



The University of Edinburgh

Reports and Financial Statements
for the year to 31 July 2006



Contents

Principal’s Report	2-3
Operating and Financial Review	4-5
Corporate Governance Statement	6-9
Responsibilities of the Court	10-11
Membership of the Main Committees of Court	12-13
Auditor’s Report	14-15
Financial Statements	
Group Income and Expenditure Account	16
Group Statement of Historical Cost Surpluses and Deficits	17
Group Statement of Total Recognised Gains and Losses	17
Balance Sheets	18-19
Group Cash Flow Statement	20
Notes to the Accounts – Notes 1: Statement of Accounting Policies	21-23
Notes to the Accounts – Notes 2 to 39	24-45
Five Year Summary	46
University Income and Expenditure Account	47

Principal's Report

for the year ended 31st July 2006

The University's strong financial performance has continued in the last year. This is clearly a reflection of the teaching and research strengths of our University and the notable activities that have taken place which build on our international reputation.

Student numbers continued to increase with UK/EU undergraduate places fully subscribed and international student numbers growing by 8.4%. Our commitment to teaching and learning of the highest quality was recognised when the University was awarded the Queens Anniversary Prize for work in the College of Medicine and Veterinary Medicine on its Virtual Hospital Online, an integrated student learning support environment.

World class facilities play a vital part in attracting students and leading academic staff that enable ground breaking research to be undertaken. The University has continued to invest in a range of projects. We now have an agreed and funded capital building programme to the value of £196 million to be completed by 2010. The size of the programme is possible due to the cash the University generates plus the very positive support we continue to receive from the Scottish Funding Council, Charities, Research Councils and individual support.

One measure of the distinction of Edinburgh researchers is the high level of external funding they attract. In the last 5 years income from this source has grown strongly in real terms. During the year a number of significant awards were made by sponsors:-

- Professor Sharp (Psychiatry) will lead a team of researchers and clinicians, across many disciplines, from 12 UK universities in a wide ranging project aimed at developing treatments that will improve the wellbeing of people affected by cancer.
- Dr Andrews (Anaesthetics) will lead a team of clinicians across 10 centres in the UK in evaluating improvements to parenteral nutrition given to critically ill patients in Intensive Care Units with the aim of reducing infection, mortality and the length of stay in patients requiring intensive care.
- Drawing on world wide connections and expertise in the fields of computer science, electronic engineering and optoelectronics Dr Arvind (Informatics) aims to develop a radically new concept of computing utilising minute autonomous semiconductor specks.
- Dr Langridge-Smith (Chemistry) will seek to develop radical new technologies that will make decisive

improvements in the field of protein analysis with the aim of overcoming the limitations of existing technologies which hamper progress in biological and medical research.

Equally, there has been a wide range of exciting outputs from existing research projects during the last year.

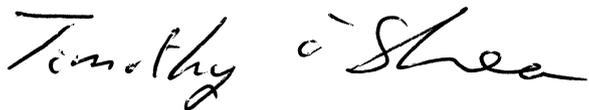
- In August 2005 it was announced that scientists from the University of Edinburgh working with Colleagues in Milan, became the first in the world to develop a new technique to grow pure brain stem cells – an important advance that will lead to a better understanding of neurological conditions like Parkinson's and Alzheimer's as the search for a cure goes on.
- A contraceptive pill is being developed which it is hoped may protect against breast cancer, as well as being helpful in the treatment of fibroids, endometriosis and pre-menstrual syndrome.
- Edinburgh Scientists have devised a new means to identify groups of people genetically more at risk from bowel cancer. This could lead to new measures to prevent the disease for thousands of people in the future.
- Partnership is important to driving forward the research strategy of the University. Edinburgh is now leading four research pooling initiatives with partner Scottish Universities, the latest of which is the Scottish Alliance for Geosciences Environment and Society. This was set up with funding of £22 million from the Scottish Funding Council to allow scientists to better understand some of the planets most pressing environmental problems.
- Agreement was reached with the Biotechnology and Biological Science Research Council to form a major new research Institute bringing together researchers from Roslin Institute, the Neuropathogenesis Unit of the Institute of Animal Health, and over 100 University staff. The research institute will be located in a £50 million building jointly funded by BBSRC and the University in a new development on the Easter Bush campus.

The University continues to perform very strongly in transferring knowledge from commercial development. Edinburgh Research and Innovation has facilitated the setting up of 20 start up and 3 spinout companies filed 103 technology disclosures, filed 80 patents and signed 31 technology licences. This performance stands comparison with the worlds' most successful universities in the area of commercialisation.

The University also runs commercial activities that complement our core mission and exploit our physical assets. During the year Salisbury Green Hotel and Conference Centre, a major refurbishment costing £2.8million, was opened, thus enabling the University to further grow its activity as a major provider of accommodation, through its subsidiary UoE Accommodation Limited. The University is now recognised as being at the very hub of activity in providing the venues and accommodation for the Edinburgh International Festival.

The University of Edinburgh Campaign has recently been launched. This ambitious plan to raise £350 million towards 33 projects over the next five years is the largest fund raising campaign ever for higher education in Scotland. The Campaign's impact will be wide-ranging, with particular focus on student scholarships and bursaries, building projects and reinforcing existing research strengths. I believe that this ambitious programme can be met by funding from personal generosity, charitable trusts and foundations, and statutory bodies.

As we move forward, the University will continue to strive to deliver high quality learning support for students and research outcomes to benefit society and the Scottish and UK economies. A key challenge is how we can match the growth in income of the top English Universities with their resources boosted by higher fees paid by students. We will work to take advantage of opportunities that relate to our core mission to grow our income, we will engage with the newly elected Executive following the May 2007 elections, to address the legitimate funding needs of Scottish Universities so that we can continue to move forwards as an increasingly successful, globally competitive University.



Professor T M M O'Shea
Principal and Vice-Chancellor

Operating and Financial Review

for the year ended 31st July 2006

Scope of the Financial Statements

The Financial Statements comprise the consolidated results of the University, its subsidiary companies, its Endowment Trusts and the University of Edinburgh Development Trust. The subsidiary companies undertake complementary activities which, for legal or commercial reasons, are more appropriately channelled through limited companies. These activities include research support and commercialisation, publishing, heat and power production, conferences and high performance computing services.

The FRS17 Pensions disclosure in previous years was by way of a note. This year it has been disclosed in full in the Income and Expenditure, Balance Sheet and the Statement of Total Recognised Gains and Losses, with appropriate reinstatement of prior year comparators.

Results for the Year

The University's consolidated Income and Expenditure Account for the year to 31st July 2006 is summarised as follows:

	2006 £m	2005 Restated £m
Income	435.6	402.7
Expenditure	428.7	391.8
Operating Surplus	6.9	10.9
Exceptional Items	3.3	0.4
Other Items	(2.0)	(0.7)
Surplus retained within general reserves	8.2	10.6

The surplus for the year was £8.2 million or 2.0 % of income. This level of surplus has enabled £10 million to be invested in an enhanced capital building programme over the next two years. Gross income increased by £32.9 million (8.2%) compared to the previous year. Funding Council Grants increased by £14.7 million (10.9%), partly reflecting the application of infrastructure funds to major refurbishment projects and partly as a result of above inflation increases in research funding which for the first time include the receipt of new research pooling grants. The continued growth in student numbers was particularly notable in international students, where fee income increased by £4.4 million (17.5%). The strong growth in research grants and contracts income £9.7million (9.3%) was boosted by £3.7 million of transitional funding from the Research Councils linked to the introduction of full economic costing and pricing for research. The endowment and investment income grew by £2.8 million (24.9%) from the previous year as a result of increased endowment income plus deposit balances and interest rates being higher than the previous year.

Cash Flow

Cash and Short-term investments at the year end amounted to £112.1 million, up by £26.5 million from the previous year-end. Net cash from operating activities was very strong, aided by the increase in accruals and deferred income linked to profiled research grants, prepayment of rents and unspent SFC funding for infrastructure. The overall cash position was also boosted by a year of lower expenditure on capital expenditure at £34.9 million, with a significant percentage again funded from external sources. The growing level of cash and deposits is enabling the University to increase investment in its estate. The impact of this will start to reduce these balances from 2007/8 as new projects receive planning approval and start to be constructed.

Capital Projects

The Estates Strategic Plan has been updated this year to cover the period up to 2015, with investment under the University Capital Building programme in 2005/6 just under £35 million. Projects completed during the year were the Magnetic Resonance Imaging Scanner extension to the new Medical School, the conversion of the Old Medical School for the School of Health and Social Services, the Salisbury Green Hotel and the innovative William Rankine Building at King's Buildings, where research carried out will have a direct impact on green initiatives. Appropriately, the building incorporates state of the art technology making it environmentally friendly, one wall having photovoltaic panels to produce electricity. This is a pointer to the ongoing activity to improve the University's environmental performance and contain our utility costs. Other major on-going projects during the year included the continuing refurbishment of the Hugh Robson Building, the new Informatics Building in Potterow and further investment in the Centre for Biomedical Research site at Little France.

Investment Performance

The total value of endowments at the year-end amounted to £201.3 million an increase of £18.1 million. The return for the year to the 31st July for the principal No.1 Trust was 12.6%. This was marginally behind the benchmark return set for the fund. Over 5 years, the fund returned 8.2% per annum compared to the benchmark return of 6.06%. During the year, £4.4million of additional capital was invested mainly reflecting new scholarship endowments received, while £1.5 million was realised to again support strategic investments in research in the College of Medicine and Veterinary Medicine.

At the year-end, the decision to wind-up the No.1 and No.2 Trusts was implemented and the funds transferred to the University to form a single endowment fund, which will continue to be managed by Baillie Gifford under the guidance of a newly formed Investment Committee and in accordance with the University's socially responsible investment policy.

Pensions

The University contributes to two main schemes, USS and the University of Edinburgh Staff Benefits Scheme. Although USS as a multi-employer scheme has no FRS17 impact on these accounts, during the year a triennial valuation reported a £6,568million deficit. Although this did not immediately trigger an increase in contributions, the University welcomes the view of the Management Committee that both benefits and contribution rates require serious review. The FRS17 deficit of the SBS scheme increased to £47.5million and the University is currently considering its response to the Trustees' request for increased contributions following the triennial valuation, which is dated March 2006. The deficit on the Strathclyde Pension Scheme fell to £3.1 million from £4.5 million. The contribution rates on this scheme increase in steps to 18.6% of pensionable salary from April 2008. The University is fully committed to maintaining access to defined benefits schemes for all its staff but recognises that it will have to work with staff to ensure that this policy is affordable.

Employment of Disabled Persons

The University has adopted a Disability Policy covering staff, students and members of the public. This policy states that "The University of Edinburgh is committed to a policy of equal opportunities for disabled staff and students and aims to create an environment which enables them to participate fully in the mainstream of University life".

