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**PRINCIPAL'S REPORT**  
**For the year ended 31st July 2002**

These Accounts are of particular significance to me since they present the financial performance of the University in the year immediately prior to my appointment and the state of affairs upon my arrival.

In common with other higher education institutions, Edinburgh is faced with severe challenges in finding and allocating adequate resources to meet our recurrent and capital needs so as to try to raise standards while teaching an ever-growing number of students, competing on the world stage in a wide range of research disciplines and developing and adapting our physical infrastructure to support our academic goals.

The fine balance and careful management necessary to deal with our overall funding position is evidenced by the break-even result for the year. The growth in total income to £314 million was needed for rising costs. As in past years the increase in recurrent expenditure was dominated by increases in staff costs greater than average inflation. The overall result matches our financial strategy of enhancing academic activity while providing for depreciation of our buildings at current values: on the less prudent basis of historic values, our surplus was £5.8 million.

Significant investment continues to be made in the state-of-the-art equipment necessary to maintain our pre-eminent position in medicine, physical sciences and information technology, and in the maintenance and development of our estate. Capital expenditure exceeded £40 million of which half was provided from our own resources with the balance coming from a range of external sources.

The Balance Sheet at 31st July 2002, bolstered by the proceeds of the £40 million bond issue in the previous year, provides a relatively strong platform for ambitious future plans. To cite two examples, plans are well advanced for the construction of a £52 million biomedical research facility to stand alongside our new Medical School and we are the academic leader of the consortium recently appointed to operate, on behalf of the UK Research Councils, the new national High Performance Computer facility, the most powerful in Europe.

While the outlook is positive, a word of caution is appropriate. Resources for this University, no less than for the Higher Education Sector in general, continue to be constrained and academic prowess must combine with sound commercial and financial management to ensure that we continue to flourish. I have confidence in the new academic and management structures and we have highly skilled and totally committed staff in all roles. I know that they will work to ensure the success of our great University.

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

## CORPORATE GOVERNANCE STATEMENT

### The University's Structure of Corporate Governance

#### *Introduction*

The University of Edinburgh is committed to following best practice in all aspects of corporate governance. 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, as amended by the British Universities Finance Directors Group, and complemented by the guidance provided by the Turnbull Committee Report on Internal Control published in September 1999, as required by the Scottish Higher Education Funding Council's Accounts Direction for 2001/02. This Corporate Governance Statement is intended to assist the reader of the accounts in understanding how the principles of corporate governance are applied in the University of Edinburgh. In carrying out this assessment of corporate governance, including risk management, for the year ended 31st July 2002, Court has considered documentation from senior management, internal and external audit, and taken account of events since 1st August 2001.

#### *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 University Court normally meets seven times per year.

#### *Internal Control and Risk Management*

The Court is responsible for the University's system of internal control and 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.

University management and governance has routinely included the identification, evaluation and management of significant risk. For example, during the last year business continuity studies have been completed in five key corporate operational areas (Finance, Human Resources, Registry, Estates and Buildings and Accommodation Services), and as part of the continuing insurance programme, risk audits were carried in a number of higher risk areas. However, the need for greater formalisation of the University's approach to risk management has been recognised. In particular, Central Management Group has accepted that risk analysis is a fundamental management responsibility and has reported to the Court, through the Finance and General Purposes Committee, its recognition of the importance of improving management techniques to identify and reduce business risks whilst devoting proportionate effort to this activity. Senior managers have progressed development of a systematic approach to risk management with advice from professional risk managers. A Risk Management Committee, convened by a member of the senior management team, the Director of Corporate Services, has been established by the Court and will report via Central Management Group; the Audit Committee will monitor the effectiveness of these arrangements. This new committee met for the first time in October 2002, and is actively progressing development of a risk management policy and a risk register for approval by the Court.

There is strong commitment to securing completion of a systematic University approach to risk management on the part of the Court, Audit Committee and Central Management Group. The Court is of the view that a process is well underway which will lead to identification, evaluation and management of the University's significant risks, and that this will accord with the internal control guidance for directors in the Combined Code as amended

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## CORPORATE GOVERNANCE STATEMENT

by the British Universities Finance Directors Group. The Court recognises that a risk management process wholly compliant with the terms of that guidance has not been fully embedded throughout the year ended 31st July 2002. It notes that the Scottish Higher Education Funding Council recognises that institutions require time to implement the guidance fully, and expects full compliance during the year ending 31st July 2003.

### *Scottish Higher Education Funding Council Guidance on Governance*

The Court confirms that, to the extent that the relevant statutory provisions permit, its practices reflect the recommendations of the Guide for Members of Governing Bodies and Good Practice Benchmarks published by the Scottish Higher Education Funding Council, except in the following respects:

1. Membership of the Court for a period in excess of nine years and/or membership for more than one complete term beyond the retirement age can be appropriate in cases where an individual has a particularly valuable contribution to make to the work of the Court; and
2. The Court's formal powers to remove members are confined to the members it itself co-opts, and do not apply to *ex officio* members or to those appointed by other bodies.

In particular the Court has conducted a review of its own effectiveness during 2001/02 and has implemented a number of measures in the light of the outcome of that review.

### *Committee Structure*

The Court has established several committees, including a Finance and General Purposes Committee, a Nominations Committee, a Remuneration Committee, a Staff 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 is also a Central Management Group that consists of senior academic and administrative managers who advise the Principal on senior management decisions and the allocation of budgets to Colleges and Support Services.

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.

The **Nominations Committee** considers nominations for co-opted vacancies in Court membership and for Court's nominations on the Curators of Patronage.

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

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.

The **Audit Committee** meets four times a year, with the University's internal and external auditors in attendance. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. It has recently been given 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

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and monitors adherence to the regulatory requirements. It has authority to investigate any matters within its terms of reference. Whilst senior administrative officers attend meetings of the Audit Committee as necessary, they are not members of the Committee. Once a year the Committee, normally through the Chairman, 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 **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 Court in regard to compliance with its statutory responsibilities in this area.

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 9. 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.

## **RESPONSIBILITIES OF THE COURT OF THE UNIVERSITY OF EDINBURGH**

In accordance with the Universities (Scotland) Acts 1858-1966, the Court of the University of Edinburgh is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Court is responsible for keeping proper accounting records which disclose, with reasonable accuracy, the financial position of the University at any time and enables 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
- the 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.

## **RESPONSIBILITIES OF THE COURT OF THE UNIVERSITY OF EDINBURGH OTHER DISCLOSURES**

### **DISABILITY POLICY**

The University has adopted a Disability Policy covering staff, students and members of the public. This policy states “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 employ disabled people 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 89 of our 6,500 staff have declared that they have a disability.

### **POLICY AND PRACTICE ON PAYMENT OF SUPPLIERS**

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 25 days of purchases from suppliers.

