

CONTENTS

	Pages
Principal's Report..	1
Corporate Governance Statement	2-4
Responsibilities of the Court	5
Responsibilities of the Court: Other Disclosures	6
Membership of the Main Committees of Court.....	7-10
Auditors' Report	11-12
 Financial Statements	
Statement of Accounting Policies	13-15
Group Income and Expenditure Account	16
Group Statement of Historical Cost Surpluses and Deficits	17
Statement of Total Recognised Gains and Losses	17
Balance Sheets	18-19
Group Cash Flow Statement	20
Notes to the Accounts	21-42
University Income and Expenditure Account	43

PRINCIPAL'S REPORT
For the year ended 31st July 2003

The year to July 2003 has been significant in the history of this University.

Firstly, it was a period of fundamental organisational change with colleges and schools replacing the former faculty-based academic structure. Secondly, a dramatic and well-publicised fire in December 2002, which had started in non-University premises, destroyed the accommodation of a major research department. Thirdly, in common with other institutions, we continue to contend with financial constraints exacerbated by the effect of poor stock market performance affecting not only endowment reserves but also, of more immediate impact, our pension funds.

Nevertheless, despite these pressures, we have had another successful year and achieved a financial result that is in accordance with plans. The operating surplus of £1.7 million, while modest relative to our total income of £347 million, is consistent with our strategy of maximising expenditure on academic activity, underwritten by a strong Balance Sheet and reserves.

Of equal importance is the maintenance and development of the estate. A total of £24 million was invested in buildings as part of a major infrastructure programme that saw the completion of a new 520-bed student accommodation block at Pollock Halls and commencement of construction of a major medical research building adjacent to the new Medical School alongside the Edinburgh Royal Infirmary at Little France. Further ambitious plans are being developed.

Such developments are funded in part by the disposal of surplus or obsolete properties and in this context it is important to note that the exceptional income of £12.4 million reported in this year's accounts, arising from such disposals, has already been invested in modern replacement facilities.

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

CORPORATE GOVERNANCE STATEMENT

The University of Edinburgh is committed to exhibiting 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, 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.

Internal Control and Risk Management

The University Court (the University's governing body) 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. In 2002/03 the University incorporated risk management more systematically and formally into its management processes by articulating its risk management policy and strategy; by describing the process of risk management and the framework for reporting to the Court on the significant risks it faces, both in terms of likelihood and impact; by adopting a University Risk Register; and by requiring the main risks pertaining to each particular project or proposal, together with details of the actions taken or proposed in order to minimise the risks, to be presented to committees, including the Court, when decisions were taken. The University Risk Register is complemented by related University policies, in areas such as Health and Safety, Computing Services, Finance, Treasury, Human Resources and Insurance, and by College and Support Group Risk Registers.

In addition, the University's strategic and budget planning process undertaken in 2002/03 required Colleges and Support Groups to comment on and evaluate key risks to achieving the University's objectives and to provide information on contingency and mitigating action. Heads of Colleges and Support Groups systematically assessed the management of key risks within their Units and provided Year End assurances on risk management. The Court notes that the risk management process has usefully highlighted some specific management issues which are being addressed.

By its 15 December 2003 meeting, the Court had received the Audit Committee and Risk Management Committee reports from the year ended 31 July 2003 and took account of relevant events since 31 July 2003. The Court recognises that a risk management process wholly compliant with the guidance provided by the Combined Code, as amended by the British Universities Finance Directors Group, has not been in place throughout the year ended 31 July 2003. Consequently, the Court, 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, is able to confirm that the University became fully compliant with the Scottish Higher Education Funding Council's requirements no later than 17 March 2003, when the University Court adopted the University Risk Register.

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;

Reports 2002/2003

CORPORATE GOVERNANCE STATEMENT

- d) The work of the 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. QAA, SHEFC).

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. The Court consults with the Senatus Academicus and the General Council as required by statute.

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.

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 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, 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 seven 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.

Reports 2002/2003

THE UNIVERSITY OF EDINBURGH

CORPORATE GOVERNANCE STATEMENT

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 Committee is 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. 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 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 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 **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 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 four 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 and includes a lay member of the Court amongst its membership and normally meets three times a year.

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 10. 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.

The Court has established arrangements for the management of the University's endowments as separate Trusts overseen by a board of **Trustees** which it appoints. The membership of the Trustees includes individuals external to the University, one of whom is chairman. The Trustees employ professional fund managers to undertake day to day management of the endowment funds. The Trustees normally meet twice a year.