Wherever practical the University policy in relation to staff is to:

- seek to ensure that employees with disabilities are placed in jobs suited to their aptitudes, abilities and qualifications;
- seek to ensure that disabled employees are considered for promotion according to their aptitudes, abilities and qualifications;
- ensure that disabled people are not disadvantaged when the renewal of fixed-term contracts is being considered; and
- make use of the services and advice offered by the Employment Service wherever appropriate so as to make it possible to recruit a disabled person or retain an existing employee who has become disabled.

Currently 69 of our 7,209 staff have declared that they have a disability.

Creditor Payment Policy

The University has published standard terms and conditions of trade that will apply to payments to suppliers unless other terms and conditions are agreed prior to business taking

place. The University's policy is to pay agreed invoices in accordance with the agreed terms of payment. At the year end, the amount due to trade creditors was equivalent to 15 days of purchases from suppliers. The amount paid under the Late Payments of Commercial Debts (Interest) Act 1998 was nil.

Looking forward

Looking to the future, it is clear that the University faces a period of increasing cost pressures. The cost of employing the best academic staff is moving quickly upwards. Pay modernisation has increased overall pay costs. The pension schemes to which we contribute have increasing liabilities which will continue to require increasing contributions. Inflation on University non-staff costs is now moving up at rates well in excess of the assumptions used by Government in our grant funding. In terms of income, the University will continue to plan to generate income growth from new activity to meet this cost inflation. The position on the recurrent account will be depressed in the next two years in the run up to the 2008 Research Assessment Exercise. After that, much depends on the current review of the methodology for funding teaching being carried out by the Scottish Funding Council, the impact of a move away from the RAE on the allocation of research funding and further progress on full economic costing of research, moving the cost recovery on Research Council grant up from 80 to 100% of their full economic cost.

You will, like me, draw the conclusion from these accounts that the University's financial position is reassuringly strong. This is clearly linked to the academic progresses that the University continues to make. In coping with a tightening financial environment, the University will use its strong balance sheet to continue to invest in a sustainable estate, maximise the allocation of resources towards academic activity ahead of the 2008 RAE and bring forward new I.T. systems to improve the management and administrative efficiency of the University. I have no doubt that Edinburgh will continue to succeed in meeting its overall strategic aim supported by maintaining its strong financial position.

I would like to end by thanking Tony Gavin, whom I have succeeded as Convener of Finance and General Purposes Committee. He worked outstandingly in so many ways in overseeing the building of the current financial position. I will work diligently to take forward his strong legacy.



John Markland
Convener, Finance and General Purposes Committee.

Corporate Governance Statement

Introduction and Statement of Compliance

The University of Edinburgh is committed to achieving the highest possible standards of corporate governance relevant to the higher education sector. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998, incorporating internal control guidance as amended by the British Universities Finance Directors Group. Its purpose is to help the reader of the financial statements understand how the principles have been applied, and to set out the basis for **the Court's opinion that the University has fully complied with that Code throughout the year ended 31 July 2006**. In addition, it has adopted the provisions of the revised Combined Code of Corporate Governance issued in 2003, where possible.

Internal Control and Risk Management

The University Court (the University's governing body) is responsible for the University's system of internal control and is responsible for reviewing 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 mis-statement or loss.

The internal control environment includes delegated authorities, policies, procedural and system controls, planning and budgetary processes, professional capability in specialist areas, governance structures and management reporting. The senior management team receives regular reports on the University's performance, including appropriate performance indicators, and considers any control issues brought to its attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit which include recommendations for improvement.

The University operates processes for the identification, evaluation and management of significant risks. The risk management framework established in the University includes a Risk Management Committee as a formal Court sub-committee which oversees implementation of the Risk Management Policy adopted in 2002. The University Risk Register focuses primarily on risks related to the attainment of the University's strategic objectives and identifies responsibility for the overall management of each risk. The most recent update was revised during 2005-06 and was adopted by Court on 30 October 2006: it aligns to the

University Strategic Plan 2004-08 (adopted 28 February 2005).

College, Support Group and subsidiary company risk registers ensure key operational risks are identified and managed by the relevant sub-organisation within the University. All major projects have risk registers, and risk assessment is incorporated into planning and decision making processes: risk assessment training and awareness are promoted through the management structure. The University's major risks are regularly reviewed, and there are year end processes to obtain further assurances on the adequacy of the management of key risks and to document the sources of assurances for each major risk.

Internal Audit undertake an independent review of the operation of the overall risk management process, having regard to best practice as recommended by professional institutes and other relevant organization. The Audit Committee considered the Internal Audit report on this matter at its meeting on 5 October 2006 and expressed itself satisfied with the outcome.

By its 11 December 2006 meeting, the Court had received the Audit Committee and Risk Management Committee reports for the year ended 31 July 2006 and took account of relevant events since 31 July 2006. The Court considers, on the recommendation of the Audit Committee, which has responsibility for advising it on the effectiveness of policies and procedures for risk assessment and risk management, that a risk management process wholly compliant with the guidance provided by the Combined Code, as amended by the British Universities Finance Directors Group, in so far as its provisions apply to the higher education sector, has been in place throughout the year ended 31 July 2006.

In reaching this view, the Court's confirmation of the effectiveness of the system of internal control has also been informed by the following:

- a) the Internal Audit Service's annual report to the Audit Committee on the adequacy and effectiveness of systems of internal control including governance and risk management, together with recommendations for improvement;
- b) the Risk Management Committee's Annual Report to the Audit Committee regarding its operation;

- c) comments made by the External Auditors in their management letter and other reports; and
- d) the work of managers within the institution, who have responsibility for the development and maintenance of the internal control framework, and by any relevant comments made by other external agencies (e.g. the Quality Assurance Agency for Higher Education, SFC).

Going concern

The University Court considers that the University has adequate resources to continue in operational existence for the foreseeable future.

The role of the Court

By the Universities (Scotland) Act (1889), the University Court is a body corporate, with perpetual succession and a common seal. The present powers of the Court are defined in the Universities (Scotland) Act (1966) and include, *inter alia*, the amendment of the composition, powers and functions of bodies in the University and the creation of new bodies, the administration and management of the whole revenue and property of the University, internal arrangements of the University, appointments, review of decisions of Senatus and, on the recommendation of Senatus, the regulation of degrees, admission and discipline of students. The Court is responsible for the strategic development of the University, advised by the Principal in consultation with the Central Management Group. The University Court normally meets five times per year. The Court consults with the Senatus Academicus and the General Council as required by statute. The responsibilities of Court are more fully explained on pages 10 and 11.

The Court has taken full account of the Guide for Members of Governing Bodies issued by the Committee of University Chairmen in November 2004. It notes that compliance with this Guidance is not a formal requirement of the Scottish Funding Council. The Court believes that its operations are very largely compliant with this Guidance. During 2005-06 the Court has conducted a review of its own effectiveness in keeping with the relevant part of the Guidance. The Court has adopted a statement of its view of its effectiveness in fulfilling its responsibilities, which it believes to be of a high standard, and of the actions it wishes to take further to enhance its effectiveness. This statement and the outcome of the review are available as part of the University's Freedom of Information publications scheme at <http://www.pubs.recordsmanagement.ed.ac.uk/>

Charitable Status

The University had charitable status (No. SC005336) under the legislative framework operative throughout the 2005-06 financial year. Certain provisions of the new Act have come into force during the 2005-06 financial year. The University Court considers that the University meets the 'Charity Test' set out in Section 7 of the Charities and Trustees Investment (Scotland) Act 2005. It will take such actions as are necessary to ensure continued full compliance with the legislation and retention of charitable status.

During 2005-06 the University's endowments were held in legally separate Trusts. These consisted of the general University of Edinburgh No.1 and No.2 Trusts, which had common Trustees and the specific University of Edinburgh Norman Salvesen Emphysema Research Fund No.3 Trust, which has separate Trustees. The Trustees employed professional fund managers to undertake day to day management of the endowment funds. During the year, the University Court took the decision to wind up the No.1 and No.2 Trusts and transfer the combined assets back to the University to be administered as the University of Edinburgh Endowment Fund. The Trustees became the initial members of a new Investment Committee constituted on 1 August 2006 that reports to the University Court through the Finance and General Purposes Committee and normally meet twice a year. The Investment Committee continue to employ professional fund managers on behalf of the University Court, as do the Trustees of the No.3 Trust. The income derived from the investment of the endowment funds previously remitted to the University by the Trustees will in future be earned directly by the University. The investment income will continue to be applied for the specific purposes of the relevant endowments, or in the case of general endowment, for the University's general purposes. All of those purposes are charitable for the purposes of the new legislation.

Income derived from philanthropic donations and benefactions arising from the University's Development activities is disbursed by a Trust with separate charitable status, The University of Edinburgh Development Trust. The Board of Trustees includes individuals external to the University; the Convener is a member of the Court. The Trustees meet twice a year. All disbursements are applied for the specific purposes of the relevant donations and benefactions, or in the case of general donations and benefactions, for the University's general purposes. All of those purposes are charitable for the purposes of the new legislation.

Corporate Governance Statement

continued

The Court's Committee Structure

The Court has established several committees, including a Finance and General Purposes Committee, a Nominations Committee, a Remunerations Committee, a Staff Committee, a Risk Management Committee, a Health and Safety Committee and an Audit Committee. Each of these Committees is formally constituted with terms of reference and includes lay members of the Court. There are also a Central Management Group consisting of senior academic and administrative managers who advise the Principal on senior management decisions and the allocation of budgets to Colleges and Support Services, and Trustees who administer the University's endowment funds.

The **Finance and General Purposes Committee** oversees the University's financial affairs on behalf of the Court. This includes the design of the planning and budgeting process, approval of the resulting plan and budget in the context of the University's overall strategy, and ensuring adequate monitoring thereafter. It is chaired by the Vice Convener of the Court and includes a majority of lay members. It normally meets six times a year.

The **Nominations Committee** considers nominations for co-opted vacancies in Court membership and for Court's nominations on the Curators of Patronage. It is chaired by the Vice Convener of the Court, has a majority of lay members and meets as necessary, normally not less than twice a year.

The **Remuneration Committee** advises the Principal with regard to his responsibilities for setting professorial and equivalent academic and academic-related salaries. The lay members also consider the salary of the Principal and advise the Court as appropriate. It is chaired by the Vice Convener of the Court, has a majority of lay members and meets as necessary. It conducts business by correspondence when appropriate, but meets at least once a year.

The **Staff Committee** provides guidance on the development of staff policy and monitors the implementation of such policies. It also acts as the formal management route for local negotiation and consultation with recognised trade unions. Although not a constitutional requirement, the Committee is currently chaired by a member of the Court and its membership includes a lay member of the Court. The Committee normally meets five times a year.

The **Audit Committee**, which is chaired by a lay member of the Court, and consists of lay members of the Court and some external individuals, meets four times a year, with the

University's Internal and External Auditors in attendance. It is responsible for reviewing the University's annual accounts and financial statements and for advising the Court on changes to accounting policies. In addition, the Committee considers detailed reports from the Internal Audit service together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. It has explicit responsibility for advising on the effectiveness of the University's risk management arrangements. The Committee also receives and considers reports from the Funding Council as they affect the University's business and monitors adherence to regulatory requirements. It has authority to investigate any matters within its terms of reference. Some senior University officers routinely attend meetings of the Audit Committee, but they are not members of the Committee and once a year the Committee, normally through the Convener, meets the Internal and External Auditors on their own for independent discussions.

