendments made by the Post-16 Education (Scotland) Act 2013.
2. The SFC Financial Memorandum with Fundable Bodies in the College Sector ("the FE Financial Memorandum").
3. The SFC Financial Memorandum with Higher Education Institutions ("the HE Financial Memorandum").
4. The Self-Evaluation and Action Plan ("SEAP"), as part of SFC's wider Outcomes Framework and Assurance Model. Prior to AY24-25, assurance was through The Highlands and Islands Regional Outcome Agreement ("the Outcome Agreement").

## **Appendix two:**

### **Financial Memorandum**

#### **Overview**

The FE Financial Memorandum and the HE Financial Memorandum each impose detailed obligations on the University as conditions of receipt of funding for FE and HE provision. The terms of these Memoranda are very similar, but the FE Financial Memorandum is more detailed and leaves less flexibility for FE institutions than the HE Memorandum. The key obligations which UHI is accountable to the SFC for as both an RSB and as a fundable higher education body include:

- compliance with the good governance codes for the FE/HE sectors.
- ensuring public funds are used in accordance with the Memoranda and for the purpose given.
- planning and managing its activities to remain sustainable and financially viable.
- delivery of priority outcomes as identified in SFC's Outcome Framework and Assurance Model.
- ensuring a sound system of internal management and control, and to have regular, timely, accurate and adequate information to be able to monitor performance and to account for the use of public funds and to make such information available to the SFC on request.
- putting in place a UHI-specific Financial Memorandum with its assigned colleges in terms agreed with the SFC Accountable Officer.
- to ensure that its assigned colleges comply with the Scottish Public Sector Finance Manual (FE only).

The governing body of all HE/FE institutions is stated to be responsible for compliance with the Memoranda. However, this is supplemented with a provision for the personal accountability of the chief executive officer (i.e. the principal) of any HE or FE institution both to the governing body of their institution and to the SFC for the proper use of funds provided by the SFC and for institutional compliance with the terms of the FM.

This provision creates a chain of responsibility from Parliamentary approval for the Government's budget, to the Minister for education, down through the SFC to the individual institutions, so that there is an individual who will ultimately be answerable for how the public funding provided to institutions is spent at each level. This is a requirement of the Public Finance & Accountability (Scotland) Act 2000. As such, provision for personal accountability of the principals of Assigned Colleges is included within the Financial Memorandum.

The University is required to put in place UHI-specific financial memoranda with each of its assigned colleges. This is a requirement of the FE Financial Memorandum, and these documents have been in place since 2016. Through this mechanism the obligations on the University under the FE Financial Memorandum are effectively "passed down" to the Academic Partners.

There is a distinction between the University's accountability for the funds provided by the SFC for the purpose of funding further and higher education provision, and responsibility for the overall financial sustainability of the institutions which receive funding for FE/HE provision from the University. The Principal and Vice Chancellor is also the Chief Officer of the RSB in addition to their role as the head of the institution.

## **Appendix three:**

### **Student Success and Achievement Rates & UHI Funding**

The Regional Strategic Body (RSB) confirms that the statements regarding UHI Perth's performance within the letter dated 21<sup>st</sup> November are correct. Despite significant financial challenges, UHI Perth remains a high-performing college, with success and satisfaction rates consistently above the sector average in both Further Education (FE) and Higher Education (HE).

According to the latest published College Student Outcomes 2023-24 report by the Scottish Funding Council, UHI Perth has achieved at least its fourth consecutive year of outperforming the national average in key performance areas, including being almost 6% above the national average for full-time FE students.

### **Wider Success of UHI as a Whole**

Since being awarded university title in 2011, the UHI partnership has delivered numerous achievements and continues to "punch above its weight" as Scotland's youngest university. UHI provides high-quality teaching, student support, research, and knowledge exchange, while serving as a critical anchor institution for the Highlands and Islands, Moray, and Perthshire.

### **Key Highlights:**

#### **Student Satisfaction:**

In the National Student Satisfaction Survey (NSS) 2024, UHI achieved an overall satisfaction rate of 81.2%, exceeding the Scottish sector average of 78.1% and ranking 6th in Scotland.

In the Postgraduate Taught Experience Survey (PTES) 2024, UHI was ranked number 1 in Scotland for overall satisfaction and 15th in the UK.

#### **Research Excellence:**

Nearly 75% of UHI research submitted to the 2021 Research Excellence Framework (REF) was graded as world-leading (4\*) or internationally excellent (3\*). This demonstrates UHI's growing research impact and reputation.