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 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.

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 and 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 88 of our 6,900 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 (Convener), Mr Robin Harper (to 6/3/03), Dr T Dalyell (from 7/3/03)
 The Principal and Vice-Chancellor, Lord Sutherland of Houndwood (to 30/9/02),
 Professor T M M O'Shea (from 1/10/02)
 The Chancellor's Assessor, Lord Cameron of Lochbroom

General Council Assessors

Mrs M Tait
 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

Councillor Eric Milligan (to 21/5/03)
 Councillor Lesley Hinds (from 22/5/03)

Co-opted Members

Dr D B B Smith (Vice-Convener to 30/9/03)
 Mr A J Gavin (Vice- Convener from 1/10/03)
 Miss E A Mackay
 Dr J A Markland
 Mr J Stretton (to 30/9/02)
 Sir John Shaw
 Ms S Macpherson
 Professor A D Milne
 Dr I Sword (from 1/10/02 to 30/5/03)

Non-Teaching Staff Assessor

Ms M Jackson

Student Members

Mr J Meenagh (to 30/6/03)
 Ms R Hunter (to 30/6/03)
 Mr W Garton (from 1/7/03)
 Ms S Nicholson (from 1/7/03)

Reports 2002/2003

THE UNIVERSITY OF EDINBURGH

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
Risk Management Committee

Membership of the main committees of Court

Finance and General Purposes Committee

Convener: Dr D B B Smith (to 30/9/03)
Mr A J Gavin (from 1/10/03)

The Principal
Senior Vice-Principal Professor M Anderson
Mr A J Gavin (to 30/9/03)
Miss E A Mackay
Sir John Shaw
Professor I M L Donaldson
Mr M D Cornish, University Secretary
Mr G O Sutherland, Director of Finance
Mr J Meenagh (President of the Students Association) (to 30/6/03)
Mr W Garton (President of the Students Association) (from 1/7/03)

Remuneration Committee

To 6/7/03

Dr D B B Smith (Convener)
The Principal
One vacancy

From 7/7/03

Dr D B B Smith (Convener)
Ms S Macpherson
Mr A J Gavin

In attendance: The Principal

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

Nominations Committee

Convener: Dr D B B Smith

The Principal (Lord Sutherland of Houndwood to 30/9/02, Professor T M M O'Shea from 1/10/02)
Professor L A M Waterhouse
Miss E A Mackay
Mr A J Gavin
Mr M D Cornish

Staff Committee

Convener: Professor L A M Waterhouse

Dr J Martin
Mrs J Draper
Ms S Eden
Ms E C MacArthur
Dr A Jarman
Professor D R Ladd
Mrs S Cannell
Professor N A Seaton
Ms R Arshad
Professor R Jeffrey
Dr J A Markland

Audit Committee

Convener: Mr J Stretton (to 30/9/02), Dr J A Markland (from 1/10/02)

Mr F H Hitchman
Professor A D Milne
Mr D A Ross Stewart (to 31/5/03)
Mr G M Murray
Dr J A Markland (to 30/9/02)
Mr J Stretton (from 1/10/02)
Dr I Sword (from 1/10/02 to 31/5/03)

Reports 2002/2003

THE UNIVERSITY OF EDINBURGH

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

Risk Management Committee

Convener: Mr N A L Paul

Mr P Clements
Mr L Golightly
Dr D A Welch
Mr M D Cornish
Mr G O Sutherland
Mr B A C Gilmore
Sir John Shaw
Dr S van Heyningen

In attendance: Mr H McKay, Chief Internal Auditor

Membership of the Central Management Group

Convener: The Principal (Lord Sutherland of Houndwood to 30/9/02, Professor T M M O'Shea from 1/10/02)

Senior Vice-Principal Professor M Anderson
Vice-Principal Dr G R Field (to 30/6/03)
Vice-Principal Professor G S Boulton
Vice-Principal Professor G Kirk
Vice-Principal Dr F D Dow (from 11/11/02)
Vice-Principal Professor V Bruce
Vice-Principal Professor J Savill
Vice-Principal Professor G Bulfield
Assistant Principal Professor R D Kenway (from 11/11/02)
Assistant Principal Dr S van Heyningen (from 16/12/02)
Assistant Principal Dr D Dewhurst (from 17/2/03)
Mr M D Cornish
Mr N A L Paul

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

We have audited the financial statements on pages 16 to 42 which have been prepared in accordance with the accounting policies set out on pages 13 to 15.