The Audit Committee also receives regular reports from the Internal and External Auditors which include recommendations for improvements in internal control. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The emphasis is on obtaining the relevant degree of assurance and not merely reports of exceptions. The Court receives the minutes of each Audit Committee meeting and an annual report of its proceedings.

The **Risk Management Committee** supports and advises the Central Management Group, and through it the University Court, on the implementation and monitoring of the University's risk management policy and strategy. It ensures that the identification and evaluation of key risks that threaten achievement of the University's objectives is carried out; that a register of these risks is maintained; that risks are being actively managed, with the appropriate strategies in place and working effectively; and that it contributes to raising awareness of risk generally across the University and to maintaining the profile of risk management. It is chaired by the Director of Corporate Services and includes a lay member of the Court amongst its membership and normally meets at least five times a year.

The **Health and Safety Committee** provides oversight and guidance to the University's Health and Safety Services department (which also includes Occupational Health, Occupational Hygiene Unit, Fire Safety and Radiation Protection functions) and advises the Court in regard to

compliance with its statutory responsibilities in this area. It is chaired by the Director of Corporate Services, meets at least twice a year and conducts business through electronic communications between meetings.

The **Estates Advisory Group** oversees the preparation, periodic review and implementation of the University's Estates Strategy and its links to corporate and other business plans. It advises on property portfolio transactions (acquisitions and disposals), matters relating to strategic and major capital developments, significant items related to the amount and deployment of Estates and Buildings recurrent budget, and operational matters for which the Director of Estates wishes advice or support including allocation of previously agreed budgets (e.g. Maintenance Programmes, Small Capital Projects) across Colleges and Support Groups.

It reports to Central Management Group and onwards to Finance and General Purposes Committee and to the Court as necessary.

The **Central Management Group** is a non-statutory body which plays an important part in the internal governance and academic operations of the University. It is the senior body for management decisions whose members are, between them, responsible and accountable for all components of the University's budget, both income and expenditure. It brings together the academic, financial, human resources and accommodation aspects of planning and the members of the body are named on page 13. It is advised by the Risk Management Committee in regard to formulation and implementation of risk management policy. It reports through the Academic Policy Committee to Senatus and through the Finance and General Purposes Committee to Court. CMG is chaired by the Principal; it normally meets ten times each year.

Responsibilities of the Court

On 15 May 2005, the Court adopted a Statement of Primary Responsibilities, as set out below.

The Court's primary responsibilities are:

1. To approve the mission and strategic vision of the University, long-term academic and business plans and key performance indicators, and to ensure that these take proper account of the interests of stakeholders.
2. To delegate authority to the Principal, as chief executive, for the academic, corporate, financial, estate and personnel management of the University, subject to reserving such matters to itself as the Court thinks appropriate. And to establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the Principal.
3. To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, arrangements for internal and external audit, regularly reviewed schedules of delegated authority and procedures for handling internal grievances and for managing conflicts of interest.
4. To ensure processes are in place to monitor and evaluate the performance and effectiveness of the University against the plans and approved key performance indicators, which should, where possible and appropriate, be benchmarked against other comparable Universities.
5. To establish processes to monitor and evaluate the performance and effectiveness of the Court itself.
6. To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
7. To put in place appropriate arrangements for the appointment of co-opted members of the Court so as to maintain a broad balance of expertise, taking account of the principles of equal opportunity.
8. To safeguard the good name and values of the University.
9. To appoint the Principal as chief executive, and to put in place suitable arrangements for monitoring his/her performance.
10. To appoint a secretary to the Court and to ensure that, if the person appointed has managerial responsibilities in the University, there is an appropriate separation in the lines of accountability.
11. To be the employing authority for all staff in the University and to be responsible for agreeing the human resources strategy.
12. To put in place appropriate arrangements for determining, and for regular review of, the performance, remuneration and conditions of service of senior staff.
13. To be the principal financial and business authority of the University, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the university's assets, property and estate.
14. To be the University's legal authority and, as such, to ensure that systems are in place for meeting all the University's legal obligations, including those arising from contracts and other legal commitments made in the University's name.
15. To make such provision as it thinks fit for the general welfare of students, in consultation with the Senate.
16. To act as trustee for, or to make appropriate alternative arrangements for the trusteeship of, any property, legacy, endowment, bequest or gift in support of the work and welfare of the University,
17. To make appropriate arrangements, compliant with relevant legislation, for the trusteeship of any pensions scheme established by the Court for University employees, and to appoint the employer-nominated trustees.
18. To ensure that at all times it operates within the terms of the Universities (Scotland) Acts 1858 – 1966, Ordinances and Resolutions made under those Acts, and any other relevant legislation; and that appropriate advice is available to enable this to happen.

These primary responsibilities include those pertaining to financial matters as stated above. The detailed requirements relating to financial matters are governed by law, agreements and regulations as decreed by various bodies and are stated as follows:

The Court is responsible for keeping proper accounting records which disclose, with reasonable accuracy, the financial position of the University at any time and enable it to ensure that the financial statements are prepared in accordance with the Universities (Scotland) Acts 1858–1966, the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Higher Education Funding Council and the Court of the University of Edinburgh, the University 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 University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Court has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed; and
- financial statements are prepared on the going concern basis.

The Court has taken reasonable steps to:

- ensure that funds from the Scottish Higher Education Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and hence to take reasonable steps to prevent and detect fraud; and
- secure the economical, efficient and effective management of the University's resources and expenditure.

In meeting the above responsibilities, Court can confirm to the Trustees of The University of Edinburgh No 1 Trust and The University of Edinburgh No 2 Trust that the funds received in the year from the Trusts have been used only for the purposes dictated by the terms of the endowments underpinning the funds held in trust.



John Markland
Vice-Convener

Membership of Main Committees

Court Membership

Membership of the University Court covering the period of these financial statements and up to the date of signing was as follows:

The Rector (Convener), Dr T Dalyell (until 28 February 2006)
The Rector (Convener), Mr M Ballard (from 1 March 2006)
The Principal and Vice-Chancellor, Professor T M M O'Shea
The Chancellor's Assessor, Rt Hon Lord Cameron of Lochbroom

General Council Assessors

Mrs M Tait
Mr R O Blair
Mr G W T Scott

Senatus Academicus Assessors

Professor L A M Waterhouse (until 30 September 2006)
Professor L Yellowlees (from 1 October 2006)
Professor C Hillenbrand (from 1 October 2006)
Dr L Collins
Professor M Y I H Suleiman (until 30 September 2006)
Professor D J Finnegan

City of Edinburgh Council Assessor

Councillor Lesley Hinds

Co-opted Members

Mr A J Gavin (Vice-Convener) (until 31 August 2006)
Dr J A Markland (Vice-Convener from 1 September 2006)
Ms S Macpherson
Professor A D Milne
Rt Hon Sir Malcolm Rifkind (until 22 December 2005)
Ms G M Stewart
Mr I Darling
Mr G M Murray
Mr D Workman (from 27 February 2006)
Professor J Barbour (from 1 September 2006)

Non-Teaching Staff Assessor

Ms J Glover

Student Members

Ms R Cameron (until 11 June 2006)
Mr T Cobbett (until 11 June 2006)
Mr T Goodwin (from 12 June 2006)
Mr R Neilson (from 12 June 2006)

Standing Committees of the University Court

Finance and General Purposes Committee
Remuneration Committee
Nominations Committee
Audit Committee
Health and Safety Committee
Personal Chairs Committee
Staff Committee
University Collections Advisory Committee
Risk Management Committee

Membership of the main committees of Court

Finance and General Purposes Committee

Convener: Mr A J Gavin (until 31 August 2006)
Dr J A Markland (from 1 September 2006)

The Principal, Professor T M M O'Shea
Senior Vice-Principal Professor M Anderson
Mr M D Cornish, University Secretary
Mr J P Gorrings, Director of Finance
Ms R Cameron, President of the Students Association (until 11 June 2006)
Mr T Goodwin, President of the Students Association (from 12 June 2006)
Ms S Macpherson
Mr M Murray
Mrs M Tait
Ms G Stewart (until 31 August 2006)
Professor Y Suleiman (until 30 September 2006)
Professor J Barbour (from 1 September 2006)
Vacancy (Senatus Assessor still to be appointed)

Remuneration Committee

Mr A J Gavin (Convener) (until 31 August 2006)
Dr J A Markland (Convener and member from 1 September 2006)
The Principal, Professor T M M O'Shea
Ms S Macpherson

Mr J Stretton (until 31 August 2006)
 Mr I Darling (from 1 January 2006)
 Vacancy

Nominations Committee

Convener: Mr A J Gavin (until 31 August 2006)
 Dr J A Markland (from 1 September 2006)

The Principal, Professor T M M O'Shea
 Professor L A M Waterhouse (until 31 August 2006)
 Professor L Yellowlees (from 1 September 2006)
 Mr M D Cornish
 Mr R O Blair
 Ms G Stewart (from 1 January 2006)
 Rt Hon Lord Cameron of Lochbroom (from 1 September 2006)

Staff Committee

Convener: Professor L A M Waterhouse

Ms E C MacArthur
 Mrs S Cannell
 Professor P Munn
 Professor E Watson
 Professor A Calder
 Professor A Lawrence
 Dr D Welch
 Dr V O'Halloran
 Mr A Currie
 Ms R Arshad
 Dr J A Markland

Audit Committee

Convener: Dr J A Markland (until the 31 August 2006)
 Ms G Stewart (from 1 September 2006)

Mr F H Hitchman
 Professor A D Milne
 Mr J Stretton (until 31 August 2006)
 Mr D Bentley
 Mr G W T Scott
 Vacancy

Risk Management Committee

Convener: Mr N A L Paul

Mr F Gribben
 Mr L Golightley
 Dr D A Welch
 Mr M D Cornish

Mr J P Gorringe
 Mr B A C Gilmore
 Professor S van Heyningen
 Mr I Darling
 Mr M Menlowe (until 31 July 2005)
 Dr Jonathan Ansell (from 1 August 2005)

Membership of the Central Management Group

Convener: The Principal, Professor T M M O'Shea

Senior Vice-Principal Professor M Anderson
 Vice-Principal Professor S Chapman (from 1 August 2006)
 Vice-Principal Professor G S Boulton
 Vice-Principal Professor V Bruce
 Vice-Principal Professor J Savill
 Vice-Principal Professor G Bulfield
 Vice-Principal Professor S van Heyningen
 Vice-Principal Ms H Hayes
 Vice-Principal Professor M Bownes
 Vice-Principal Mr Y Dawkins
 Vice-Principal Professor R D Kenway
 Assistant Principal Dr D Dewhurst
 Mr M D Cornish
 Mr N A L Paul

Membership of the Estates Advisory Group

Convener: Vice-Principal Professor S Chapman (from 1 August 2006)
 Senior Vice-Principal Professor M Anderson (to 31 July 2006)

Vice-Principal Ms H Hayes
 Dr L Collins
 Mr L Golightley
 Dr J Martin
 Mr M D Cornish
 Mr N A L Paul
 Mr J P Gorringe
 Mr A Currie
 Dr A Easson
 Mr R Kington
 Mr I Darling

Independent Auditor's Report to the Members of the University Court of The University of Edinburgh

We have audited the group and parent University financial statements of the University of Edinburgh for the year ended 31 July 2006 which comprise the group and parent University Income and Expenditure Account, the group and parent University Balance Sheets, the group Cash Flow Statement, the group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the University Court, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the University Court those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University Court, for our work, for this report, or the opinion we have formed.