## **MEMBERSHIP OF THE COURT OF THE UNIVERSITY OF EDINBURGH AND ITS MAIN COMMITTEES**

### **Court Membership**

Membership of the University Court covering the period of these financial statements was as follows:-

The Rector (Convenor), Mr Robin Harper  
The Principal and Vice-Chancellor, Lord Sutherland of Houndwood  
The Chancellor's Assessor, The Rt. Hon. Lord Cameron of Lochbroom

### **General Council Assessors**

Professor J M M Cunningham (to 30/9/01)  
Mrs M Tait (from 1/10/01)  
Mrs C M Vaughan Griffiths  
Mr R D D Bertram

### **Senatus Academicus Assessors**

Professor L A M Waterhouse  
Professor I M L Donaldson  
Dr L Collins  
Dr S van Heyningen

### **City of Edinburgh Council Assessor**

The Rt Hon. Eric Milligan, Lord Provost of the City of Edinburgh

### **Co-opted Members**

Dr D B B Smith (Vice-Convener)  
Miss E A Mackay  
Mr J Fiddes (to 30/9/01)  
Dr J A Markland (from 1/10/01)  
Mr J Stretton  
Sir John Shaw  
Mr P Stillwell (to 30/9/01)  
Ms S Macpherson (from 1/10/01)  
Professor A D Milne  
Mr A J Gavin

### **Non-Teaching Staff Assessor**

Mrs M Jackson

### **Student Members**

Mr D Orr (to 30/6/02)  
Mr P McColl (to 30/6/02)  
Mr J Meenagh (from 1/7/02)  
Ms R Hunter (from 1/7/02)



## **MEMBERSHIP OF THE COURT OF THE UNIVERSITY OF EDINBURGH AND ITS MAIN COMMITTEES**

### **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

### **Membership of the main committees of Court**

#### **Finance and General Purposes Committee**

Convener: Dr D B B Smith

The Principal  
Mr D Orr (SRC President) (to 30/6/02)  
Mr J Meenagh (SRC President) (from 1/7/02)  
Dr M J B Lowe, Secretary to the University (to 31/3/02)  
Mr M D Cornish, University Secretary (from 1/4/02)  
Mr G O Sutherland, Director of Finance  
Mr A J Gavin  
Miss E A Mackay  
Sir John Shaw  
Senior Vice-Principal Professor M Anderson  
Professor I M L Donaldson

#### **Remuneration Committee**

The Principal  
Dr D B B Smith  
Mr J Stretton

#### **Nominations Committee**

Convener: Dr D B B Smith

The Principal  
Professor L A M Waterhouse  
Dr M J B Lowe (to 31/3/02)  
Mr M D Cornish (from 1/4/02)  
Miss E A Mackay  
Professor J M M Cunningham (to 30/9/01)  
Mr A J Gavin (from 17/12/01)

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## **MEMBERSHIP OF THE COURT OF THE UNIVERSITY OF EDINBURGH AND ITS MAIN COMMITTEES**

### **Staff Committee**

Convener: Professor L A M Waterhouse

Dr J Martin  
 Mrs J Draper  
 Ms S Eden  
 Ms E MacArthur  
 Dr A Jarman  
 Professor D R Ladd  
 Mrs S Cannell  
 Professor N A Seaton  
 Ms R Arshad  
 Dr A Easson (to 31/7/01)  
 Professor J Calder (from 1/10/01)  
 Dr R Jeffrey  
 Mr P Stillwell (to 30/09/01)  
 Dr J A Markland (from 1/10/01)

### **Audit Committee**

Convener: Mr J Stretton

Mr F Hitchman  
 Professor A D Milne  
 Mr D A Ross Stewart  
 Mr G M Murray  
 Dr J A Markland (from 17/12/01)

### **Membership of the Central Management Group**

Convener: The Principal

Senior Vice-Principal Professor M Anderson  
 Vice-Principal Dr G R Field  
 Vice-Principal Professor Sir David Carter  
 Vice-Principal Professor A Brown  
 Vice-Principal Professor G S Boulton  
 Assistant Principal Dr D E S Truman  
 Dr F D Dow  
 Professor A P Cohen  
 Professor C C Bird  
 Professor W G Hill  
 Professor G Kirk  
 Dr M J B Lowe (to 31/3/02)  
 Mr M D Cornish

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF THE UNIVERSITY OF EDINBURGH

We have audited the financial statements on pages 15 to 39 which have been prepared in accordance with the accounting policies set out on page 12 to 14.

### **Respective responsibilities of the University Court and Auditors**

The University Court is responsible for preparing the financial statements. As described on page 5, this includes responsibility for preparing the financial statements in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions and applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the requirements of the Scottish Higher Education Funding Council's *Code of Audit Practice* and by our profession's ethical guidance.

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 on Accounting in Further and Higher Education Institutions. We also report to you if, in our opinion, the Principal's Report is not consistent with the financial statements, if the University has not kept proper accounting records, if the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We also are required to report to you our opinion as to whether:

- funds from whatever source administered by the University for specific purposes have, in all material respects, been properly applied to those purposes and managed in accordance with any other terms and conditions attached to them; and
- income has, in all material respects, been applied in accordance with relevant legislation and with the University's *Financial Memorandum*, dated 1 August 1999, with the Scottish Higher Education Funding Council.

We read the other information contained in the financial statements and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

### **Basis of audit opinions**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the Scottish Higher Education Funding Council's *Code of Audit Practice*. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. 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 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 mis-statements, whether caused by fraud or other irregularity or error. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the financial statements.

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE  
UNIVERSITY COURT OF THE UNIVERSITY OF EDINBURGH**

**Opinions**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the University and the Group as at 31 July 2002 and of its surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions;
- funds from whatever source administered by the University for specific purposes have, in all material respects, been properly applied to those purposes and managed in accordance with any other terms and conditions attached to them; and
- income has, in all material respects, been applied in accordance with relevant legislation and with the University's *Financial Memorandum*, dated 1 August 1999, with the Scottish Higher Education Funding Council.

KPMG LLP  
Chartered Accountants  
Registered Auditor  
20 Castle Terrace  
Edinburgh  
EH1 2EG  
16 December 2002

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## STATEMENT OF ACCOUNTING POLICIES

### 1 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: Accounting for Further and Higher Education and applicable accounting standards.

### 2 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 13.

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.

### 3 Recognition of Income

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

### 4 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.

### 5 Land and Buildings

Land and buildings held by the University at 1 August 1999 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 complies with the requirements of FRS 15, Tangible Fixed Assets, through interim reviews of the above valuations within the required five-year cycle specified by the reporting standard.

Additions since 1 August 1999 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.

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## STATEMENT OF ACCOUNTING POLICIES

### 5 Land and Buildings (continued)

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.

### 6 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. Capitalised equipment is stated at cost and depreciated over a four-year period.

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.

Certain subsidiaries provide different rates of depreciation to that of the parent. These have an immaterial effect on the results of the group.