This report is made solely to the Court, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the 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 Court, for our audit work, for this report, or for the opinions we have formed.

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: 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: 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.

Reports 2002/2003

THE UNIVERSITY OF EDINBURGH

**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 2003 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: 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
15 December 2003

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.

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 Second Pension (S2P) 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 Second Pension (S2P) 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 Second Pension (S2P) 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 2003

	Note	2003 £000's	2002 £000's
INCOME			
Funding Council grants	1	122,046	113,600
Tuition fees and education contracts	2	47,367	43,101
Research grants and contracts	3	96,861	87,833
Other income	4	72,671	60,886
Endowment and Investment income	5	7,909	8,001
Total Income		346,854	313,421
EXPENDITURE			
Staff costs	6	193,419	179,248
Other operating expenses	8	130,876	115,889
Depreciation	12	16,135	13,974
Interest payable	9	4,712	4,850
Total Expenditure		345,142	313,961
SURPLUS/(DEFICIT) ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE EXCEPTIONAL ITEMS AND TAXATION		1,712	(540)
EXCEPTIONAL ITEMS			
Gains on Disposal of Properties	12	12,436	647
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION		14,148	107
Taxation	10	5	1
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, EXCEPTIONAL ITEMS AND TAXATION		14,143	106
Minority Interest: (Deficit)/Surplus		(13)	5
SURPLUS FOR THE YEAR AFTER EXCEPTIONAL ITEMS		14,156	101

The notes on pages 21-42 form part of the Financial Statements

GROUP STATEMENT OF HISTORIC COST SURPLUSES AND DEFICITS
For the year ended 31 July 2003

	Note	2003 £000's	2002 £000's
SURPLUS/DEFICIT AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE EXCEPTIONAL ITEMS AND TAXATION		1,712	(540)
EXCEPTIONAL ITEMS:			
Gains on Disposal of Properties in the year	12	12,436	647
Realisation of revaluation gains of previous years	23	8,235	1,514
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	23	4,241	4,239
HISTORICAL COST SURPLUS BEFORE TAXATION		<u>26,624</u>	<u>5,860</u>
HISTORICAL COST SURPLUS AFTER TAX AND MINORITY INTEREST ATTRIBUTABLE TO THE UNIVERSITY		<u>26,632</u>	<u>5,854</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 July 2003

	Note	2003 £000's	2002 £000's
SURPLUS FOR THE YEAR AFTER EXCEPTIONAL ITEMS		14,156	101
Appreciation/(Depreciation) on endowment asset investments	14	3,510	(19,857)
Endowment income (utilised)/retained for year	21	(27)	462
New endowments net of return to benefactor	21	317	1,079
TOTAL GAINS/(LOSSES) RECOGNISED DURING THE CURRENT YEAR		<u>17,956</u>	<u>(18,215)</u>
Reconciliation:			
Opening reserves and endowments at 1 August 2002		553,221	
Total recognised gains for the year		<u>17,956</u>	
Closing reserves and endowments at 31 July 2003		<u>571,177</u>	

Financial Statements 2002/2003

THE UNIVERSITY OF EDINBURGH

BALANCE SHEETS
As at 31 July 2003

	Note	Group		University	
		2003 £000's	2002 £000's	2003 £000's	2002 £000's
FIXED ASSETS					
Tangible assets	12	602,038	589,305	598,557	586,939
Investments	13	179	384	1,271	2,436
		<u>602,217</u>	<u>589,689</u>	<u>599,828</u>	<u>589,375</u>
ENDOWMENT ASSET INVESTMENTS	14	<u>145,867</u>	<u>142,067</u>	<u>145,867</u>	<u>142,067</u>
CURRENT ASSETS					
Stocks and stores in hand		1,966	2,020	1,280	1,393
Debtors	15	61,804	50,415	68,908	53,028
Debtors receivable after more than one year	15	5,153	–	5,153	–
Assets held for resale	33	3,130	5,574	3,130	5,574
Investments: Bank deposits	29	37,515	46,122	32,572	42,561
Cash at bank and in hand	29	18,248	7,021	14,486	4,516
		<u>127,816</u>	<u>111,152</u>	<u>125,529</u>	<u>107,072</u>
CREDITORS: Amounts falling due within one year	16	(81,709)	(77,006)	(77,909)	(75,302)
NET CURRENT ASSETS/(LIABILITIES)		<u>46,107</u>	<u>34,146</u>	<u>47,620</u>	<u>31,770</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		794,191	765,902	793,315	763,212
CREDITORS: Amounts falling due after more than one year	17	(63,296)	(61,100)	(63,296)	(58,855)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(10,178)	(9,178)	(10,178)	(9,178)
TOTAL NET ASSETS		<u><u>720,717</u></u>	<u><u>695,624</u></u>	<u><u>719,841</u></u>	<u><u>695,179</u></u>