Respective responsibilities of the University Court and Auditors

The University Court's responsibilities for preparing the Operating and Financial Review and the group and parent University financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Scottish Funding Council. We also report to you whether in our opinion the Operating and Financial Review is consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Operating and Financial Review and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code of Audit Practice issued by the Scottish Higher Education Funding Council. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the University Court in the preparation of the financial statements and of whether the accounting policies are appropriate to the group and parent University's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and parent University as at 31 July 2006 and of the group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2006 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2006 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.



KPMG LLP

Chartered Accountants
Registered Auditor
20 Castle Terrace
Edinburgh
EH1 2EG

11 December 2006

Group Income and Expenditure Account

for the year ended 31st July 2006

	Note	2006 £ 000's	2005 Restated £ 000's
INCOME			
Funding council grants	2	148,693	134,006
Tuition fees and education contracts	3	65,417	59,116
Research grants and contracts	4	113,674	103,969
Other income	5	93,680	94,327
Endowment and Investment income	6	14,105	11,289
TOTAL INCOME		435,569	402,707
EXPENDITURE			
Staff costs	7	238,849	221,862
Other operating expenses	9	166,894	145,803
Depreciation	13	19,017	19,555
Interest payable	10	3,919	4,634
TOTAL EXPENDITURE		428,679	391,854
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		6,890	10,853
Gains on disposal of properties	13	3,283	440
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION		10,173	11,293
Taxation	11	(8)	(4)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAXATION AND BEFORE MINORITY INTEREST		10,165	11,289
Minority interest		3	3
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		10,168	11,292
Transfers to accumulated income within specific endowment asset investments		(1,958)	(736)
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES	12	8,210	10,556

The Group Income and Expenditure account is in respect of continuing activities.

Statement of Historical Cost Surpluses

for the year ended 31st July 2006

	Note	2006 £ 000's	2005 Restated £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		6,890	10,853
Gains on disposal of properties in the year	13	3,283	440
Realisation of revaluation gains of previous years	24	1,650	1,444
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	24	5,613	5,742
HISTORICAL COST SURPLUS BEFORE TAXATION		17,436	18,479
HISTORICAL COST SURPLUS AFTER, TAXATION, MINORITY INTEREST AND TRANSFERS TO SPECIFIC ENDOWMENT ASSET INVESTMENTS		15,473	17,742

Group Statement of Total Recognised Gains and Losses

for the year ended 31st July 2006

	Note	2006 £ 000's	2005 Restated £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		10,168	11,292
Appreciation on endowment asset investments	15	13,629	25,704
New endowments	22	3,070	1,064
Endowments transferred to capital grants	22	(500)	-
Unrealised surplus on revaluation of tangible fixed asset	23	-	49,559
Actuarial (Loss)/Gain in respect of Pension schemes	24	(16,191)	3,049
TOTAL GAINS RECOGNISED DURING THE CURRENT YEAR		10,176	90,668
Prior year adjustments (note 24)		(33,261)	
TOTAL LOSSES RECOGNISED SINCE THE LAST FINANCIAL STATEMENTS		(23,085)	
Reconciliation:			
Opening reserves and endowments at 1 August as restated		752,967	662,299
Total recognised gains for the year		10,176	90,668
CLOSING RESERVES AND ENDOWMENTS AT 31 JULY		763,143	752,967

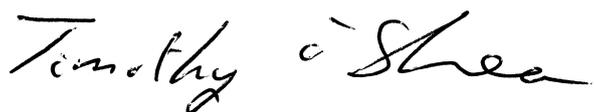
Balance Sheets

for the year ended 31st July 2006

	Note	Group		University	
		2006 £ 000's	2005 Restated £ 000's	2006 £ 000's	2005 Restated £ 000's
FIXED ASSETS					
Tangible assets	13	832,000	816,544	824,339	807,835
Investments	14	149	193	5,205	5,713
		832,149	816,737	829,544	813,548
ENDOWMENT ASSET INVESTMENTS	15	201,310	183,153	201,310	183,153
CURRENT ASSETS					
Stocks and stores in hand		2,137	1,929	1,193	1,148
Debtors	16	64,260	61,793	63,380	59,573
Assets held for resale	36	715	2,608	715	2,608
Investments: bank deposits	30	93,467	59,057	85,693	52,598
Cash at bank and in hand	30	18,653	26,606	13,188	22,104
		179,232	151,993	164,169	138,031
CREDITORS: Amounts falling due within one year	17	(122,402)	(96,361)	(109,004)	(83,406)
NET CURRENT ASSETS		56,830	55,632	55,165	54,625
TOTAL ASSETS LESS CURRENT LIABILITIES		1,090,289	1,055,522	1,086,019	1,051,326
CREDITORS: Amounts falling due after more than one year	18	(63,806)	(60,434)	(63,806)	(60,434)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(8,059)	(8,039)	(8,059)	(8,039)
TOTAL NET ASSETS EXCLUDING PENSIONS LIABILITY		1,018,424	987,049	1,014,154	982,853
PENSION LIABILITY	24	(50,623)	(34,094)	(50,623)	(34,094)
TOTAL NET ASSETS INCLUDING PENSION LIABILITY		967,801	952,955	963,531	948,759

	Note	Group		University	
		2006 £ 000's	2005 Restated £ 000's	2006 £ 000's	2005 Restated £ 000's
Represented by:					
DEFERRED CAPITAL GRANTS	21	204,650	199,976	201,180	196,375
ENDOWMENTS					
Specific	22	197,554	179,678	197,554	179,678
General	22	3,756	3,475	3,756	3,475
		201,310	183,153	201,310	183,153
RESERVES					
Revaluation Reserve	23	437,554	444,817	437,554	444,817
General Reserves excluding pension liability	24	174,902	159,091	174,110	158,508
Pension Reserve	24	(50,623)	(34,094)	(50,623)	(34,094)
General Reserve including pension liability	24	124,279	124,997	123,487	124,414
Total Reserves		561,833	569,814	561,041	569,231
MINORITY INTERESTS		8	12	–	–
TOTAL FUNDS		967,801	952,955	963,531	948,759

The financial statements on pages 18 to 45 were adopted by Court on 11 December 2006 and were signed on its behalf by:



Professor T M M O'Shea
Principal



Dr J A Markland
Member of the University Court



J P Gorrige
Director of Finance

Group Cash Flow Statement

for the year ended 31st July 2006

	Note	2006 £'000's	2005 £'000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	29,725	15,244
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	26	8,516	5,315
TAXATION	11	(8)	(4)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	27	(10,152)	(1,539)
MANAGEMENT OF LIQUID RESOURCES	28	(34,410)	(6,865)
FINANCING	29	(1,092)	(1,589)
(DECREASE)/ INCREASE IN CASH IN THE PERIOD	30	(7,421)	10,562

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

(Decrease)/Increase in cash in the period		(7,421)	10,562
Cash outflow from increase in liquid resources	28	34,410	6,865
Change in net debt resulting from cashflows	29	1,092	1,589
Movement in net funds for the period	30	28,081	19,016
Net funds at start of year	30	25,253	5,084
NET FUNDS AT CLOSE OF YEAR	30	53,334	24,100

Notes to the Accounts

for the year ended 31st July 2006

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

i) Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments and certain Land and Buildings, and in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and applicable accounting standards.

ii) Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University and all subsidiary undertakings including *quasi* subsidiaries for the financial year to 31 July. A list of the subsidiary undertakings is included in note 14.

The consolidated financial statements do not include those of the University of Edinburgh Students' Association as it is a separate charity in which the University has no financial interest and no control or significant influence over policy decisions.

iii) Recognition of Income

Income from Donations and Research Grants and Contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards infrastructure costs.

Income from Specific Endowments is credited to Income and Expenditure on a realisable basis and any income in excess of that applied to the specific purposes is transferred to the accumulated income of those endowments funds and disclosed in the Balance Sheet.

All income from short-term deposits and General Endowment Asset Investments is credited to the Income and Expenditure Account on a receivable basis.

iv) Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure in equal amounts over the periods of the leases.

v) Land and Buildings

Land and buildings held by the University at 1 August 2004 were revalued at that date at valuations performed by Messrs Gerard Eve, Chartered Surveyors. The majority of buildings were valued on the depreciated replacement cost basis. Certain other buildings, mainly residential accommodation, retail properties and land were valued on existing use or open market value bases. The University has complied with the requirements of FRS 15, Tangible Fixed Assets, through a review of the above valuations within the required five-year cycle specified by the reporting standard.

Additions since 1 August 2005 are shown at cost. Depreciation on buildings has been provided on a straight-line basis using an assessment of the remaining useful life of each building. No depreciation is provided on land.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

All land and buildings are included in the balance sheet with the exception of the New College Divinity complex on the Mound, which is regarded as inalienable, and two farms which form part of agricultural tenancies. In addition, the University occupies various premises owned by the NHS. The main locations are subject to formal rentals and service charges which are reflected in the income and expenditure account. Some NHS premises are however occupied under arrangements such as historic "knock for knock" agreements. It is not possible to attribute value to these arrangements and hence these assets are not included in the financial statements.

vi) Equipment

Equipment, including micro-computers and software, costing less than £25,000 per individual item or group of related items, is written off in the year of acquisition. All other equipment is capitalised. All University capitalised equipment is stated at cost and depreciated over a four-year period.

Notes to the Accounts

continued

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over a four year period.

Donated equipment is capitalised at depreciated replacement cost at the date of receipt and is depreciated over a four-year period.

It has been recognised that plant acquired by the University's subsidiary, UoE Utilities Supply Company, has a long operating life and is depreciated over a ten year period. Certain other subsidiaries provide different rates of depreciation to that of the parent. These have an immaterial effect on the results of the group.

vii) Investments

Endowment Assets are held in separate Trusts under the control of Trustees appointed by Court. These are as follows:

- University of Edinburgh No. 1 Trust
Scottish Charity No. SC007301;
- University of Edinburgh No. 2 Trust
Scottish Charity No. SC018323; and
- Norman Salvesen Emphysema Research Trust
Scottish Charity No. SC011510

The assets of the Trusts are included in the accounts of the University.