#### **Comprehensive Provision:**

UHI offers unique learner journeys from FE through to PhD, supported by local campuses, learning centres, and networked provision across partners. This includes Modern Apprenticeships and a growing portfolio of Graduate Apprenticeships.

#### **Quality and Student Support:**

Commendations for student support were received in the **2024 QAA Quality Enhancement and Standards Review**, reinforcing UHI's commitment to student experience.

#### **Economic Impact:**

UHI plays a vital role in regional economic development.

Recognised for Outstanding Contribution to the Regional Economy at the 2022 Scottish Council for Development and Industry Business Excellence Awards.

According to BiGGAR Economics (2020), for every £1 invested in UHI, £4 is returned to local economies. In 2019, UHI generated £560m GVA and supported 6,200 jobs in the Highlands and Islands, Moray, and Perthshire, with an additional £93m GVA and 1,000 jobs across Scotland.

These achievements highlight UHI's dual role as an educational provider and an economic catalyst, delivering significant social and economic benefits to the regions it serves.

## UHI Funding methodology (including top slice arrangements)

In accordance with existing academic partnership agreements, the University is entitled to retain such sums as are reasonably necessary in respect of the cost of providing RSB / Partnership / University services from funding received from the Scottish Funding Council. UHI is not, without the consent of the Academic Partners, entitled to retain in any academic year a sum in excess of 35% of the Higher Education funding allocation to the Academic Partner for that Academic Year.

This mechanism is often referred to as the top slice. UHI consider that this legacy mechanism is no longer fit for purpose, particularly, since designation as a Regional Strategic Body. It is intended to change this mechanism as part of the new operating model, which is currently being scoped, with a full business case due to be submitted to the Scottish Funding Council in December 2025. The funding mechanism underpins a significant number of University, Partnership and RSB services. The University does not receive any funding for the functions it performs as the RSB. Whilst the current “top slice” arrangement provides an established mechanism for the UHI partnership to share central service costs it does present challenges.

Function	RSB/University and partnership support	Executive Office - academic delivery and research functions	Executive Office - corporate services
Senior Executive Team	University and RSB Leadership		
Strategy, People & Culture	Strategy development Communications HR, Equality, diversity and inclusion		Human resources and organisational development Equality, diversity and inclusion Communications
Governance	Governance Legal Services Sustainability		Governance Legal services
Physical and digital infrastructure	Digital infrastructure Estates, facilities, Residences		Digital infrastructure Estates, facilities, procurement Health & Safety, Residences
Academic and Research	Faculty leadership Learning and teaching Student services Research and knowledge exchange	Centre for rural health science (nursing, optometry and rural health research) Bio medical and life sciences Language sciences institute Centre for history	
Economic Development and Advancement	Economic Development Advancement		
Finance	Finance Grants and contracts Internal audit and risk management Transformation		Finance Business planning
Student recruitment and growth	Student marketing and recruitment Admissions Student records, data reporting and MIS Further education and skills planning		

**Table 1: University/RSB/Partnership functions**

The top slice is utilised by the university to deliver a number of core functions and services that directly benefit the partners. Table 1 above gives an overview of the current functions.

In addition, it is worth noting that the “top slice” is not a tax paid by academic partners for the benefit of the University, it is to fund RSB/ University and Partnership services in the same way that a more traditionally structured University would have central overhead costs, however UHI have collectively identified that between all academic partners there is the opportunity to reduce duplication (where it exists) and make the UHI partnership more effective and efficient.

Following discussions at committee, it was noted that further supplementary information would be provided on the composition of the topslice. The calculation is made up of three components. Firstly there is an historic fixed sum of £346k in respect of the Regional Strategic Body, secondly a topslice of 20% of the Research Excellence Grant which for 2025/26 is estimated to be £582k and thirdly 35% of the actual delivery of HE Teaching Grant which for budget estimates for 2025/26 equates to £14.132m based on an estimated 4,843 FTE students, thus giving a total of £15.1m.

The actual level of topslice taken is based on actual delivery of HE undergraduate provision. Given UHI's recent under delivery against funded and planned HE numbers the topslice has been reduced to reflect actual delivery. Academic delivery within Executive Office (EO) is subject to the same topslice arrangements as for other Academic Partners.

As outlined above, the topslice is an outdated and legacy mechanism that will be reviewed as part of the move to a new operating model. This will highlight any duplication in UHI, Executive Office and academic partners, including using sector benchmark data across all major KPIs to ensure that best practice performance is achieved.