BALANCE SHEETS
As at 31 July 2003

Represented by:	Note	Group		University	
		2003 £000's	2002 £000's	2003 £000's	2002 £000's
DEFERRED CAPITAL GRANTS	20	149,510	142,360	149,475	142,360
ENDOWMENTS					
Specific	21	143,021	139,279	143,021	139,279
General	21	2,846	2,788	2,846	2,788
		<u>145,867</u>	<u>142,067</u>	<u>145,867</u>	<u>142,067</u>
RESERVES					
Revaluation reserve	22	292,064	304,540	292,064	304,540
General reserves	23	133,246	106,614	132,435	106,212
		<u>425,310</u>	<u>411,154</u>	<u>424,499</u>	<u>410,752</u>
MINORITY INTERESTS		30	43	–	–
TOTAL FUNDS		<u>720,717</u>	<u>695,624</u>	<u>719,841</u>	<u>695,179</u>

The financial statements on pages 13 to 42 were adopted by Court on 15th December 2003 and were signed on its behalf by:

Professor Timothy O'Shea Principal

A J Gavin Member of the University Court

G O Sutherland Director of Finance

Financial Statements 2002/2003

THE UNIVERSITY OF EDINBURGH

GROUP CASH FLOW STATEMENT
For the year ended 31 July 2003

	Note	2003 £000's	2002 £000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	24	4,818	11,648
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	25	3,538	4,295
TAXATION	10	(5)	(1)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	26	(8,272)	(17,757)
MANAGEMENT OF LIQUID RESOURCES	27	8,607	(5,672)
FINANCING	28	2,400	(699)
INCREASE/(DECREASE) IN CASH IN THE PERIOD	29	<u>11,086</u>	<u>(8,186)</u>
 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(Decrease) in cash in the period		11,086	(8,186)
Cash (inflow)/outflow from increase in liquid resources	27	(8,607)	5,672
Change in net debt resulting from cashflows	29	<u>(2,400)</u>	<u>699</u>
Movement in net funds for the period	29	79	(1,815)
Net debt at start of year	29	(7,971)	(6,156)
Net debt at close of year	29	<u>(7,892)</u>	<u>(7,971)</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

	2003 £000's	2002 £000's
1 FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	70,413	67,181
Research	37,527	35,993
Specific grants		
Information systems	2,284	1,741
Other	10,161	7,676
Deferred Capital Grants released in year		
Buildings (note 20)	1,176	575
Equipment (note 20)	485	434
	<u>122,046</u>	<u>113,600</u>
2 TUITION FEES AND EDUCATION CONTRACTS		
UK and EU Higher Education Students	23,998	22,205
Full-time students charged overseas fees	18,195	15,660
Research training support grants	930	967
Short course and other fees and support grants	4,244	4,269
	<u>47,367</u>	<u>43,101</u>
3 RESEARCH GRANTS AND CONTRACTS		
Grants		
Research councils	30,822	29,320
UK based charities	26,723	24,696
UK central government bodies, local and health authorities	21,002	18,718
UK industry, commerce and public corporations	6,476	5,328
EU government bodies	5,993	5,087
EU other	312	289
Other overseas	3,151	2,698
Other sources	2,382	1,697
	<u>96,861</u>	<u>87,833</u>

Deferred capital grants:

Research income of £4,798,000 (2002 – £7,842,000) 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 £5,308,000 (see note 20), (2002 – £4,183,000).