Endowment Asset Investments are included in the Balance Sheet at market value. Temporary deposits are included at cost. Other investments are valued at cost, market value or nominal value as appropriate.

viii) Stocks

Stocks for resale and other stocks are included at the lower of cost and net realisable value.

ix) Maintenance of Premises

The University has a five-year rolling maintenance plan which is reviewed on an annual basis. The cost of routine corrective maintenance is charged to the income and expenditure account as incurred.

x) Foreign Currencies

Transactions in foreign currencies are recorded at the

rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

xi) Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 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 Customs & Revenue and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (Charity No. SC05336). Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

xii) Pension Accounting Policy

The University and certain subsidiaries participate in three separately administered, externally funded, defined benefit pension schemes, all of which are contracted out of the State Earnings-Related Pension Scheme. The schemes are:

- Universities Superannuation Scheme;
- University of Edinburgh Staff Benefits Scheme; and
- Strathclyde Pension Fund

Each fund is valued every three years by independent actuaries. Additionally, the actuaries review the progress of the schemes in each of the intervening years.

The University also participates in the Scottish Teachers Superannuation Scheme (STSS), an unfunded, defined benefit pension scheme which is also contracted out of the State Earnings-Related Pension Scheme. The scheme has a notional fund which is revalued on a five year cycle by the Government Actuary.

The expected cost of providing staff pensions to employees contributing to EUSBS and SPF schemes is recognised in the income and expenditure account, on a systematic basis over the expected average remaining lives of members of the funds, in accordance with

Financial Reporting Standard 17: Retirement Benefits and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

Contributions to the other schemes are charged in the Income and Expenditure Account so as to spread the cost of providing pensions over the employees' working lives within the organisation. The contribution charges are recognised in the accounting periods in which they arise. Variations in pension costs as a result of actuarial valuations or premature retirement schemes are amortized over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the Income and Expenditure Account are treated as provisions in the balance sheet.

Variations in pension costs as a result of actuarial valuations or premature retirement schemes are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the Income and Expenditure Account are treated as provisions in the balance sheet.

The University also contributes to The Federated Superannuation System (FSSU), a defined contribution pension scheme which is not contracted out of the State Earnings-Related Pension Scheme. Contributions are charged in the Income and Expenditure Account as they become payable in accordance with the rules of the scheme.

A small number of subsidiary company employees are members of other defined contribution schemes. Contributions are charged in the Income and Expenditure Account in the year in which they become payable.

xiii) Comparatives

In compliance with FRS28 – Corresponding Amounts, prior year figures disclosed have been adjusted where required in order that they are directly comparable with the amount shown in respect of the current financial year.

Notes to the Accounts

continued

	2006 £ 000's	2005 Restated £ 000's
2. FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	75,509	73,146
Research	52,168	49,797
Specific grants		
Information systems	3,410	2,709
Infrastructure Grants for Research, Teaching & Learning including research pooling	10,947	3,512
Other	4,726	2,716
Deferred capital grants released in year		
Buildings (note 21)	1,468	1,399
Equipment (note 21)	465	727
	148,693	134,006
3. TUITION FEES AND EDUCATION CONTRACTS		
UK and EU Higher Education Students	31,285	28,981
Full-time students charged overseas fees	29,317	24,953
Research training support grants	1,249	1,297
Short course and other fees and support grants	3,566	3,885
	65,417	59,116
4. RESEARCH GRANTS AND CONTRACTS		
Grants		
Research councils	40,563	36,396
UK based charities	30,625	28,148
UK central government bodies, local and health authorities	21,347	20,616
UK industry, commerce and public corporations	6,040	4,909
EU government bodies	8,324	7,787
EU other	151	272
Other overseas	4,013	3,588
Other sources	2,611	2,253
	113,674	103,969
Deferred capital grants:		
Research income of £3,807,000 (2005 - £4,810,000) has been deferred (see note 21) to match purchases of items of equipment costing in excess of £25,000 which have been capitalised. The income includes Deferred Capital Grants released during the year of £4,894,000 (see note 21) (2005 - £5,903,000)		
5. OTHER INCOME		
Residences, Catering and Conferences	26,459	25,856
Other income generating activities	26,717	27,463
Donations, Specific Grants and Other Designated Income	24,944	23,019
General Income – Academic Activity	8,293	8,000
Other Income	4,865	8,431
Released from deferred capital grants		
Buildings (note 21)	1,325	716
Equipment (note 21)	1,077	842
	93,680	94,327

	2006	2005
	£ 000's	Restated £ 000's
6. ENDOWMENT AND INVESTMENT INCOME		
Specific endowment income	7,408	6,213
General endowment income	122	120
Other interest receivable	4,681	3,264
Net return on pension scheme assets (note 31)	1,894	1,692
	14,105	11,289
	2006	2005
	Number	Number
7. STAFF		
Staff numbers (expressed as full-time equivalents as at 31 July) were as follows :		
Academic and related support staff	3,035	2,829
Research grants and contracts	1,585	1,470
Library, computer and other academic support services	446	431
Administration and central services	554	521
Premises	611	574
Other including income generating operations	81	79
Residences and catering operations	363	379
	6,675	6,283
Staff numbers (expressed as an employee count as at 31 July) were as follows :		
Staff on open ended contracts	4,997	4,653
Staff on fixed term contract	2,212	2,201
	7,209	6,854
Percentage of Employees on Fixed Term Contracts	30.7%	32.1%
	2006	2005
	£ 000's	Restated £ 000's
Staff cost analysis of above persons:		
Academic and related support staff	125,523	118,702
Research grants and contracts	54,250	50,851
Library, computer and other academic support services	14,582	13,325
Administration and central services	17,962	16,502
Premises	12,668	11,391
Other including income generating operations	3,267	2,818
Residences and catering operations	7,759	7,082
Unfunded pensions	606	613
Pension costs less employer contributions payable (note 31)	2,232	578
	238,849	221,862

The percentage of staff on fixed term contract is measured and monitored by the University but no analysis of the related fixed term staff cost is maintained.

Notes to the Accounts

continued

	2006 £ 000's	2005 Restated £ 000's
7. STAFF (continued)		
Staff cost analysis by type:		
Salaries and wages	195,224	183,031
Social security costs	16,147	15,253
Other pension costs (note 31)	26,219	21,848
Severance costs and unfunded pensions	1,259	1,730
	238,849	221,862

8. SENIOR POST HOLDERS

Remuneration of higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded from the University's Income and Expenditure Account:

The number of staff, including senior post-holders and the Principal, who received emoluments in the following ranges was:

	2006 Number	2005 Number
£70,000 – £79,999	55	55
£80,000 – £89,999	40	29
£90,000 – £99,999	27	20
£100,000 – £109,999	13	18
£110,000 – £119,999	13	13
£120,000 – £129,999	9	9
£130,000 – £139,999	12	12
£140,000 – £149,999	7	5
£150,000 – £159,999	7	10
£160,000 – £169,999	4	8
£170,000 – £179,999	10	3
£180,000 – £189,999	5	8
£190,000 - £199,999	7	-
£200,000 - £209,999	1	-
	210	190

Staff are included in the range that reflects their annual emoluments as at 31st July of that year.

Emoluments of the Principal	2006 £ 000's	2005 £ 000's
Salary	199	178
Benefits in kind	1	1
	200	179
Pension contributions	52	14
	252	193

Pension contributions for the Principal are paid to the USS at the same rate as for other academic staff. The contributions due in respect of 2006 emoluments were £26,452 (2005 - £24,933). An additional £25,283 was paid in 2006 in respect of contributions underprovided in prior years.

Compensation for loss of office

There were no payments to senior members of staff or payments to pension schemes for enhanced pension benefits for staff earning in excess of £70,000 in compensation for loss of office. Similarly, there were no compensation arrangements to any individual members of staff that exceeded £100,000 during the year.

	2006 £ 000's	2005 £ 000's
9. OTHER OPERATING EXPENSES BY ACTIVITY		
Academic and related expenditure	37,779	34,367
Research grants and contracts	37,751	33,444
Library, computer and other academic support services	7,551	7,273
Administration and central services	10,610	10,030
Premises	44,165	30,163
Other including income generating operations	16,697	18,619
Residences and catering operations	12,341	11,907
Other expenses	-	-
	166,894	145,803

OTHER OPERATING EXPENSES BY TYPE

Equipment and furniture not capitalised	15,049	16,017
Operating lease rentals	6,598	8,189
Residences, catering and conferences operating expenses	12,341	11,907
Repairs and general maintenance	29,127	17,007
Heat, light, water and power	8,031	5,368
Other premises costs	6,329	6,063
Printing, stationery and office expenses	3,738	3,713
Computer software and supplies	1,267	1,169
Consumables and laboratory expenditure	4,596	4,287
Contributions to other bodies	2,798	3,646
Travel, subsistence and accommodation	5,648	5,168
Research travel	4,030	4,007
Books and periodicals	3,948	3,477
Lecturers' fees and student demonstrators	2,437	2,501
Postgraduate studentships and other assistance	6,101	4,973
Fellowships, scholarships and prizes	3,120	2,735
Grants to University of Edinburgh Students' Association	1,883	1,798
Fees charged by External Auditors		
Audit	70	64
Non-Audit Services	65	22
Bad debt provision	2,474	1,401
Other services	4,223	668
Other research expenses	30,402	25,912
Other expenses	12,619	15,711
	166,894	145,803

10. INTEREST PAYABLE

Bank and other loans	3,657	4,362
Finance leases	262	272
	3,919	4,634

11. TAXATION

UK corporation tax charge on subsidiaries' profits	8	4
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Notes to the Accounts

continued

	2006 £ 000's	2005 £ 000's
12. SURPLUS FOR THE YEAR		
The Group Surplus for the period is made up as follows:		
University's surplus for the period excluding surpluses paid under Gift Aid to the University by subsidiaries	6,931	9,123
Surplus generated by subsidiary undertakings	1,279	1,433
Total	8,210	10,556

13. TANGIBLE ASSETS

Group	Land and Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation				
As at 1 August 2005	793,157	16,565	50,960	860,682
Additions at cost	10,920	17,544	6,471	34,935
Reclassification	6,130	(6,130)	–	–
Disposals	(484)	–	–	(484)
As at 31 July 2006	809,723	27,979	57,431	895,133
Depreciation				
As at 1 August 2005	12,296	–	31,842	44,138
Charge for the year	11,253	–	7,764	19,017
Disposals	(22)	–	–	(22)
As at 31 July 2006	23,527	–	39,606	63,133
Net book value				
As at 31 July 2006	786,196	27,979	17,825	832,000
As at 31 July 2005	780,861	16,565	19,118	816,544

All land and buildings are held on a freehold basis with the exception of the new medical school at the Royal Infirmary of Edinburgh at Little France. This is constructed on land held under a long leasehold of 130 years.

Under the requirement of FRS 15 Tangible Fixed Assets, a revaluation of Land and Buildings was performed by Messrs Gerald Eve, Chartered Surveyors, as at 1st August 2004 and has been reflected in these accounts.

