



Item: 3

Education, Communities and Housing Committee: 1 April 2026.

UHI Orkney – Draft Budget.

Report by Director of Education, Communities and Housing.

1. Overview

- 1.1. This report presents the draft budget for UHI Orkney for 2026/27, for members' approval.
- 1.2. UHI Orkney is required to submit a balanced budget annually.
- 1.3. To achieve a balanced budget for 2025/26, UHI Orkney required an advance of up to £1,266,000 from the loans fund, which will incur interest charges. There is an existing loan of £1,415,000 as at the end of 2024/25, which would give a total deficit of £2,681,000.
- 1.4. A Task Force, chaired by the Director of Education, Communities and Housing, is identifying and implementing opportunities for savings and income generation. The Task Force will continue to identify and implement actions to enable UHI Orkney to set a balanced budget in future. A separate report on this work is being brought to this Committee.
- 1.5. A draft budget for 2026/27, attached as Appendix 1, has been produced which, if approved, requires a further advance of up to £994,500 from the loans fund to achieve a balanced position.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Note that an advance, up to a maximum of £1,266,000, from the loans fund was approved in order to set a balanced budget for UHI Orkney for 2025/26.
 - ii. Note that the forecasted outturn position for 2025/26 is predicting that the full advance of £1,266,000 from the loans fund may not be required.
 - iii. Instruct the Director of Education, Communities and Housing to submit a report, to the meeting of the Policy and Resources Committee to be held on 21 April 2026, requesting a further advance from the loans fund, up to a maximum of £994,500, in order to set a balanced budget for UHI Orkney for 2026/27.

- iv. Approve the draft revenue budget for UHI Orkney for financial year 2026/27, attached as Appendix 1 to this report, subject to the further advance of up to £994,500 outlined above being approved.

3. Draft Revenue Budget

- 3.1. The draft revenue budget for financial year 2026/27, attached as Appendix 1 to this report, forecasts a deficit of £994,500 – shown as Miscellaneous Income – in order to balance the budget.
- 3.2. The following expenditure and income inflationary assumptions have been used in drafting the budget:

Subjective Heading	% Increase
Staff – Lecturers	2.3%
Staff – Other	3.5%
Property	2.0%
Supplies and Services	2.0%
Transport	2.0%
Administration	2.0%
Apportioned Costs	2.0%
Third Party Payments	2.0%
Transfer Payments	2.0%
Loan Charges	2.0%
Miscellaneous Expenditure	2.0%
Government and Other Grants	0.0%
Rents and Lettings	3.8%
Sales	3.8%
Fees and Charges	3.8%
Miscellaneous Income	0.0%

- 3.3. A pay award of 2.3% for lecturers, effective from 1 September 2026 is included. For all other employees an award of 3.5%, effective from 1 April 2026, has been included.
- 3.4. Distant Islands Allowance (DIA) is paid to all UHI Orkney staff, at a cost of around £292,000 excluding on-costs. With on-costs, this increases to £393,300. DIA is not funded by the Scottish Funding Council.

- 3.5. For non-staff expenditure, inflation of 2.0% has been applied and budget lines adjusted for known changes in activity. Within Property Costs, the budget for rates has increased by around 11.8% following the revaluations of non-domestic property values.
- 3.6. The values of the Scottish Funding Council grants for further and higher education for academic year 2026/27 are not yet known, therefore no inflationary increase is assumed.
- 3.7. Sales income is calculated on existing projects and predicted activity. Where applicable price increases are aligned with the academic year.
- 3.8. Income from student fees is dependent on the number and fee status of students enrolled at UHI Orkney. Student fees for full time Further Education and for most undergraduate Higher Education courses are set by the Scottish Government. Income from other fees and charges has been set to allow for any known changes.
- 3.9. Other income assumptions are based on activity levels in financial year 2025/26, adjusted for inflation and any known changes in activity levels.
- 3.10. There is an assumption that sufficient research and commercial activity will be sourced to match the budget set for these income streams. Each year there is income still to be identified, bid for, and won within the budget set. There is an inherent and ongoing risk with the research and commercial income budgets that these targets may not be reached.
- 3.11. In order to set a balanced budget, UHI Orkney has included a miscellaneous income figure of £994,500 in the 2026/27 forecast. This report recommends a request to Policy and Resources Committee to authorise an advance of up to this amount.

For Further Information please contact:

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Implications of Report

1. **Financial** – The financial implications of this report are set out in section 3 above. The requirement to set a balanced budget required planned levels of expenditure and income to be realistic. In the basis of the assumptions noted in this report, which include a potential shortfall of £994,500, the draft budget for financial year 2026/27 carries a significant financial sustainability risk.

2. **Legal** – Effective budgeting and monitoring help the Council meet its statutory obligation to secure best value.
3. **Corporate Governance** – n/a.
4. **Human Resources** - n/a.
5. **Equalities** – An Equality Impact Assessment is not required for financial planning.
6. **Island Communities Impact** – An Island Communities Impact Assessment is not required for financial planning.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
 - Improving Population Health.
9. **Environmental and Climate Risk** – n/a
10. **Risk** – The UHI Orkney draft budget for financial year 2026/27 carries a significant financial sustainability risk.
11. **Procurement** – n/a
12. **Health and Safety** – n/a
13. **Property and Assets** – n/a
14. **Information Technology** – n/a
15. **Cost of Living** – The provision of UHI Orkney education and training to support progression into local jobs and career progression once employed had the potential to significantly impact on families’ income.

List of Background Papers

None.

Appendix

Appendix 1: Draft revenue budget for UHI Orkney for financial year 2026/27.

Appendix 1: Draft revenue budget for UHI Orkney for financial year 2026/27.

	Revised Budget 2025/26	Budget Adjustments	Draft Budget 2026/27
	£	£	£
Staff Costs	5,647,300	6,400	5,653,700
Property Costs	562,300	27,700	590,000
Supplies and Services	784,000	(33,000)	751,000
Transport, Vessel and Plant	121,900	(6,900)	115,000
Administration	116,100	2,900	119,000
Apportioned Costs	142,300	5,000	147,300
Third Party Payments	30,800	(400)	30,400
Transfer Payments	233,400	(48,400)	185,000
Loan Charges	127,500	17,700	145,200
Miscellaneous Costs	22,500	0	22,500
Total Expenditure	7,788,100	(29,000)	7,759,100
Government Grants	(2,462,800)	(247,800)	(2,710,600)
Other Grants, Reimbursements	(1,970,300)	31,500	(1,938,800)
Rents and Lettings	(8,600)	2,600	(6,000)
Sales	(196,300)	31,300	(165,000)
Fees and Charges	(1,884,100)	(60,100)	(1,944,200)
Miscellaneous Income	(1,266,000)	271,500	(994,500)
Total Income	(7,788,100)	29,000	-7,759,100
Net Total	0	0	0