### 7 Investments

Endowment Asset Investments are included in the Balance Sheet at market value. Temporary deposits are included at cost.

### 8 Stocks

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

### 9 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.

### 10 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.

### 11 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. 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.

## STATEMENT OF ACCOUNTING POLICIES

### 12 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 (USS)
- University of Edinburgh Staff Benefits Scheme (EUSBS)
- Strathclyde Pension Fund (SPF)

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 has adopted the transitional requirements of FRS17, Retirement Benefits in accounting annually for the above funds.

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.

Contributions to the above four 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 regular cost is attributed to individual years using the projected unit credit method.

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.

**GROUP INCOME AND EXPENDITURE ACCOUNT**  
**For the year ended 31 July 2002**

	Note	2002 £ 000's	2001 £ 000's
<b>INCOME</b>			
Funding Council grants	1	113,600	104,159
Tuition fees and education contracts	2	43,101	41,537
Research grants and contracts	3	87,833	76,495
Other income	4	61,533	55,115
Endowment and Investment income	5	8,001	7,685
Total Income		314,068	284,991
<b>EXPENDITURE</b>			
Staff costs	6	179,248	171,111
Other operating expenses	8	115,889	98,533
Depreciation	12	13,974	11,820
Interest payable	9	4,850	3,903
Total Expenditure		313,961	285,367
<b>SURPLUS/(DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAX</b>			
		107	(376)
Taxation	10	1	(1)
<b>SURPLUS/(DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAX</b>			
		106	(375)
Minority Interest		5	(2)
<b>SURPLUS/(DEFICIT) ON CONTINUING OPERATIONS FOR THE YEAR</b>			
	11	101	(373)

The notes on pages 20-39 form part of the Financial Statements



**GROUP STATEMENT OF HISTORIC COST SURPLUSES AND DEFICITS**  
**For the year ended 31 July 2002**

	Note	2002 £ 000's	2001 £ 000's
SURPLUS/(DEFICIT) AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAX		107	(376)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	23	4,239	4,269
Realisation of revaluation gains of previous years	23	1,514	2,062
<b>HISTORICAL COST SURPLUS BEFORE TAXATION</b>		<u>5,860</u>	<u>5,955</u>
<b>HISTORICAL COST SURPLUS AFTER TAX AND MINORITY INTEREST ATTRIBUTABLE TO THE UNIVERSITY</b>		<u>5,854</u>	<u>5,958</u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 July 2002**

	Note	2002 £ 000's	2001 £ 000's
SURPLUS/(DEFICIT) ON CONTINUING OPERATIONS FOR THE YEAR		101	(373)
Depreciation on endowment asset investments	14	(19,857)	(5,237)
Endowment income retained for year	21	462	681
New endowments	21	1,079	862
<b>TOTAL (LOSSES) RECOGNISED DURING THE CURRENT YEAR</b>		<u>(18,215)</u>	<u>(4,067)</u>
Reconciliation:			
Opening reserves and endowments at 1 August 2001		571,436	
Total recognised losses for the year		<u>(18,215)</u>	
Closing reserves and endowments at 31 July 2002		<u>553,221</u>	

Opening reserves have been restated to reflect an additional provision for pension liabilities relating to prior years. This resulted in a decrease in the total gains and losses recognised prior to 1 August 2000 of £2,300,000 (see note 19).

**BALANCE SHEETS**  
**As at 31 July 2002**

	Note	Group		University	
		2002 £ 000's	Restated 2001 £ 000's	2002 £ 000's	Restated 2001 £ 000's
<b>FIXED ASSETS</b>					
Tangible assets	12	589,305	569,040	586,939	566,618
Investments	13	384	405	2,436	2,659
		589,689	569,445	589,375	569,277
<b>ENDOWMENT ASSET INVESTMENTS</b>	14	142,067	160,383	142,067	160,383
<b>CURRENT ASSETS</b>					
Stocks and stores in hand		2,020	2,093	1,393	1,401
Debtors	15	50,415	50,620	53,028	53,080
Assets held for resale	34	5,574	–	5,574	–
Investments: Bank deposits	29	46,122	40,450	42,561	37,634
Cash at bank and in hand	29	7,021	14,842	4,516	13,291
		111,152	108,005	107,072	105,406
<b>CREDITORS: Amounts falling due within one year</b>	16	(77,006)	(68,880)	(75,302)	(68,932)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		34,146	39,125	31,770	36,474
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		765,902	768,953	763,212	766,134
<b>CREDITORS: Amounts falling due after more than one year</b>	17	(61,100)	(61,826)	(58,855)	(59,569)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	19	(9,178)	(9,135)	(9,178)	(9,135)
<b>TOTAL NET ASSETS</b>		695,624	697,992	695,179	697,430

**BALANCE SHEETS**  
**As at 31 July 2002**

	Note	Group		University	
		2002 £ 000's	Restated 2001 £ 000's	2002 £ 000's	Restated 2001 £ 000's
Represented by:					
DEFERRED CAPITAL GRANTS	20	<u>142,360</u>	<u>126,519</u>	<u>142,360</u>	<u>126,519</u>
ENDOWMENTS					
Specific	21	139,279	157,207	139,279	157,207
General	21	<u>2,788</u>	<u>3,176</u>	<u>2,788</u>	<u>3,176</u>
		<u>142,067</u>	<u>160,383</u>	<u>142,067</u>	<u>160,383</u>
RESERVES					
Revaluation reserve	22	304,540	310,293	304,540	310,293
General reserves	23	<u>106,614</u>	<u>100,760</u>	<u>106,212</u>	<u>100,235</u>
		<u>411,154</u>	<u>411,053</u>	<u>410,752</u>	<u>410,528</u>
MINORITY INTERESTS		43	37	–	–
TOTAL FUNDS		<u><u>695,624</u></u>	<u><u>697,992</u></u>	<u><u>695,179</u></u>	<u><u>697,430</u></u>

The financial statements on pages 12 to 39 were adopted by Court on 16th December 2002 and were signed on its behalf by:

Professor T M M O'Shea                      Principal

Dr D B B Smith                              Vice-Convenor of the University Court