Gains on disposals of fixed assets amounted to £3,283,000 (2005 - £440,000).

Land and Buildings with a net book value of £100,923,000 (2005 - £97,324,000) have been financed from Exchequer Funds. Should these assets be sold, the University may be liable, under the terms of the Financial Memorandum with the Funding Council, to surrender the proceeds.

13 TANGIBLE ASSETS (continued)

University	Land and Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation				
As at 1 August 2004	793,157	16,565	40,491	850,213
Additions at cost	10,920	17,544	6,489	34,953
Reclassification	6,130	(6,130)	–	–
Disposals	(484)	–	–	(484)
As at 31 July 2006	809,723	27,979	46,980	884,682
Depreciation				
As at 1 August 2005	12,296	–	30,082	42,378
Charge for the year	11,253	–	6,734	17,987
Disposals	(22)	–	–	(22)
As at 31 July 2006	23,527	–	36,816	60,343
Net book value				
As at 31 July 2006	786,196	27,979	10,164	824,339
As at 31 July 2005	780,861	16,565	10,409	807,835

There is a standard security over various properties belonging to the University which has been granted as part of loan arrangements.

The net book value of tangible fixed assets includes an amount of £2,030,000 (2005- £2,078,000) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £25,050 (2005 - £25,050).

Net book value historical cost equivalent

	Group		University	
	2006 £ 000's	2005 £ 000's	2006 £ 000's	2005 £ 000's
Land and buildings	399,390	379,563	399,390	379,563
Equipment	17,825	19,118	10,164	10,409
	417,215	389,681	409,554	389,972

The group depreciation charge has been matched by:

	2006 £ 000's	2005 £ 000's
Deferred capital grants released (note 21)	9,231	9,592
Revaluation reserve transferred to general reserves (note 23)	5,613	5,742
Earnings in subsidiaries	1,030	1,055
General income	3,143	3,166
	19,017	19,555

Notes to the Accounts

continued

	Group		University	
	2006 £ 000's	2005 £ 000's	2006 £ 000's	2005 £ 000's
14. INVESTMENTS				
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	4,758	5,266
Other investments	149	193	89	89
	149	193	5,205	5,713

Subsidiary undertakings comprise:

Edinburgh Research and Innovation Limited

The University owns 100 per cent of the issued share capital of Edinburgh Research and Innovation Limited, consisting of 2 ordinary shares of £1 each. The company's main activities are concerned with the negotiation of research and consultancy contracts with industry and commerce on behalf of the University of Edinburgh. It is also responsible for the commercial exploitation of intellectual property arising from research within the University.

Edinburgh University Press Limited

Edinburgh University Press Limited is a registered Scottish charity, incorporated as a limited company, of which the University owns 100 per cent of the issued share capital of 357,482 ordinary shares of £1 each. The principal activity of Edinburgh University Press Limited is the publication of educational books and journals.

UoE Accommodation Limited

The University owns 100 per cent of the issued share capital of UoE Accommodation Limited, consisting of 2 ordinary shares of £1 each. The company's main activities are concerned with non-student lettings for the University of Edinburgh.

UoE Trading Limited

The University owns 100 per cent of the share capital of UoE Trading Limited, consisting of 2 ordinary shares of £1 each. This company has ceased trading and is now dormant.

The University of Edinburgh Development Trust

The University of Edinburgh Development Trust is a charity registered in Scotland, Registered Charity No SC004307. The trust is classed as a "Quasi-subsidiary" of the University under the guidelines of FRS5 "Reporting the Substance of Transactions". The primary purpose of the Trust is to act as a fundraiser for the University and to hold and allocate funds for the benefit of the University.

Edinburgh Technology Fund Limited

The University owns 100 per cent of the issued share capital of Edinburgh Technology Fund Limited, consisting of 6,000 "A" ordinary Shares of £1 each. The principal activity of the company is the management of investment funds providing seed corn venture capital for early stage high technology developments and the management of its portfolio of investments made using its funds.

Edinburgh Resource Centre Limited

The University owns 100 per cent of the share capital of Edinburgh Resource Centre Limited, consisting of 1 ordinary share of £1. This company has ceased trading and was dissolved subsequent to the financial year end.

UoE Utilities Supply Company Limited

The University owns 100 per cent of the issued share capital of UoE Utilities Supply Company Limited, consisting of 2 ordinary shares of £1. The company's principal activity is to provide utilities services to the University.

UoE HPCX Limited

The University owns 100 per cent of the share capital of UoE HPCX Limited consisting of 1 ordinary shares of £1. The company's principal activity is the provision of high performance computing services.

The Group and University have also acquired in excess of 20% of the issued capital of several start-up companies limited by shares, under seedcorn funding and spin-off arrangements. No consolidation is made in these accounts and no investment value is reflected, on the basis of materiality.

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
15. ENDOWMENT ASSET INVESTMENTS			
As at 1 August 2005	179,678	3,475	183,153
Additions (note 27)	4,382	–	4,382
Disposals (note 27)	(1,503)	–	(1,503)
Appreciation on realisation and revaluation (note 22)	13,348	281	13,629
Increase in cash balances held by University	532	–	532
Increase in working capital held by the University	1,117	–	1,117
As at 31 July 2006	197,554	3,756	201,310

	Group and University	
	2006 £ 000's	2005 £ 000's
Endowment asset investments are comprised of:		
Fixed interest stocks	41,760	41,515
Equities	154,064	135,687
Bank deposits held at fund managers	2,799	4,847
Cash balance held by University (note 30)	1,636	1,104
Debtor balance held by the University	1,117	–
Creditors	(66)	–
Total endowment asset investments – Market Values	201,310	183,153
Endowment Assets – at Cost	160,006	149,710

	Group		University	
	2006 £ 000's	2005 £ 000's	2006 £ 000's	2005 £ 000's
16. DEBTORS				
Amounts falling due within one year				
Debtors	59,750	56,605	56,484	53,147
Amounts owing from subsidiary companies	–	–	3,402	1,763
Prepayments	4,510	5,188	3,494	4,663
	64,260	61,793	63,380	59,573

Notes to the Accounts

continued

	Group		University	
	2006 £ 000's	2005 £ 000's	2006 £ 000's	2005 £ 000's
17 CREDITORS:				
Amounts falling due within one year				
Unsecured loans (note 19)	1,068	1,058	1,068	1,058
Finance lease (note 19)	48	22	48	22
Creditors	27,320	21,758	23,325	18,211
Social security and other taxation payable	5,527	5,082	5,513	5,068
Accruals and deferred income	88,439	68,441	79,050	59,047
	122,402	96,361	109,004	83,406

	Group and University	
	2006 £ 000's	2005 £ 000's
18. CREDITORS:		
Amounts falling due after more than one year:		
Bank loans (note 19)	57,176	58,256
Obligations under finance leases (note 19)	2,130	2,178
Other Creditor	4,500	–
	63,806	60,434

19. BORROWINGS

Bank loans		
Instalments are repayable as follows:		
Unsecured loans repayable in one year or less	1,068	1,058
Unsecured loans repayable between two and five years	4,399	4,341
Unsecured loans repayable after five years	52,777	53,915
	58,244	59,314
Less: falling due within one year (note 17)	1,068	1,058
Total bank loans (note 18)	57,176	58,256

The current borrowings consist of long term credit facilities and one unsecured loan with a fixed interest rate of 5.5% p.a.

The University's long term credit facilities are:

- £10,000,000 at a fixed rate of 6.99% p.a., repayable in 2015
- £30,000,000 at a fixed rate of 6.98% p.a., repayable in equal instalments between years 2026 and 2030
- £16,600,000 at an interest rate 0.23% above the lending bank's base rate, repayable between 2005 and 2025.

19. BORROWINGS (continued)

	Group and University	
	2006 £ 000's	2005 £ 000's
Finance leases		
Obligations under finance leases fall due as follows:		
In one year	48	22
Between two and five years	249	226
After five years	1,881	1,952
	2,178	2,200

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group and University	
	2006 £ 000's	2005 £ 000's
Unfunded pensions		
As at 1 August as restated	8,039	8,018
Utilised in year	(662)	(667)
Transfer from income and expenditure account	682	688
As at 31 July	8,059	8,039

In compliance with FRS 12 "Provisions, contingent liabilities and contingent assets", the above provisions relate only to contractual and legal obligations of the University.

The University has a liability of £5,944,000 (2005 - £5,883,000) for pensions payable to former members of Moray House staff who have taken early retirement. A further liability of £ 2,115,000 (2005 - £2,156,000) arises in respect of the supplementation of FSSU and State pensions granted to former members of the University staff. These represent the unfunded liabilities in respect of pension commitments outwith the defined benefit pension schemes participated in by the University.

Notes to the Accounts

continued

21. DEFERRED CAPITAL GRANTS

Group	Funding Council £ 000's	Other grants & benefactions £ 000's	Research income £ 000's	Total £ 000's
As at 1 August 2005				
Land	103	170	–	273
Buildings	97,221	89,400	–	186,621
Equipment	986	4,211	7,885	13,082
	98,310	93,781	7,885	199,976
Capital expenditure during the year				
Buildings	5,069	3,585	–	8,654
Equipment	122	1,322	3,807	5,251
	5,191	4,907	3,807	13,905
Released to income and expenditure account				
Buildings	1,468	1,325	–	2,793
Equipment	465	1,077	4,894	6,436
	1,933	2,402	4,894	9,229
Disposal of Buildings	2	–	–	2
	1,935	2,402	4,894	9,231
As at 31 July 2006				
Land	103	170	–	273
Buildings	100,820	91,660	–	192,480
Equipment	643	4,456	6,798	11,897
	101,566	96,286	6,798	204,650
University				
	Funding Council £ 000's	Other grants & benefactions £ 000's	Research income £ 000's	Total £ 000's
As at 1 August 2005				
Land	103	170	–	273
Buildings	97,221	89,400	–	186,621
Equipment	986	610	7,885	9,481
	98,310	90,180	7,885	196,375
Capital expenditure during the year				
Buildings	5,069	3,585	–	8,654
Equipment	122	972	3,807	4,901
	5,191	4,557	3,807	13,555
Released to income and expenditure account				
Buildings	1,468	1,325	–	2,793
Equipment	465	596	4,894	5,955
	1,933	1,921	4,894	8,748
Disposal of Buildings	2	–	–	2
	1,935	1,921	4,894	8,750
As at 31 July 2006				
Land	103	170	–	273
Buildings	100,820	91,660	–	192,480
Equipment	643	986	6,798	8,427
	101,566	92,816	6,798	201,180

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
22. ENDOWMENT FUNDS			
As at 1 August 2005	179,678	3,475	183,153
Additions	3,070	–	3,070
Appreciation on realisation and revaluation (note 15)	13,348	281	13,629
Income for the year	7,952	132	8,084
Expenditure for the year	(5,450)	(122)	(5,572)
Administration fee	(544)	(10)	(554)
Transfer to deferred capital grants	(500)	–	(500)
As at 31 July 2006	197,554	3,756	201,310

During the year £500,000 was realised from endowments, transferred to deferred capital grants and applied as a contribution towards the funding of the Queen's Medical Research Centre building which was completed in the year.