Since the end of academic year 21/22, the EO staff cost base will have reduced from 309 FTEs (reported in 21/22 statutory accounts) to an indicative 254 FTEs at the end of 24/25 (down 18%), with an estimated saving of £5m on staff costs. EO, alongside all academic partners is continuing to review operations to understand how we can collectively respond to the significant funding challenges within the sector.

## **Appendix four:**

### **Assurance and monitoring Processes**

As the Regional Strategic Body (RSB), the University of the Highlands and Islands have statutory duties under the Post-16 Education (Scotland) Act 2013 and the Financial Memorandum to ensure proper stewardship of public funds and effective governance across its assigned colleges. To meet these obligations, the University operates a structured framework of assurance and monitoring processes designed to provide confidence in compliance, financial sustainability, and performance.

### **Annual Compliance Certification**

Each assigned college is required to submit an Annual Compliance Certificate by 30 April. This letter of representation, signed by the College Principal (Chief Executive Officer), confirms that all requirements of the Financial Memorandum have been met. Where full compliance cannot be confirmed, the college must provide reasons and agree remedial actions with the University's Chief Officer. This process ensures formal accountability and provides a key assurance point for the RSB.

### **Notification Procedures**

The Financial Memorandum requires colleges to notify the RSB without delay of any circumstance likely to have a significant adverse effect on their ability to deliver education programmes or meet commitments under the Regional Outcome Agreement. This includes serious weaknesses such as threats to financial sustainability, major accounting breakdowns, fraud, or material non-compliance. Upon receipt, the RSB escalates the matter to the Scottish Funding Council (SFC) on the same day or next working day, ensuring transparency and timely intervention.

### **Regular Financial Monitoring**

The RSB undertakes ongoing monitoring of financial data, including:

- Monthly and quarterly financial returns from colleges
- Cashflow forecasts and liquidity positions
- Budget setting and variance analysis
- Oversight of financial recovery plans where required

This monitoring is complemented by enhanced scrutiny measures for colleges in financial distress, including direct engagement with senior leadership and finance teams, and input into remedial planning.

### **Audit and Assurance Mechanisms**

The Financial Memorandum prescribes robust audit requirements:

- Colleges must maintain an effective Audit Committee, internal audit service, and comply with Public Sector Internal Audit Standards
- The RSB Internal Audit Service has rights of access to college premises, staff, records, and assets to conduct reviews and coordinate audit planning
- External auditors appointed by Audit Scotland provide independent assurance, and their reports are shared with the RSB
- Colleges must also implement risk management policies and value-for-money strategies, with annual reporting to the RSB.

### **Conditions of Grant and Governance Standards**

Compliance with the Code of Good Governance for Scotland's Colleges is mandatory. Colleges must demonstrate:

- Effective planning and delivery aligned to the Regional Outcome Agreement
- Sustainable financial management
- Transparent decision-making and accountability for public funds. Failure to comply can result in suspension of grant payments or recovery of funds, as stipulated in the Financial Memorandum.

## **Appendix five:**

### **Relevant Correspondence**

- Letter to Chair of Court from Graham Watson dated 20 December 2024
- Letter to Graham Watson dated 21 January 2025



Mr Alastair MacColl  
Chair  
UHI, as the Regional Strategic Body for UHI Perth  
UHI House  
Old Perth Road  
Inverness  
IV2 3JH

20 December 2024

Dear Alastair,

Further to the UHI Perth Board Meeting held on 18 December 2024 which you attended as an Observer, I wanted to confirm the Board's position on its forward financial outlook.

While UHI Perth remains an active participant in ongoing discussions around the restructuring of the UHI model, at this stage the Board has formed no firm view on the nature of any restructuring that might be in the best interests of UHI Perth students and staff. Additionally, any credible and sustainable restructuring of the UHI model will require considerable new Scottish Government funding and will take time to implement. Accordingly, as a responsible and independent Board of charity trustees, in reviewing our forward financial outlook we must deal with the relative certainty of the status quo as the most likely position through until 31 July 2027.

At the meeting on 18 December, the Board finally approved a deficit 2024/25 budget of £1.288m, (which, subject to resolving one matter with UHI, would increase to £1.388m), with indicative projected deficits of £768k and £1.229m in 2025/26 and 2026/27 respectively. While the current outlook for the remainder of 2024/25 suggests trading within the approved budget, there are multiple downside risks that could impact the remainder of this financial year and the two outer years.

Over the last two years, the Board and Senior Leadership Team (SLT) of UHI Perth have made staff efficiency savings of c£3.5m to ensure the financial sustainability of the organisation. This has meant a reduction of 19% of our workforce (i.e. over 100 people and 74 FTE), resulting in a severe impact on our staff, students, community, the morale around campus and our internal and external reputation. Despite these measures, we are still in a position where we have a deficit budget for 2024/25, with further deficits forecast in the following two years.