G O Sutherland                              Director of Finance

**Financial Statements 2001/2002**

**THE UNIVERSITY OF EDINBURGH**

**GROUP CASH FLOW STATEMENT**  
**For the year ended 31 July 2002**

	Note	2002 £ 000's	2001 £ 000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	24	11,650	309
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	25	4,295	5,639
TAXATION	10	(1)	1
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	26	(17,757)	(10,393)
MANAGEMENT OF LIQUID RESOURCES	27	(5,672)	(31,440)
FINANCING	28	(699)	38,723
(DECREASE)/INCREASE IN CASH IN THE PERIOD	29	<u>(8,186)</u>	<u>2,839</u>
 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS			
(Decrease)/Increase in cash in the period		(8,186)	2,839
Cash outflow from increase in liquid resources		5,672	31,440
Change in net debt resulting from cashflows		<u>699</u>	<u>(38,723)</u>
Movement in net funds for the period	29	(1,815)	(4,444)
Net debt at start of year	29	(6,156)	(1,712)
Net debt at close of year	29	<u>(7,971)</u>	<u>(6,156)</u>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	2002 £ 000's	2001 £ 000's
<b>1 FUNDING COUNCIL GRANTS</b>		
Recurrent grant		
Teaching	67,181	63,759
Research	35,993	34,609
Specific grants		
Information systems	1,741	1,122
Other	7,676	3,775
Deferred capital grants released in year		
Buildings (note 20)	575	608
Equipment (note 20)	434	286
	<u>113,600</u>	<u>104,159</u>
<b>2 TUITION FEES AND EDUCATION CONTRACTS</b>		
UK and EU Higher Education Students	22,205	21,547
Full-time students charged overseas fees	15,660	14,385
Research training support grants	967	1,086
Short course and other fees and support grants	4,269	4,519
	<u>43,101</u>	<u>41,537</u>
<b>3 RESEARCH GRANTS AND CONTRACTS</b>		
Grants		
Research councils	29,320	25,067
UK based charities	24,696	22,667
UK central government bodies, local and health authorities	18,718	14,624
UK industry, commerce and public corporations	5,328	5,068
EU government bodies	5,087	4,506
EU other	289	383
Other overseas	2,698	3,170
Other sources	1,697	1,010
	<u>87,833</u>	<u>76,495</u>

Deferred capital grants:

Research income of £7,842,000 (2001 - £7,891,000) has been deferred (see note 20) 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 £4,183,000 (see note 20, 2001 - £2,559,000).

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	2002 £ 000's	2001 £ 000's
<b>4 OTHER INCOME</b>		
Residences, Catering and Conferences	17,639	18,464
Other services rendered	26,554	24,450
Health Authorities	702	930
Released from deferred capital grants		
Buildings (note 20)	873	1,106
Equipment (note 20)	258	539
Other Income	15,507	9,626
	<u>61,533</u>	<u>55,115</u>
<b>5 ENDOWMENT AND INVESTMENT INCOME</b>		
Specific endowment income (note 21)	5,544	4,975
General endowment income (note 21)	120	123
Other interest receivable	2,337	2,587
	<u>8,001</u>	<u>7,685</u>
<b>6 STAFF</b>		
	2002 Number	2001 Number
Staff numbers (expressed as full time equivalents) were as follows :		
Academic and Related	3,241	3,123
Clerical	1,086	1,089
Manual	827	874
Technical	659	669
	<u>5,813</u>	<u>5,755</u>
	2002 £ 000's	2001 £ 000's
Staff costs:		
Salaries and Wages	149,670	141,796
Social security costs	11,099	10,883
Funded pension costs (note 30)	15,882	15,240
Severance costs and unfunded pensions	2,597	3,192
	<u>179,248</u>	<u>171,111</u>
	2002 £ 000's	2001 £ 000's
Staff cost analysis:		
Teaching and Research	131,039	123,614
Library, computer and other academic services	11,862	11,505
Administration and central services	14,377	13,722
Premises	8,312	8,014
Residences and catering operations	6,039	5,929
Other, including income generating operations	5,022	5,135
Severance costs and unfunded pensions	2,597	3,192
	<u>179,248</u>	<u>171,111</u>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

7 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:

	2002 Number	2001 Number
£50,000 - £59,999	122	121
£60,000 - £69,999	67	67
£70,000 - £79,999	15	22
£80,000 - £89,999	19	11
£90,000 - £99,999	14	16
£100,000 - £109,999	1	1
£110,000 - £119,999	12	13
£120,000 - £129,999	4	3
£130,000 - £139,999	7	2
£160,000 - £169,999	1	1
	262	257
	2002 £ 000's	2001 £ 000's
Emoluments of the Principal	166	161

The emoluments of the Principal include benefits in kind but exclude the University's pension contributions to the USS which are paid at the same rate as for other academic staff and amounted to £23,165 (2001 - £22,416).

	2002 £ 000's	2001 £ 000's
Compensation for loss of office paid to senior members of staff earning in excess of £50,000 per annum or whose compensation arrangement exceeded £75,000:		
Payments to USS for enhanced pension benefits	451	389
Other payments in respect of loss of office	130	134
	581	523

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	2002 £ 000's	2001 £ 000's
<b>8 OTHER OPERATING EXPENSES</b>		
Equipment and furniture not capitalised	18,970	15,327
Residences, catering and conferences operating expenses	7,753	8,014
Repairs and general maintenance	16,443	10,088
Heat, light, water and power	5,001	4,175
Printing, stationery and office expenses	3,786	3,824
Computer software and supplies	1,276	1,039
Consumables and laboratory expenditure	3,346	2,909
Contributions to other bodies	3,010	2,359
Travel, subsistence and accommodation	4,709	5,323
Research travel	3,103	2,605
Books and periodicals	2,619	2,609
Lecturers' fees and student demonstrators	1,992	1,862
Postgraduate studentships and other assistance	2,224	2,364
Fellowships, scholarships and prizes	1,937	1,598
Grants to University of Edinburgh Students' Association	1,521	1,594
Fees charged by External Auditors		
Audit	56	67
Non-Audit Services	117	74
Bad debt provision	683	309
Other services	165	825
Other research expenses	23,389	19,911
Other expenses	13,789	11,657
	115,889	98,533
<b>9 INTEREST PAYABLE</b>		
Bank and other loans	4,615	3,727
Finance leases	235	176
	4,850	3,903
<b>10 TAXATION</b>		
UK corporation tax charge/(credit) on subsidiaries' profits	1	(1)
<b>11 SURPLUS/(DEFICIT) FOR THE YEAR</b>		
The Group surplus/(deficit) for the period is made up as follows:		
University's deficit for the period excluding surpluses covenanted to the University by subsidiaries	(839)	(1,544)
Surplus generated by subsidiary undertakings	940	1,171
Total	101	(373)



**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

## 12 TANGIBLE ASSETS

**Group**

	Land & Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation				
As at 1 August 2001	552,511	33,146	32,231	617,888
Additions at cost (note 26)	14,797	17,110	9,648	41,555
Reclassification to current asset (note 34)	(5,574)	–	–	(5,574)
Disposals	(6,650)	–	(212)	(6,862)
As at 31 July 2002	<u>555,084</u>	<u>50,256</u>	<u>41,667</u>	<u>647,007</u>
Depreciation				
As at 1 August 2001	24,877	–	23,971	48,848
Charge for the year	8,498	–	5,476	13,974
Disposals	(4,912)	–	(208)	(5,120)
As at 31 July 2002	<u>28,463</u>	<u>–</u>	<u>29,239</u>	<u>57,702</u>
Net book value				
As at 31 July 2002	<u>526,621</u>	<u>50,256</u>	<u>12,428</u>	<u>589,305</u>
As at 31 July 2001	<u>527,634</u>	<u>33,146</u>	<u>8,260</u>	<u>569,040</u>

All land and buildings are held on a freehold basis with the exception of the new medical school at the RIE Little France. This was under construction on land held under a long leasehold of 130 years.