	2006 £ 000's	2005 £ 000's
Representing:		
Prizes and scholarship funds	92,671	82,471
Chairs and lectureship funds	51,330	48,427
Other funds	53,302	48,780
General purposes	3,756	3,475
Unallocated	251	–
	201,310	183,153

	Group and University	
	Total 2006 £ 000's	Total 2005 £ 000's
23. REVALUATION RESERVE		
As at 1 August 2005	444,817	402,444
Revaluation during the year	–	49,559
Transfer to general reserve – depreciation on revalued assets (note 24)	(5,613)	(5,742)
Disposals in the year (note 24)	(1,650)	(1,444)
As at 31 July 2006	437,554	444,817

Notes to the Accounts

continued

	Group	University	Group	University
	2006	2006	Restated	Restated
	£ 000's	£ 000's	2005	2005
			£ 000's	£ 000's

24. MOVEMENT ON GENERAL RESERVES

GENERAL RESERVE INCLUDING PENSION LIABILITY				
At 1 August as previously stated	158,258	157,675	141,630	141,810
Prior year adjustment	(33,261)	(33,261)	(37,424)	(37,424)
At 1 August restated	124,997	124,414	104,206	104,386
Surplus attributable to the year	8,210	8,001	10,556	9,793
Depreciation on revalued assets (note 23)	5,613	5,613	5,742	5,742
Realisation of revaluation gains of previous years (note 23)	1,650	1,650	1,444	1,444
Pension actuarial (loss)/gain	(16,191)	(16,191)	3,049	3,049
Balance at 31 July	124,279	123,487	124,997	124,414

Represented by:

INCOME AND EXPENDITURE ACCOUNT				
At 1 August restated	159,091	158,508	142,463	142,643
Surplus attributable to the year	8,210	8,001	10,556	9,793
Transfer from from/(to) pension reserve	338	338	(1,114)	(1,114)
Transfer from revaluation reserve	7,263	7,263	7,186	7,186
Balance at 31 July	174,902	174,110	159,091	158,508

	Group and University	2005
	2006	Restated
	£ 000's	£ 000's
PENSION RESERVE		
At 1 August restated	(34,094)	(38,257)
Current service cost	(8,330)	(6,939)
Employer contributions	6,044	6,307
Contributions in respect of unfunded benefits	54	54
Net return on assets	1,894	1,692
Transfer (from)/to income and expenditure account	(338)	1,114
Actuarial (loss)/gain	(16,191)	3,049
Pension Reserve (Liability) at 31 July	(50,623)	(34,094)

	2006 £ 000's	2005 Restated £ 000's
25. RECONCILIATION OF CONSOLIDATED SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Surplus Before Tax And Minority Interest	10,173	11,293
Pension costs less contributions payable (Note 31)	2,232	578
Depreciation (note 13)	19,017	19,555
Impairment of fixed assets (Note 13)	–	(1,621)
Deferred capital grants released to income (note 21)	(9,231)	(9,592)
Profit on disposal of fixed assets	(3,283)	(440)
Interest payable (note 10)	3,919	4,634
(Increase)/Decrease in stocks	(208)	(183)
Decrease/(Increase) in debtors	(3,236)	1,904
Increase in accruals and deferred income	18,974	3,705
(Decrease)/Increase in creditors	6,007	(1,418)
(Decrease)/Increase in provisions (note 20)	20	(1,335)
Endowment income	(8,084)	(6,880)
Interest receivable (note 6)	(4,681)	(3,264)
Net return on pension scheme assets (Note 6)	(1,894)	(1,692)
NET CASH INFLOW FROM OPERATING ACTIVITIES	29,725	15,244
26. RETURN ON INVESTMENT & SERVICING OF FINANCE		
Endowment funds dividends and interest received	7,651	6,960
Interest received	4,766	3,148
Interest paid	(3,623)	(4,480)
Finance lease interest paid	(278)	(313)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	8,516	5,315
27. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchases of tangible assets	(28,386)	(51,726)
Proceeds from sale of tangible assets	4,638	8,469
Deferred capital grants received – funding councils and research equipment	8,998	15,956
Deferred capital grants received – other capital benefactions	4,407	24,130
Purchase of endowment investment assets (note 15)	(4,382)	(2,913)
Disposal of endowment investment assets (note 15)	1,503	3,481
New endowments received (note 22)	3,070	1,064
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(10,152)	(1,539)
28. MANAGEMENT OF LIQUID RESOURCES		
Increase in deposits	(34,410)	(6,865)
NET CASH OUTFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	(34,410)	(6,865)

Notes to the Accounts

continued

	2006 £ 000's	2005 Restated £ 000's
29. FINANCING		
New loan principal	–	16,600
Loan repayments	(1,070)	(18,173)
Capital repayment of finance lease obligations	(22)	(16)
NET CASH OUTFLOW FROM FINANCING	(1,092)	(1,589)

30. ANALYSIS OF NET FUNDS

	As at 1 August 2005 £ 000's	Cashflows £ 000's	Other Changes £ 000's	As at 31 July 2006 £ 000's
Cash in hand and at bank	26,606	(7,953)	–	18,653
Endowment asset investments:				
Cash balance held by University (note 15)	1,104	532	–	1,636
Total cash in hand and at bank	27,710	(7,421)	–	20,289
Debt due within 1 year	(1,058)	1,058	(1,068)	(1,068)
Debt due after 1 year (note 18)	(58,256)	12	1,068	(57,176)
Finance leases (note 19)	(2,200)	22	–	(2,178)
Current asset investments:				
Bank deposits	59,057	34,410	–	93,467
TOTAL FUNDS	25,253	28,081	–	53,334

31. PENSION FUNDS

UNIVERSITY PENSION SCHEMES

The University participates in two active pension schemes; the Universities Superannuation Scheme and The University of Edinburgh Staff Benefits Scheme. The University also makes contributions to other legacy pension schemes that are closed to new employees. Some former employees of the former Moray House Institute of Education are covered by the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). The Federated Superannuation Scheme for Universities covers a small number of academic staff that did not transfer to USS when it was introduced in 1975.

The Universities Superannuation Scheme (USS).

This is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P) Scheme. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each participating institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the Income and Expenditure Account equals the contributions payable to the scheme for the year.

The latest actuarial valuation was at 31 March 2005. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. The following assumptions were used:

	Past Service Liabilities	Future Service Liabilities
Valuation rate of interest	4.5%	6.2%
Earnings increases per annum	3.9%	3.7%
Pensions increase per annum	2.9%	2.9%

The valuation was carried out using the projected unit method.

The following amounts were measured at the last valuation date:

	£ million
Total market value of assets	21,739.1
Present value of scheme past service liabilities	28,307.5
Deficit in the scheme – net pension liability	(6,568.4)

The result of the actuarial calculations is that the scheme has moved from having a past service surplus of assets over liabilities at 31 March 2002 of £162 million to a deficit of £6,568 million at 31 March 2005.

The assets, therefore, were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of salaries. The USS Management Committee, acting on actuarial advice, deemed that it was not necessary or appropriate at this stage to adjust the contribution rate to cover the additional 0.3% and it was agreed that the institutions' contribution rate would remain at 14% of salaries.

Surpluses or deficits which arise at future valuations may impact on the institutions' future contribution commitment.

The University of Edinburgh Staff Benefits Scheme (EUSBS).

This is an externally funded defined benefit scheme which is contracted out of the State Second Pension (S2P) Scheme. The assets of the scheme are held in a separate trustee-administered fund. The latest formal actuarial valuation of the scheme was carried out as at 31 March 2003, however a new valuation is currently being carried out. The FRS17 results are therefore based on full actuarial calculations using the data provided by the scheme's administrators for the 2006 actuarial valuation which has been extracted as at 31 March 2006.

The major assumptions used by the actuary at July 2006 were as follows:	At 31 July 2006	At 31 July 2005	At 31 July 2004
Rate of increase in salaries	3.90%	4.20%	4.35%
Rate of increase in pensions in payment	2.90%	2.70%	2.85%
Discount rate	5.10%	5.00%	5.75%
Inflation assumption	2.90%	2.70%	2.85%

The assets in the scheme and the expected rate of return were as follows:

	Long term rate of return expected at 31 July 2006	Value at 31 July 2006 £ million	Long term rate of return expected at 31 July 2005	Value at 31 July 2005 £ million	Long term rate of return expected at 31 July 2004	Value at 31 July 2004 £ million
Equities	8.00%	119.2	8.00%	147.9	8.75%	117.0
Bonds	4.60%	55.2	4.40%	9.2	5.00%	10.6
Property	6.30%	10.0	6.20%	1.4	6.75%	2.1
Other – mainly cash	3.90%	0.1	3.70%	8.9	5.00%	3.9
		184.5		167.4		133.6

Notes to the Accounts

continued

The expected cost of providing staff pensions to employees contributing to the EUSBS scheme is recognised in the income and expenditure account on a systematic basis over the expected average remaining lives of members of the funds, in accordance with Financial Reporting Standard 17: Retirement Benefits and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

The following amounts were measured in accordance with the requirements of FRS 17:

	Value at 31 July 2006 £ millions	Value at 31 July 2005 £ millions	Value at 31 July 2004 £ millions
Total market value of assets	184.5	167.4	133.6
Present value of scheme liabilities	232.0	197.0	167.9
Deficit in the scheme – net pension liability	(47.5)	(29.6)	(34.3)

The contribution rate payable by the University was 16.11% of pensionable salary.

Scottish Teachers Superannuation Scheme (STSS).

The STSS is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the scheme for the purposes of determining contribution rates.

Under the definitions set out in Financial Reporting Standard 17: “Retirement Benefits”, the STSS is a multi-employer pension scheme. The University of Edinburgh is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

The contributions rate payable by the University was 12.5% of pensionable salary. Of this, 4.75% results from a change in notional funding methodology and will be met from public funds distributed to the University by the Scottish Executive.

Strathclyde Pension Fund (SPF).

This is an externally funded, multi-employer, defined benefits scheme which is contracted out of the State Second Pension (S2P) Scheme. The last full valuation was carried out at 31 March 2005 by a qualified independent actuary. To update this to provide appropriate information in respect of the former Moray House staff members, the actuary has used the following valuation data:

- The membership data submitted for the previous valuation at 31 March 2005; and
- Other relevant information provided by Glasgow City Council as the administering authority in the fund in relation to the University in the period since the previous valuation, estimated where necessary.

The actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 July 2006 does not introduce any material distortion in the results, provided that the actual experience of the fund has been broadly in line with their assumptions.