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

	2003 £000's	2002 £000's
4 OTHER INCOME		
Residences, Catering and Conferences	19,678	17,639
Other services rendered	35,407	26,554
Health Authorities	756	702
Released from deferred capital grants		
Buildings (note 20)	1,091	873
Equipment (note 20)	304	258
Other Income	15,435	14,860
	<u>72,671</u>	<u>60,886</u>
5 ENDOWMENT AND INVESTMENT INCOME		
Specific endowment income (note 21)	5,740	5,544
General endowment income (note 21)	117	120
Other interest receivable	2,052	2,337
	<u>7,909</u>	<u>8,001</u>
6 STAFF		
	2003 Number	2002 Number
Staff numbers (expressed as full time equivalents) were as follows :		
Academic and Related	3,390	3,241
Clerical	1,089	1,086
Manual	873	827
Technical	662	659
	<u>6,014</u>	<u>5,813</u>
	2003 £000's	2002 £000's
Staff costs:		
Salaries and Wages	160,889	149,670
Social security costs	12,122	11,099
Funded pension costs (note 30)	17,061	15,882
Severance costs and unfunded pensions	3,347	2,597
	<u>193,419</u>	<u>179,248</u>
	2003 £000's	2002 £000's
Staff cost analysis:		
Teaching and Research	143,508	131,039
Library, computer and other academic services	12,240	11,862
Administration and central services	13,260	14,377
Premises	8,849	8,312
Residences and catering operations	5,895	6,039
Other, including income generating operations	6,320	5,022
Severance costs and unfunded pensions	3,347	2,597
	<u>193,419</u>	<u>179,248</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

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:

	2003 Number	2002 Number
£50,000 - £59,999	138	122
£60,000 - £69,999	79	67
£70,000 - £79,999	37	15
£80,000 - £89,999	19	19
£90,000 - £99,999	20	14
£100,000 - £109,999	5	1
£110,000 - £119,999	14	12
£120,000 - £129,999	3	4
£130,000 - £139,999	7	7
£150,000 - £159,000	1	–
£160,000 - £169,999	–	1
	323	262
	2003 £000's	2002 £000's
Emoluments of the Principal:		
Lord Sutherland of Houndwood – retired 30 September 2002	28	166
Professor O'Shea – appointed 1 October 2002	134	–
	162	166

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 £11,424 for Professor O'Shea and £3,886 for Lord Sutherland (2002- £23,165). These figures also exclude a further payment to USS for Lord Sutherland of £129,760 in respect of enhanced pension benefit which is included below.

	2003 £000's	2002 £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	167	451
Other payments in respect of loss of office	123	130
	290	581

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

	2003 £000's	2002 £000's
8 OTHER OPERATING EXPENSES		
Equipment and furniture not capitalised	18,030	18,970
Operating Lease Rentals	5,489	16
Residences, catering and conferences operating expenses	9,824	7,753
Repairs and general maintenance	20,410	16,443
Heat, light, water and power	5,074	5,001
Printing, stationery and office expenses	3,386	3,786
Computer software and supplies	1,014	1,276
Consumables and laboratory expenditure	3,339	3,346
Contributions to other bodies	2,924	3,010
Travel, subsistence and accommodation	4,577	4,709
Research travel	3,641	3,103
Books and periodicals	2,521	2,619
Lecturers' fees and student demonstrators	1,891	1,992
Postgraduate studentships and other assistance	3,083	2,224
Fellowships, scholarships and prizes	2,089	1,937
Grants to University of Edinburgh Students' Association	1,587	1,521
Fees charged by External Auditors		
Audit	61	56
Non-Audit Services	-	117
Bad debt provision	574	683
Other services	118	165
Other research expenses	25,460	23,389
Other expenses	15,784	13,773
	130,876	115,889
9 INTEREST PAYABLE		
Bank and other loans	4,450	4,615
Finance leases	262	235
	4,712	4,850
10 TAXATION		
UK corporation tax charge on subsidiaries' profits	5	1
	5	1
11 SURPLUS FOR THE YEAR		

The Group surplus for the period is made up as follows:

University's surplus/(deficit) for the period excluding surpluses covenanted to the University by subsidiaries	12,684	(839)
Surplus generated by subsidiary undertakings	1,472	940
Total	14,156	101