The net book value of tangible fixed assets includes an amount of £1,711,000 (2001 - £1,781,000) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £70,000 (2001 - £70,000).

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

## 12 TANGIBLE ASSETS (continued)

**University**

	Land & Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation				
As at 1 August 2001	550,522	33,146	31,060	614,728
Additions at cost	14,797	17,110	9,581	41,488
Reclassification to current assets (note 34)	(5,574)	–	–	(5,574)
Disposals	(6,650)	–	–	(6,650)
As at 31 July 2002	<u>553,095</u>	<u>50,256</u>	<u>40,641</u>	<u>643,992</u>
Depreciation				
As at 1 August 2001	24,747	–	23,363	48,110
Charge for the year	8,478	–	5,377	13,855
Disposals	(4,912)	–	–	(4,912)
As at 31 July 2002	<u>28,313</u>	<u>–</u>	<u>28,740</u>	<u>57,053</u>
Net book value				
As at 31 July 2002	<u>524,782</u>	<u>50,256</u>	<u>11,901</u>	<u>586,939</u>
As at 31 July 2001	<u>525,775</u>	<u>33,146</u>	<u>7,697</u>	<u>566,618</u>

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

**Net book value historical cost equivalent**

	Group		University	
	2002 £ 000's	2001 £ 000's	2002 £ 000's	2001 £ 000's
Land and buildings	277,902	250,477	276,063	248,618
Equipment	12,428	8,260	11,901	7,697
	<u>290,330</u>	<u>258,737</u>	<u>287,964</u>	<u>256,315</u>

The group depreciation charge has been matched by:

	Group	
	2002 £ 000's	2001 £ 000's
Deferred capital grants released (note 20)	6,323	5,098
Revaluation reserve transferred to general reserves (note 22)	4,239	4,269
Earnings in subsidiaries	119	157
General income	3,293	2,296
	<u>13,974</u>	<u>11,820</u>

**Financial Statements 2001/2002**

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	Group		University	
	2002 £ 000's	2001 £ 000's	2002 £ 000's	2001 £ 000's
13 INVESTMENTS				
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	1,786	2,001
Loan to The Scottish Agricultural College	162	170	162	170
Other investments	222	235	130	130
	<u>384</u>	<u>405</u>	<u>2,436</u>	<u>2,659</u>

**Subsidiary Undertakings**

The following material subsidiary undertakings which are registered in Scotland and operate in the United Kingdom have been consolidated:

- Edinburgh Research and Innovation Limited which is wholly owned by the University and limited by guarantee
- Edinburgh University Press Limited of which the University owns 100 per cent of the issued share capital of 357,482 ordinary shares of £1 each,
- Edinburgh Technopole Company Limited of which the University owns 100 per cent of the issued share capital of 2 ordinary shares of £1 each,
- UoE Accommodation Limited of which the University owns 100 per cent of the issued share capital of 2 ordinary shares of £1 each,
- UoE Trading Limited of which the University owns 100 per cent of the share capital of 2 ordinary shares of £1 each.
- UoE Development Trust, a charity registered in Scotland, Registered Charity No SC004307. The trust is classed as a “Quasi-subsiary” of the University under the guidelines of FRS5 “Reporting the Substance of Transactions.”
- Edinburgh Technology Fund Limited of which the university owns 100 per cent of the issued share capital of 6,000 “A” ordinary Shares of £1 each.
- Edinburgh Resource Centre Limited of which the University owns 100 per cent of the share capital of 1 ordinary share of £1.

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.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
<b>14 ENDOWMENT ASSETS</b>			
As at 1 August 2001	157,207	3,176	160,383
Additions (note 26)	2,998	1	2,999
Disposals (note 26)	(1,093)	–	(1,093)
Depreciation on realisation and revaluation	(19,468)	(389)	(19,857)
Decrease in cash balances held by University	(365)	–	(365)
As at 31 July 2002	<u>139,279</u>	<u>2,788</u>	<u>142,067</u>
		<u>Group and University</u>	
		2002	2001
		£ 000's	£ 000's
Endowment asset investments are comprised of:			
Fixed interest stocks		40,562	43,509
Equities		97,294	108,106
Bank deposits held at fund managers		3,509	7,701
Cash balance held by University (note 29)		702	1,067
Total endowment asset investments – Market Values		<u>142,067</u>	<u>160,383</u>
Endowment Assets – at Cost		<u>133,611</u>	<u>129,705</u>
		<u>Group</u>	<u>University</u>
		2002	2001
		£ 000's	£ 000's
<b>15 DEBTORS</b>			
Debtors	46,991	46,271	44,612
Amounts owing from subsidiary companies	–	–	5,582
Prepayments	3,424	4,349	2,834
	<u>50,415</u>	<u>50,620</u>	<u>53,028</u>
		<u>Group</u>	<u>University</u>
		2002	2001
		£ 000's	£ 000's
<b>16 CREDITORS:</b>			
Amounts falling due within one year			
Unsecured Loans (note 18)	363	381	363
Secured loans (note 18)	353	308	353
Creditors	17,306	19,587	16,185
Amounts owing to subsidiary companies	–	–	3,668
Social security and other taxation payable	4,201	4,275	4,191
Accruals and deferred income	54,783	44,329	50,542
	<u>77,006</u>	<u>68,880</u>	<u>75,302</u>
		<u>Group</u>	<u>University</u>
		2002	2001
		£ 000's	£ 000's

**Financial Statements 2001/2002**

**THE UNIVERSITY OF EDINBURGH**

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	Group		University	
	2002 £ 000's	2001 £ 000's	2002 £ 000's	2001 £ 000's
<b>17 CREDITORS:</b>				
Amounts falling due after more than one year				
Bank loans (note 18)	58,855	59,569	58,855	59,569
Obligations under finance leases (note 18)	2,245	2,257	–	–
	61,100	61,826	58,855	59,569

**18 BORROWINGS**

	Group and University	
	2002 £ 000's	2001 £ 000's
Bank loans		
Instalments are repayable as follows:		
Unsecured loans repayable in 2003	363	381
Secured loans repayable in 2003	353	308
Unsecured loans repayable between 2004 and 2007	1,380	1,380
Unsecured loans repayable after 2007	49,027	49,741
Secured loan repayable between 2004 and 2007	1,534	1,534
Secured loan repayable after 2007	6,914	6,914
	59,571	60,258
Less: falling due within one year (note 16)	716	689
Total bank loans (note 17)	58,855	59,569

The University has unsecured loans with interest charged at 9.6% and 8.9% fixed p.a. and secured loans with interest charged at 8.7% fixed p.a. These loans are repayable over a 20 year period. In addition the University has drawn down £40,000,000 under long term credit facilities repayable as follows:

- a) £10,000,000 at a fixed rate of 6.99%, repayable at the end of fifteen years.
- b) £30,000,000 at a fixed rate of 6.98%, repayable in equal instalments between years twenty five and thirty.