The Board has therefore instructed the SLT to develop a long-term Recovery Plan by the end of February 2025. This Plan will look afresh at all aspects of the business, both income and costs, to identify areas where additional income can be generated, or where costs can be reduced further without impacting the revenue generating ability of the College.

For example, in the absence currently of any willingness on the part of UHI to mitigate the present level of 'top slice' retained by UHI Executive Office (EO) from UHI Perth HE and FE income (£4.26m and £476k respectively in the current year), the SLT will be considering whether or not there is a business case to retain the current level of HE provision at UHI Perth. As you are aware, the Board considers that the current level of top slice does not represent value for money for the services and benefits UHI Perth requires from EO, and that it is materially contributing to the financial difficulties of the College.

The Board also remains supportive of the work the Principal of UHI Perth is doing in leading the UHI wide efforts to accelerate shared services across the partnership, and assumptions around this work will form an integral part of the Recovery Plan.

The cash position of UHI Perth has been supported recently by £1.5m of long-term, interest free, liquidity funding from the Scottish Funding Council (SFC). It is unlikely that any of the substantive recommendations to be contained in the Recovery Plan will provide a 'quick fix' to the continued deficits currently projected, especially given the scale of risk surrounding the budget and outer two-year projections.

Accordingly, in the view of the UHI Perth Board, it is inevitable that UHI Perth will require some form of additional short to medium term support from the SFC to remain solvent and a going concern.

To complete the Recovery Plan, the Board therefore requests that the Regional Strategic Body (RSB) urgently seeks direction from the SFC on support options for UHI Perth.

The Board has identified the following support options for SFC to consider (either individually, or as a package of measures):

- Instruct that UHI Perth makes compulsory redundancies to balance the budget.
- Rather than instruct compulsory redundancies, lend more to cover the deficits.
- Instruct that UHI Perth makes a lower level of compulsory redundancies and lend a lower amount to cover the deficits.
- Require that the RSB reduces the UHI Perth top-slice retained by EO.

The Board of UHI and the SLT are clear that they are strongly against making compulsory redundancies. To remove this level of staff, on top of the cuts that have already been made, would have a catastrophic impact on the students that UHI Perth serves and the staff working within the College, as well as the wider community and our reputation, which in turn affects our ability to attract student numbers in a highly competitive market.

Accordingly, the Board requests early guidance from the SFC, via the RSB, on the alternative options of further lending to UHI Perth and/or top slice reduction, to ensure that UHI Perth remains solvent and a going concern.

Yours sincerely,

Graham F Watson  
Chair

cc Dr Mike Cantlay OBE, Chair, SFC



21 January 2025

By email - [REDACTED]

Mr G Watson  
Chair of the Board of Management  
UHI Perth  
Crieff Road  
Perth  
PH1 2NX

Dear Graham

I hope you enjoyed a peaceful Christmas break and an enjoyable holiday.

Thank you for your letter of 20 December alerting me formally to the financial position and outlook for UHI Perth.

As you know I contacted you the morning after your most recent board meeting, which I attended as an observer, to let you know that the meeting did prompt a number of concerns. Following that, we arranged a meeting before the Christmas break, which is scheduled for 28 January. So, the timing of your correspondence is helpful.

The current and projected financial deficit that you outline in your letter is clearly a source of considerable concern and one that requires prompt attention. I'd like to take this opportunity to recognise (as reflected in your letter) the significant steps already taken by Margaret and the executive team to address that financial deficit. I know that it has been complex and demanding effort, which has already required some very difficult decisions to be taken.

I'm aware through the financial reports provided to the UHI Finance and General Purposes Committee and UHI Court that, as part of that process, our finance colleagues have been working for some months to try and establish a firm (financial) baseline position for UHI Perth.

Seansalair: A h-Àirdeachd Rìoghail A' Bhana-phrionnsa Rìoghail  
Chancellor: HRH The Princess Royal

Prionnsapal agus Iar-Sheansalair: Vicki Nairn  
Principal and Vice-Chancellor: Vicki Nairn

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Registered office: UHI House, Old Perth Road, Inverness, Scotland IV2 3JH





Now that a 2024-2025 operating budget has been finalised at your December 2024 board meeting, it should provide the required basis for any future forecasts. The quality and detail of the ongoing financial projections made by UHI and its' academic partners, will continue to be vital in providing the assurance required by the SFC to secure future funding support (in addition to the £1.5 million of liquidity support, and the accompanying open ended repayment arrangements, provided to UHI Perth).