The major assumptions used by the actuary at 31 July 2006 were:

	At 31 July 2006	At 31 July 2005	At 31 July 2004
Rate of increase of salaries	4.6%	4.3%	4.4%
Rate of increase in pensions in payment	3.1%	2.8%	2.9%
Discount rate	5.1%	5.0%	5.8%
Inflation assumption	3.1%	2.8%	2.9%

The assets in the total fund and the expected rates of return were as follows:

	Long term rate of return	Value at 31 July 2006 £ million	Long term rate of return	Value at 31 July 2005 £ million	Long term rate of return	Value at 31 July 2004 £ million
Equities	7.7%	6,365.0	7.3%	5,587.0	7.9%	4,414.0
Bonds	4.7%	1,064.4	4.7%	970.0	5.4%	875.0
Property	5.7%	894.0	5.4%	717.0	6.7%	567.0
Other – mainly cash	4.8%	439.1	4.5%	325.0	4.5%	230.0
		8,762.5		7,599.0		6,086.0

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.192% (2005: 0.208%).

The expected cost of providing staff pensions to employees contributing to the SPF scheme is recognised in the income and expenditure account on a systematic basis over the expected average remaining lives of members of the funds, in accordance with Financial Reporting Standard 17: Retirement Benefits and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

The following amounts at 31 July 2006 with regard to the University were measured in accordance with the requirements of FRS 17:

	Value at 31 July 2006 £ 000's	Value at 31 July 2005 (Restated) £ 000's	Value at 31 July 2004 (Restated) £ 000's
Total market value of assets	16,829	15,797	12,790
Present value of scheme liabilities	19,952	20,291	16,747
Deficit in the scheme – net pension liability	(3,123)	(4,494)	(3,957)

The contribution rate payable by the University has increased from 15.0% to 16.2% of pensionable salary from 1 April 2006. An increase to 17.4 % of pensionable salary is planned from 1st April 2007 and a further increase to 18.6% of pensionable salary is planned from 1st April 2008.

The liability in respect of unfunded liabilities in respect of pension commitments to members of the Strathclyde Pension Fund was previously included in Provisions for Liabilities and Charges (note 20). To reflect the impact of the full implementation of FRS17 "Retirement Benefits" this provision has been transferred and is now included in the above restated pensions liability.

The Federated Superannuation Scheme for Universities (FSSU).

This is a defined contribution scheme.

Total Pension Costs for the year.

The total pension costs for the University of Edinburgh were as follows:

	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's
USS – Contributions paid	17,295	15,801
EUSBS – Charge to income and expenditure account	7,898	5,125
STSS – Contributions paid	340	355
SPF - Charge to income and expenditure account	408	240
FSSU - Charge to income and expenditure account	9	9
Other - Charge to income and expenditure account	269	318
	26,219	21,848

Notes to the Accounts

continued

Outstanding contributions to pension schemes at the Balance Sheet date were as follows:

	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's
The Universities Superannuation Scheme	2,196	1,996
The University of Edinburgh Staff Benefits Scheme	681	588
The Federated Superannuation Scheme for Universities	–	11

The pension cost excludes:

Payments made to USS on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded from the University's Income and Expenditure Account.

Payment to retired members in respect of the FSSU Supplementation scheme

	163	306
	15	22

The following amounts were measured in accordance with the requirements of FRS17 in respect of EUSBS and SPF and have been recognised in the Financial Statements

Analysis of the amount charged to staff costs (note 7).

	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's
Current service cost	8,330	6,939
Past service cost	–	–
Total operating charge	8,330	6,939
Less: contributions paid	6,098	6,361
Pensions costs less contributions payable (note 7)	2,232	578

Analysis of the amount credited to other Finance Income (Note 6)

	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's
Expected return on pension scheme assets	12,486	12,136
Interest on pension scheme liabilities	(10,592)	(10,444)
Net return on pension scheme assets (note 6)	1,894	1,692

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)

	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's
Difference between expected and actual return on scheme assets	6,052	23,319
Experience gains and (losses) arising on scheme liabilities	(5,611)	199
Changes in assumptions underlying the present value of the scheme liabilities	(16,632)	(20,469)
Actuarial (loss)/gain recognised in the STRGL	(16,191)	3,049

History of experience gains and losses:

	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
Difference between the expected and actual return on assets:					
Amount £ 000's	6,052	23,319	620	(1,740)	(38,147)
Percentage of scheme assets	12.1%	12.7%	0.4%	1.3%	29.9%
Experience gains and losses on scheme liabilities:					
Amount £ 000's	(5,611)	199	(373)	2,730	1,014
Percentage of scheme liabilities	(11.2)%	0.1%	0.2%	1.7%	0.6%
Total Amount recognised in STRGL:					
Amount £ 000's	(16,191)	3,049	(9,173)	(1,730)	(36,936)
Percentage of scheme liabilities	(32.3)%	1.4%	1.4%	1.1%	24.2%

32. POST BALANCE SHEET EVENTS

There are no post balance sheet events to disclose.

33. CAPITAL COMMITMENTS

	Group and University 2006 £ 000's	2005 £ 000's
Commitments contracted for at 31 July	87,742	44,997

Of the above commitments, £58,454,000 (2005: £42,966,000) will be funded through grants and benefactions

34. FINANCIAL COMMITMENTS

At 31 July the Group and University had the following commitments under non-cancellable operating leases:

	2006 £ 000's	2005 £ 000's
Land and Buildings		
Expiring within one year	36	–
Expiring within two to five years	20	–
Expiring in over five years	1,776	1,321
	1,832	1,321
Other		
Expiring within one year	16	–
Expiring within two to five years	6,679	8,280
Expiring in over five years	–	–
	6,695	8,280
Total Financial Commitments	8,527	9,601

Notes to the Accounts

continued

35. CONTINGENT LIABILITIES

The sale of Cramond campus was completed during the year ended 31 July 2003 and the final consideration was received during the year. The purchasers, AMA (Cramond) Limited and Bryant Homes Scotland Ltd., have continued to pursue a claim for a reduction in the consideration and a partial refund. The University Court do not consider that any material liability will arise as a result of the claim by the purchasers.

36. ASSET HELD FOR RESALE

Certain properties no longer in use and earmarked for future disposal have been reclassified as assets for resale of £715,000 (2005: £2,608,000).

37. UNIVERSITY COLLECTIONS

The University Court holds a number of valuable collections which are not included in the Balance Sheet

38. STUDENT SUPPORT FUNDS

	Hardship Fund £ 000's	Childcare Fund £ 000's	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's
As at 1 August 2005	73	–	73	45
Allocation of funds received	714	159	873	766
Interest earned	21	5	26	6
	735	164	899	772
Disbursed to students	504	59	563	744
As at 31 July 2005	304	105	409	73

The University administers two schemes funded by the Students Awards Agency for Scotland (SAAS). The schemes changed in 2005/06 and not all of the available funding was utilised. Of the unused balance, which totals £409,000 including earned interest and carry-forward from previous years, £266,000 is available to carry forward for disbursement in 2006/07: the remainder reverts to the SAAS.

39. PRIOR YEAR ADJUSTMENT

The prior year adjustments relate to changes required by Financial Reporting Standard 17 (Retirement benefits) which the university has fully adopted in these financial statements.

The impact on income and expenditure for the year ended 31 July 2005 was to boost the surplus by £1,114,000. This was the result of firstly recognising the return on pension assets of £1,692,000 and secondly extracting the contributions paid to pension funds of £6,361,000, and recognising instead the cost of the increase in pension liabilities arising from employee service of £6,939,000. The impact of including the pension liability of £37,424,000 at 1 August 2005 is included in general reserves including pension liability.

	note	Reported in 2005 £'000	Restatement Adjustment £'000	Restated Amount £'000
Endowment and investment income	6	9,597	1,692	11,289
Staff cost – other pension cost	7	21,270	578	21,848
Increase in surplus arising from the restatement			1,114	

	note	Reported in 2005 £'000	Restatement Adjustment £'000	Restated Amount £'000
Unfunded pensions	20	8,872	(833)	8,039
Income and Expenditure Account as at 1 August 2004		141,630	833	142,463
Pension reserve at 1 August 2004		–	(38,257)	(38,257)
General Reserve including pension Reserve	24		(37,424)	

Financial Reporting Standard 17 (Retirement benefits) requires the assets of the pension schemes treated as defined benefits schemes in these accounts, namely the University of Edinburgh Staff Benefits Scheme and the Strathclyde Pension Fund, to be measured at market value at each balance sheet date. In addition the liabilities must be measured using a specific valuation method and to be discounted using a corporate bond rate. The University share of any resulting surplus or deficit in the schemes is recognised on the balance sheet of the University. Any resulting gains or losses are recognised in the statement of total recognised gains and losses rather than being recognised gradually in the income and expenditure account.

Five Year Financial Summary

GROUP INCOME & EXPENDITURE ACCOUNT FOR THE YEAR TO 31 JULY

	2006 £ 000's	2005 £ 000's	2004 £ 000's	2003 £ 000's	2002 £ 000's
Total Income	435,569	402,707	369,091	346,854	313,421
Surplus on continuing operations*	6,885	10,852	2,421	1,693	(546)
Gains on disposal of properties	3,283	440	665	12,436	647
Transfers to specific endowment reserves	(1,958)	(736)	(717)	27	-
Surplus retained within general reserves	8,210	10,556	2,369	14,156	101

* After tax and minority interest

GROUP BALANCE SHEET* AS AT 31 JULY

	2006 £ million	2005 £ million	2004 £ million	2003 £ million	2002 £ million
Fixed assets	832	817	737	602	590
Endowment asset investments	201	183	156	146	142
Net current assets	57	56	49	46	34
Non-current liabilities and provisions	(71)	(69)	(73)	(73)	(70)
Pension liability	(51)	(34)	(37)	(29)	(26)
TOTAL NET ASSETS	968	953	832	692	670

Represented by funding:

Deferred capital grants	205	200	169	150	142
Endowments	201	183	156	146	142
Total reserves	562	570	507	396	386
TOTAL FUNDS	968	953	832	692	670

* Prior years are restated to include pension liabilities which are now included in the Balance Sheet under FRS17 - Retirement Benefits

Staff numbers (expressed as full time equivalents)

as at 31 July	6,675	6,283	6,143	6,059	5,813
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University Income and Expenditure Account

for the year ended 31st July 2006

	2006 £ 000's	2005 Restated £ 000's
INCOME		
Funding council grants	148,693	134,006
Tuition fees and education contracts	65,417	59,116
Research grants and contracts	113,674	103,969
Profits covenanted from subsidiaries	1,070	670
Other income	72,744	74,543
Endowment and Investment income	14,281	11,503
TOTAL INCOME	415,879	383,807
EXPENDITURE		
Staff costs	232,311	216,372
Other operating expenses	154,986	134,212
Depreciation	17,987	18,500
Interest payable	3,919	4,634
TOTAL EXPENDITURE	409,203	373,718
OPERATING SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION	6,676	10,089
Gain On Disposal of Properties	3,283	440
Transfers (to) accumulated income within specific endowment asset investments	9,959 (1,958)	10,529 (736)
TOTAL SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION	8,001	9,793