	Group and University	
	2002 £ 000's	2001 £ 000's
Finance leases		
Obligations under finance leases fall due as follows:		
After five years	2,245	2,257
	2,245	2,257

**Financial Statements 2001/2002**

**THE UNIVERSITY OF EDINBURGH**

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

## 19 PROVISIONS FOR LIABILITIES AND CHARGES

	Group and University		
	Unfunded Pensions £ 000's	Other £ 000's	Total £ 000's
	As at 1 August 2001 – Restated	8,779	356
Utilised in year	(705)	–	(705)
Transfer from income and expenditure account	748	–	748
As at 31 July 2002	8,822	356	9,178

In compliance with Financial Reporting Standard 12 the above provisions relate only to contractual and legal obligations of the University.

The University has a liability of £6,522,000 (2001 £6,479,000) for pensions payable to former members of Moray House staff who have taken early retirement. An additional liability of £2,300,000 in respect of the supplementation of FSSU and State pensions granted in prior years to former members of the University staff has been recognised under the requirements of Financial Reporting Standard FRS17. The opening unfunded pension provision has been restated to reflect an additional transfer from the income and expenditure reserve relating to periods prior to 1 August 2000.

The other provision totalling £356,000 is in respect of decommissioning costs at the Scottish Universities Research Reactor Centre which are not fully covered by the contribution made by SHEFC in 1999.

## 20 DEFERRED CAPITAL GRANTS

<b>Group and University</b>	Funding Council £ 000's	Other grants and benefactions £ 000's	Research income £ 000's	Total £ 000's
As at 1 August 2001				
Land	103	170	–	273
Buildings	67,562	51,808	–	119,370
Equipment	262	271	6,343	6,876
	67,927	52,249	6,343	126,519
Capital expenditure during the year				
Buildings	6,840	6,088	–	12,928
Equipment	1,169	225	7,842	9,236
	8,009	6,313	7,842	22,164
Released to income and expenditure account				
Buildings	575	873	–	1,448
Equipment	434	258	4,183	4,875
	1,009	1,131	4,183	6,323
As at 31 July 2002				
Land	103	170	–	273
Buildings	73,827	57,023	–	130,850
Equipment	997	238	10,002	11,237
	74,927	57,431	10,002	142,360

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

## 21 ENDOWMENT FUNDS

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
As at 1 August 2001	157,207	3,176	160,383
Additions	1,078	1	1,079
Appreciation on realisation and revaluation	(19,468)	(389)	(19,857)
Income for the year	6,459	131	6,590
Transferred to income and expenditure account (note 5)	(5,544)	(120)	(5,664)
Transferred to deferred capital grants	75	–	75
Administration fee	(528)	(11)	(539)
As at 31 July 2002	<u>139,279</u>	<u>2,788</u>	<u>142,067</u>
		2002	2001
		£ 000's	£ 000's
Representing:			
Prizes and scholarship funds		61,795	68,954
Chairs and lectureship funds		39,631	45,380
Other funds		37,853	42,873
General purposes		<u>2,788</u>	<u>3,176</u>
		<u>142,067</u>	<u>160,383</u>

## 22 REVALUATION RESERVE

	Group and University
	Total £ 000's
As at 1 August 2001	310,293
Transfer to general reserve – depreciation on revalued assets (note 23)	(4,239)
Disposals in the year (note 23)	(1,514)
As at 31 July 2002	<u>304,540</u>

## 23 MOVEMENT ON GENERAL RESERVES

## INCOME AND EXPENDITURE ACCOUNT RESERVE

	Group	University
	£ 000's	£ 000's
As reported at 1 August 2001	103,060	102,535
Adjustment relating to pensions provisions for periods prior to 1 August 2000	(2,300)	(2,300)
Restated income and expenditure account reserve at 1 August 2001	100,760	100,235
Surplus attributable to the year	101	224
Transfer from revaluation reserve- depreciation on revalued assets (note 22)	4,239	4,239
Realisation of revaluation gains of previous years (note 22)	1,514	1,514
Balance at 31 July 2002	<u>106,614</u>	<u>106,212</u>

Opening reserves have been restated to reflect an additional provision for pension liabilities relating to prior years. (see note 19).

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	2002 £000's	2001 £000's
<b>24 RECONCILIATION OF CONSOLIDATED SURPLUS/(DEFICIT) BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		
SURPLUS/(DEFICIT) BEFORE TAX	107	(376)
Depreciation (note 12)	13,974	11,820
Deferred capital grants released to income (note 20)	(6,323)	(5,098)
Endowment income (note 5)	(5,664)	(5,098)
Endowment administration fees (note 21)	(539)	(520)
Profit on disposal of fixed assets	(629)	(251)
Interest payable (note 9)	4,850	3,903
Decrease in stocks	35	94
Increase in debtors	(10)	(6,956)
Increase in accruals and deferred income	10,498	2,141
(Decrease)/Increase in creditors	(2,355)	3,147
Increase in provisions (note 19)	43	90
Interest receivable (note 5)	(2,337)	(2,587)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>11,650</b>	<b>309</b>
<b>25 RETURN ON INVESTMENT &amp; SERVICING OF FINANCE</b>		
Endowment funds dividends and interest received	6,723	6,643
Interest received	2,418	2,495
Interest paid	(4,670)	(3,268)
Finance lease interest paid	(176)	(231)
<b>NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>	<b>4,295</b>	<b>5,639</b>
<b>26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Purchases of tangible assets (note 12)	(41,555)	(34,361)
Proceeds from sale of tangible assets	2,386	3,729
Deferred capital grants received – Funding Councils and research equipment	15,851	17,205
Deferred capital grants received – Other capital benefactions	6,388	3,479
Purchase of Endowment investment assets (note 14)	(2,999)	(3,109)
Disposal of Endowment investment assets (note 14)	1,093	1,802
New Endowments received (note 21)	1,079	862
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	<b>(17,757)</b>	<b>(10,393)</b>