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

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 2002	555,084	50,256	41,667	647,007
Additions at cost (note 26)	24,315	–	9,820	34,135
Reclassification	13,134	(12,465)	(669)	–
Reclassification to current asset	(2,800)	–	–	(2,800)
Disposals	(3,764)	–	(129)	(3,893)
As at 31 July 2003	<u>585,969</u>	<u>37,791</u>	<u>50,689</u>	<u>674,449</u>
Depreciation				
As at 1 August 2002	28,463	–	29,239	57,702
Reclassification	373	–	(373)	–
Charge for the year	9,566	–	6,569	16,135
Disposals	(1,456)	–	30	(1,426)
As at 31 July 2003	<u>36,946</u>	<u>–</u>	<u>35,465</u>	<u>72,411</u>
Net book value				
As at 31 July 2003	<u>549,023</u>	<u>37,791</u>	<u>15,224</u>	<u>602,038</u>
As at 31 July 2002	<u>526,621</u>	<u>50,256</u>	<u>12,428</u>	<u>589,305</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 is constructed on land held under a long leasehold of 130 years.

Under the requirement of FRS 15 Tangible Fixed Assets, an interim revaluation of Land and Buildings was performed by Messrs Gerald Eve, Chartered Surveyors as at 1st August 2002. The valuation of the Estate was not fully completed by the time of the final audit. The University understands that the exercise will result in an increase of some £90m in the above Land and Buildings fixed asset valuations, but that the impact on the income and expenditure account will be not be material.

Gains on disposals of fixed assets amounted to £12,436,000 (2002: £647,000) and included £12,157,000 in respect of the sale of the former Cramond campus and Newington halls of residence sites. These proceeds had already been re-invested in upgraded academic and residence facilities and elsewhere in the Estate, notably in a new gym and pool complex at Holyrood Road.

Land and buildings with a net book value of £78,730,000 (2002: £73,930,000) 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.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

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 2002	553,095	50,256	40,641	643,992
Additions at cost	26,557	–	6,371	32,928
Reclassification	12,465	(12,465)	–	–
Reclassification to current assets	(2,800)	–	–	(2,800)
Disposals	(3,352)	–	–	(3,352)
As at 31 July 2003	<u>585,965</u>	<u>37,791</u>	<u>47,012</u>	<u>670,768</u>
Depreciation				
As at 1 August 2002	28,313	–	28,740	57,053
Transfer from Subsidiary	512	–	–	512
Charge for the year	9,566	–	6,526	16,092
Disposals	(1,446)	–	–	(1,446)
As at 31 July 2003	<u>36,945</u>	<u>–</u>	<u>35,266</u>	<u>72,211</u>
Net book value				
As at 31 July 2003	<u>549,020</u>	<u>37,791</u>	<u>11,746</u>	<u>598,557</u>
As at 31 July 2002	<u>524,782</u>	<u>50,256</u>	<u>11,901</u>	<u>586,939</u>

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 £1,708,000 (2002- £1,711,000) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £23,000 (2002 – £70,000).

Reclassifications to current assets represent assets held for resale, net of £330,000 of assets at Langhill Farm which were previously treated as current assets under a joint venture arrangement with the Scottish College of Agriculture.

Net book value historical cost equivalent

	Group		University	
	2003 £000's	2002 £000's	2003 £000's	2002 £000's
Land and buildings	295,848	277,902	295,848	276,063
Equipment	15,224	12,428	11,746	11,901
	<u>311,072</u>	<u>290,330</u>	<u>307,594</u>	<u>287,964</u>

The group depreciation charge has been matched by:

	Group	
	2003 £000's	2002 £000's
Deferred capital grants released (note 20)	8,100	6,323
Revaluation reserve transferred to general reserves (note 22)	4,241	4,239
Earnings in subsidiaries	43	119
General income	3,751	3,293
	<u>16,135</u>	<u>13,974</u>

Financial Statements 2002/2003

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

	2003 £000's	2002 £000's	2003 £000's	2002 £000's
13 INVESTMENTS				
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	824	1,786
Loan to The Scottish Agricultural College	–	162	–	162
Other investments	179	222	89	130
	<u>179</u>	<u>384</u>	<u>1,271</u>	<u>2,436</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 of which the University owns 100 per cent of the issued share capital of 2 ordinary shares of £1 each. On 19 August 2002, Edinburgh Technopole Limited acquired the entire trade and assets of Edinburgh Research and Innovation Limited, a wholly owned subsidiary company limited by Guarantee. On 20 August 2002 the company changed its name to Edinburgh Research and Innovation Limited.
- 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,
- 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,
- The University of Edinburgh 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,
- University of Edinburgh Utilities Supply Company Limited of which the University owns 100 per cent of the issued share capital of 2 ordinary shares of £1 each,
- UoE HPCX Limited of which the University owns 100 per cent of the share capital of 1 ordinary shares 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.