With regard to the projected deficits for 2025-2026 and 2026-2027, the expectation of the UHI Court and the RSB (as well as that of the SFC) is that all UHI partners and executive office (EO) should be taking steps to deliver a financially sustainable position. I understand that the UHI Perth Board of Management have now agreed the 2024-2025 deficit budget on the conditional basis that a detailed recovery plan will be in place by February 2025. It would be helpful if that plan sets out a clear timeline of key actions, including where additional temporary support is required and any risks associated with delivering the plan.

The detail of the plan and the options you propose to address the projected deficit, including measures that affect staffing and resource management, remain decisions for your board. The team at EO will continue to provide whatever support, assistance and advice you might find helpful.

I would therefore urge the Board of UHI Perth to conclude and endorse your recovery plan as a matter of priority to enable the RSB to work with you on the options for addressing any funding gaps. Perhaps we can discuss where the RSB can help further when we meet.

As a member of the Transition Oversight Board, you know that the RSB and the SFC have been clear that our current operating model, and the level of additional financial support being provided to some academic partners (including that to UHI Perth), is unsustainable. Our challenge is how to evolve, adapt and transform in ways that reduce duplication and complexity to allow us to invest even more heavily in those things that provide the very best student experience. But, crucially, maintain that local delivery, specialism and on the ground understanding of what students, communities and business need.



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So, the expectation is that any recovery plans are developed and funded alongside a partnership wide plan for an improved operating model, that provides not just for a financially sustainable future, but one based upon investment led growth. To support the continued development of our unique tertiary university and the delivery of high-quality further education, higher education and world class research across the Highlands and Islands, Moray and Perthshire.

To date the work on a more sustainable operating model has required a collective effort and commitment from executives and board members from across UHI. It will continue to do so. I'd like to thank you and Margaret specifically for the part you've played to date. The continued, active and constructive involvement of UHI Perth will clearly remain key in shaping an improved operating model for UHI.

That work is tied directly to the contribution each partner makes to the running costs of our university partnership (you use the term "top slice" in your letter). As you know, it's an inherited arrangement that I think we all agree is no longer suitable. As you will recall, a commitment has already been made to you at the UHI November Court meeting to progress this as a matter of priority (both in terms of the quantum and the allocation of cost). But the partnership wide nature of these arrangements demands a partnership wide solution that works for all of our partners.

The current arrangement covers the cost of core university functions and support services (including partnership services) which are not funded separately. It is intended that the review of those functions across the partnership, and how and where they are best delivered, will be considered as part of the institution wide work to improve our operating model. I anticipate that UHI Perth will play a key role in shaping that new funding model as we move forward.

As I explained when we last met, work is nearing completion on the University/RSB and EO service provision which will set out the functions provided by EO and the associated cost of delivery. That, allied with an analysis of how the same or similar functions are provided across the partnership, will allow the development of appropriate services supported by a transparent funding model. At the moment, there is simply too much duplication.



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The work on shared services being led by Margaret is an important part of not just your recovery plan but our progress towards an improved operating model. As you know we are very keen to have Margaret more involved in shaping the future of the operating model. Perhaps something else we can discuss when we meet.

I note the reference to a potential £100,000 increase in deficit which relates to the financial difficulties being experienced by UHI Perth's wholly owned subsidiary, AST. Specifically, the management fee due to be paid to UHI Perth by AST. I understand that UHI's Chief Financial Officer has advised the finance team at Perth, that as a timing issue, this should be factored into UHI Perth's financial plan and cash flow requirement with any short-term deferral of the fee being receipt adjusted in cash flow and accrued into the 2024-25 budget. That remains the position. I'd be happy to review any wider investment proposal for AST based upon a full business case for UHI Court to consider.

I note that your letter was also copied to the Chair of the Scottish Funding Council (SFC). At my request RSB officers have discussed your correspondence and the content of this response with our colleagues at the SFC. I will forward a copy to those SFC colleagues for completeness. The SFC have confirmed that all of the issues raised in your letter should continue to be addressed through the RSB.

I look forward to meeting with you on 28 January when we will have the chance to discuss some of these issues and the wider themes covered in our correspondence. In the meantime, as ever, I'm always available for a chat whenever it might be helpful.

Thanks again for your work on the Transition Oversight Board and for the time and energy you commit to Chairing the board of UHI Perth.

All the best,

**Alastair MacColl**  
**Chair of Court**