**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

	2002 £000's	2001 £000's		
<b>27 MANAGEMENT OF LIQUID RESOURCES</b>				
Increase in deposits	5,672	31,440		
<b>NET CASH OUTFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES</b>	<u>5,672</u>	<u>31,440</u>		
<b>28 FINANCING</b>				
Debt fully repayable beyond one year: (Decrease)/Increase in amounts borrowed	(687)	39,346		
Capital repayment of finance lease obligations	(12)	(623)		
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING</b>	<u>(699)</u>	<u>38,723</u>		
<b>29 ANALYSIS OF NET (DEBT)/FUNDS</b>				
	As at 1 August 2001 £000's	Cashflows £000's	Other Changes £000's	As at 31 July 2002 £000's
Cash in hand and at bank	14,842	(7,821)	–	7,021
Endowment asset investments:				
Cash balance held by University	1,067	(365)	–	702
Total cash in hand and at bank	<u>15,909</u>	<u>(8,186)</u>	<u>–</u>	<u>7,723</u>
Debt due within 1 year	(689)	687	(714)	(716)
Debt due after 1 year	(59,569)	–	714	(58,855)
Finance leases	(2,257)	12	–	(2,245)
Current asset investments:				
Bank deposits	40,450	5,672	–	46,122
<b>Total</b>	<u>(6,156)</u>	<u>(1,815)</u>	<u>–</u>	<u>(7,971)</u>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

30 PENSION ARRANGEMENTS

The University participates in the following pension schemes:

- a) The Universities Superannuation Scheme
- b) The University of Edinburgh Staff Benefits Scheme
- c) Scottish Teachers Superannuation Scheme
- d) Strathclyde Pension Fund
- e) The Federated Superannuation Scheme for Universities.

**a) The Universities Superannuation Scheme (USS).**

This is a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension 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 1999. 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%	5.5%	Incl. additional 1% return
Earnings increases per annum	3.6%	3.5%	
Pensions increase per annum	2.6%	2.5%	

The valuation was carried out using the projected unit method.

The following amounts were measured at the last valuation date:

Total market value of assets	<u>£million</u> 18,870
Estimated amount due in respect of bulk transfer payments included above – £55m	
Present value of scheme past service liabilities	<u>17,427</u>
Surplus in the scheme – Net pension asset	<u>1,443</u>

The assets therefore were sufficient to cover 108% 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 16.3% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681 million (including the Supplementary Section) to be carried forward.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

**a) The Universities Superannuation Scheme (USS) (continued)**

The next formal valuation was due at 31 March 2002. The surpluses or deficit which arises at this future valuation may impact on the institution's future contribution commitment. Following publication of this valuation, the above rates will be reviewed.

	Year to 31 July 2002 £000's	Year to 31 July 2001 £000's
The total pension cost for the University in relation to USS	13,022	12,396
Outstanding contributions at the balance sheet date.	1,688	1,722

The contribution rate payable by the University was 14% of pensionable salary.

**b) The University of Edinburgh Staff Benefits Scheme (EUSBS).**

This is an externally funded defined benefit scheme which is contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. A full actuarial valuation was carried out at 31 July 2000, and an interim actuarial valuation carried out at 31 July 2002, both by a qualified independent actuary.

The major assumptions used by the actuary at July 2002 were as follows:

Rate of increase in salaries	4.00%
Rate of increase in pensions in payment	2.50%
Discount rate	5.75%
Inflation assumption	2.50%

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

	Long term rate of return	Value at 31 July 2002 £million	Long term rate of return	Value at 31 July 2001 £million
Equities	8.50%	92.7	7.50%	112.4
Bonds	5.00%	15.7	5.00%	20.3
Property	6.25%	2.5	6.25%	3.4
Other – mainly cash	5.00%	3.8	5.00%	8.0
		114.7		144.1

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

	Value at 31 July 2002 £million	Value at 31 July 2001 £million
Total market value of assets	114.7	144.1
Present value of scheme liabilities	138.0	133.1
(Deficit)/Surplus in the scheme – net pension (liability)/asset	(23.3)	11.0

	Year to 31 July 2002 £000's	Year to 31 July 2001 £000's
The total pension cost for the University in relation to SBS	2,251	2,214
Outstanding contributions at the balance sheet date.	NIL	360

The contribution rate payable by the University was 7.4% of pensionable salary.

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**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

**c) Scottish Teachers Superannuation Scheme (STSS).**

Former members of the academic staff at Moray House Institute of Education are covered by the STSS which is an unfunded, multi-employer, defined benefits scheme which is 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. It is not possible to identify each participating institution's share of the notional assets and liabilities of the scheme and hence contributions 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 contribution levels are assessed every five years in accordance with the advice of the Government Actuary. The last valuation was at 31 March 1996. The assumptions and other data which have the most significant effect on the determination of the contribution levels are as follows:

Actuarial method	Prospective benefits	
Investment returns per annum	8.5%	
Earnings increases per annum	6.5%	
Pensions increase per annum	5.0%	
Market value of assets at date of last valuation	£4,370 million	
Deficit in scheme at last valuation	£230 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets.	95%	
	Year to	Year to
	31 July 2002	31 July 2001
The total pension cost for the University in relation to STSS	£251,000	£257,000
Outstanding contributions at the balance sheet date	NIL	£24,000

The employers contribution increased from 6.9% to 7.15% of pensionable salary with effect from 1 April 2002.

**d) Strathclyde Pension Fund (SPF).**

Other former members of the Moray House Institute of Education staff are covered by the SPF administered through Glasgow City Council. This is an externally funded, multi-employer, defined benefits scheme which is contracted out of the State Earnings-Related Pension Scheme. The last full valuation was carried out at 31 March 1999 by a qualified independent actuary. To update this to provide appropriate information in respect of the former Moray House staff members, he has used the following valuation data:

The membership data submitted for the previous valuation at 31 March 1999;  
Pension fund accounts for each year since the previous valuation date to 31 March 2002; 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 2002 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.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

**d) Strathclyde Pension Fund (SPF) (continued)**

The major assumptions used by the actuary were:	<u>31 July 2002</u>	<u>31 July 2001</u>
Rate of increase of salaries	3.9%	4.0%
Rate of increase in pensions in payment	2.4%	2.5%
Discount rate	6.0%	5.7%
Inflation assumption	2.4%	2.5%

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

	Long Term Rate Of Return <u>31 July 2002</u>	Value at 31 July 2002 <u>£ million</u>	Long Term Rate Of Return <u>31 July 2001</u>	Value at 31 July 2001 <u>£ million</u>
Equities	8.0%	4,171.0	7.0%	4,665.4
Bonds	5.5%	618.0	5.5%	646.4
Property	6.0%	583.0	6.0%	514.0
Cash	4.0%	198.0	4.0%	222.6
		<u>5,570.0</u>		<u>6,048.4</u>

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.231% (2001 - 0.245%).

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

	<u>Value at 31 July 2002 £000's</u>	<u>Value at 31 July 2001 £000's</u>
Total market value of assets	12,836	14,803
Present value of scheme liabilities	15,050	14,042
(Deficit)/Surplus in the scheme – net pension (liability)/asset	<u>(2,214)</u>	<u>761</u>

The total pension cost for the University in relation to SPF was as follows:

	<u>Year to 31 July 2002 £000's</u>	<u>Year to 31 July 2001 £000's</u>
The total pension cost for the University in relation to SPF	267	266
Outstanding contributions at the balance sheet date.	NIL	24

The contribution rate payable by the University was 13.2% of pensionable salary.

**e) The Federated Superannuation Scheme for Universities (FSSU)**

The FSSU covers a small number of academic staff that did not transfer to USS when it was introduced in 1975. It is a defined contribution scheme.

	<u>Year to 31 July 2002 £000's</u>	<u>Year to 31 July 2001 £000's</u>
The total pension cost for the University in relation to FSSU	17	23
Excludes prepaid contributions at the balance sheet date	4	6

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

**Contributions to other pension arrangements by subsidiaries of the University were as follows:**

	Year to 31 July 2002	Year to 31 July 2001
The total pension cost for the University in relation to other schemes	£74,000	£84,000

**The total pension contribution for the year (note 6) was as follows:**

	Year to 31 July 2002 £000's	Year to 31 July 2001 £000's
USS	13,022	12,396
SBS	2,251	2,214
STSS	251	257
SPF	267	266
FSSU	17	23
Other	74	84
	<u>15,882</u>	<u>15,240</u>

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.

£236,000      £224,00

Payments to retired members in respect of the USS Supplementation scheme

£76,000      £93,000

**Financial Statements Impact**

If the above amounts relating to defined benefits schemes had been recognised in the financial statements, the University's net assets and income and expenditure reserve would be as follows under the requirements of FRS17:

	31 July 2002 £000's	31 July 2001 £000's
Net assets excluding pension assets	695,624	697,992
Pension asset : EUSBS	114,700	144,079
Strathclyde Pension Fund	12,836	14,803
Net assets including pension assets	<u>823,160</u>	<u>856,874</u>
Income and Expenditure reserves excluding pension assets	106,614	100,760
Pension reserves : EUSBS	(23,301)	11,000
Strathclyde Pension Fund	(2,214)	761
Income and Expenditure reserve	<u>81,099</u>	<u>112,521</u>

The following amounts would have been recognised in the University's income and expenditure in the Year to 31 July 2002

	Total £000's
Operating surplus:	
Current Service cost	5,554
Past service cost	24
Curtailement and settlements	45
Total charge to operating surplus	<u>5,623</u>
Other financial income:	
Expected return on pension scheme assets	(11,086)
Interest on pension scheme liabilities	8,300
Net charge to financing costs	<u>2,837</u>

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**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

**Financial Statements Impact (continued)**

	Total £000's
Statement of total recognised gains and losses (STRGL):	
Actual return less expected return on pension scheme assets	(38,147)
Experience gains and losses arising on scheme liabilities	1,014
Changes in assumptions underlying the present value of scheme liabilities	197
Actuarial loss recognised in the STRGL	(36,936)
Movement in the University's share of the schemes' deficit:	
Surplus in the schemes at 1 August 2001	11,761
Current service cost	(5,554)
Contributions	2,497
Past service costs	(24)
Impact of curtailment and settlements	(45)
Other finance income (net return on assets)	2,786
Actuarial loss	(36,936)
Deficit in the schemes at 31 July 2002	(25,515)
Details of experience gains and losses for the year to 31 July 2002:	
Difference between expected and actual returns on scheme assets:	
Amount £000's	(38,147)
Percentage of scheme assets	29.9%
Experience gains and losses on scheme liabilities:	
Amount £000's	(986)
Percentage of the present value of scheme liabilities	0.6%
Total Amount recognised in STRGL:	
Amount £000's	(36,936)
Percentage of the present value of scheme liabilities	24.2%

**31 CAPITAL COMMITMENTS**

Outstanding capital commitments as at 31 July 2002 were as follows:-

	Group and University	
	2002	2001
	£000's	£000's
Contracts entered into for building work	44,680	52,006

Of the above commitments, £13,737,000 (2001: £18,920,000) will be funded through grants and benefactions.

**32 CONTINGENT LIABILITIES**

The University has provided a guarantee to Edinburgh Research and Innovation Limited (ERI), a wholly owned subsidiary, to allow ERI to enter into a sale and leaseback arrangement with regard to a property used by ERI. In the event of a default by ERI, the maximum liability for the university would be £6.5 million being the remaining rental payments until the end of the lease.

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**NOTES TO THE ACCOUNTS**  
**For the year ended 31 July 2002**

33 POST BALANCE SHEET EVENTS

On 12 July 2002 the University entered into an agreement with the Engineering and Physical Sciences Research Council (EPSRC) for the provision of a high performance computing service for a six year period commencing in December 2002. The service will be provided by HPCx Ltd., a 100% subsidiary of the University, and the value will amount to £45,000,000 over the life of the agreement.

The University considers that the cost of the computing procurement contracts entered into by HPCx Ltd. will be met in full from future income arising from the EPSRC service agreement.

34 ASSET HELD FOR RESALE AND CONTINGENT ASSETS

Occupation of the Cramond campus ceased in September 2001 and the property has been reclassified as a current asset for resale. The University has an entitlement, under the terms of the agreement made with regards to the sale of the Cramond site, to a consideration in excess of the existing book value of the campus if appropriate planning permission is granted. The University's best estimate of the consideration is £11,000,000 with a resulting contingent asset of £5,000,000.

The University has an entitlement under the terms of the sale in 1998 of the former Newington campus of Moray House Institute of Education to an additional consideration if appropriate planning permission is granted. The University's best estimate of this contingent consideration is £3,900,000.

35 UNIVERSITY COLLECTIONS

The University Court holds a number of valuable collections which are not included in the Balance Sheet. The main collections which have been identified and their indicative values are as follows:

	Approximate value £ 000's
Bronze Collection	9,000
Paintings	8,200
Special Library Collections	6,000
Historical Musical Instruments	500
Marbles and Vases	200
	<u>23,900</u>



**UNIVERSITY INCOME AND EXPENDITURE ACCOUNT**  
**For the year ended 31 July 2002**

	2002 £ 000's	2001 £ 000's
<b>INCOME</b>		
Funding council grants	113,320	104,026
Tuition fees and education contracts	43,101	41,537
Research grants and contracts	87,833	76,495
Profits covenanted from subsidiaries	1,140	1,300
Other income	52,231	45,769
Endowment and Investment income	7,852	7,474
 Total Income	 <u>305,477</u>	 <u>276,601</u>
<b>EXPENDITURE</b>		
Staff costs	175,311	167,320
Other operating expenses	111,478	94,100
Depreciation	13,856	11,695
Interest payable	4,608	3,730
 Total Expenditure	 <u>305,253</u>	 <u>276,845</u>
 <b>SURPLUS/(DEFICIT) AFTER DEPRECIATION OF ASSETS AT VALUATION</b>	  <u>224</u>	  <u>(244)</u>