Financial Statements 2002/2003

THE UNIVERSITY OF EDINBURGH

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

	Group and University		
	Specific £000's	General £000's	Total £000's
14 ENDOWMENT ASSETS			
As at 1 August 2002	139,279	2,788	142,067
Additions (note 26)	2,094	–	2,094
Disposals (note 26)	(1,655)	(8)	(1,663)
Appreciation on realisation and revaluation	3,444	66	3,510
Decrease in cash balances held by University	(141)	–	(141)
	<u>143,021</u>	<u>2,846</u>	<u>145,867</u>
		Group and University	
		2003	2002
		£000's	£000's
Endowment asset investments are comprised of:			
Fixed interest stocks		37,730	40,562
Equities		106,179	97,294
Bank deposits held at fund managers		1,397	3,509
Cash balance held by University (note 29)		561	702
Total endowment asset investments – Market Values		<u>145,867</u>	<u>142,067</u>
Endowment Assets - at Cost		<u>134,155</u>	<u>133,611</u>
		Group	University
	2003	2002	2003
	£000's	£000's	£000's
15 DEBTORS			
Amounts falling due within one year			
Debtors	56,530	46,991	54,261
Amounts owing from subsidiary companies	–	–	9,624
Prepayments	5,274	3,424	5,023
	<u>61,804</u>	<u>50,415</u>	<u>68,908</u>
			Group and University
			2003
			2002
			£000's
			£000's
DEBTORS			
Amounts receivable after more than one year			5,153
			<u>–</u>

A portion of the proceeds arising from the disposal of the Cramond campus is not due until 2005. The University holds a standard security over the Cramond campus subjects in respect of this deferred consideration.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

	Group		University	
	2003 £000's	2002 £000's	2003 £000's	2002 £000's
16 CREDITORS:				
Amounts falling due within one year				
Unsecured Loans (note 18)	538	363	538	363
Secured loans (note 18)	365	353	365	353
Finance lease (note 18)	17	–	17	–
Creditors	18,947	17,306	17,922	16,185
Amounts owing to subsidiary companies	–	–	3,789	3,668
Social security and other taxation payable	4,456	4,201	4,413	4,191
Accruals and deferred income	57,386	54,783	50,865	50,542
	<u>81,709</u>	<u>77,006</u>	<u>77,909</u>	<u>75,302</u>
	Group		University	
	2003 £000's	2002 £000's	2003 £000's	2002 £000's
17 CREDITORS:				
Amounts falling due after more than one year				
Bank loans (note 18)	61,062	58,855	61,062	58,855
Obligations under finance leases (note 18)	2,234	2,245	2,234	–
	<u>63,296</u>	<u>61,100</u>	<u>63,296</u>	<u>58,855</u>
18 BORROWINGS			Group and University	
			2003 £000's	2002 £000's
Bank loans				
Instalments are repayable as follows:				
Unsecured loans repayable in 2004			538	363
Secured loans repayable in 2004			365	353
Unsecured loans repayable between 2005 and 2008			2,273	1,380
Unsecured loans repayable after 2008			51,042	49,027
Secured loan repayable between 2005 and 2008			1,820	1,534
Secured loan repayable after 2008			5,927	6,914
			<u>61,965</u>	<u>59,571</u>
Less: falling due within one year (note 16)			903	716
Total bank loans (note 17)			<u>61,062</u>	<u>58,855</u>

During the year the University drew down a new unsecured loan of £3,200,000 with interest charged at 5.5% and repayable over a 12 year period.

The University also 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 further loans of £40,000,000 under long term credit facilities repayable as follows:

- a) £10,000,000 at a fixed rate of 6.99%, repayable in year 2015.
- b) £30,000,000 at a fixed rate of 6.98%, repayable in equal instalments between years 2026 and 2030.

Financial Statements 2002/2003

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

18 BORROWINGS (continued)

	Group and University	
	2003	2002
Finance leases	£000's	£000's
Obligations under finance leases fall due as follows:		
Repayable in 2004	17	–
Between 2005 and 2008	140	–
After five years	2,077	2,245
	<u>2,234</u>	<u>2,245</u>

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Group and University			
	Unfunded Pensions			Total
	SSAP24	FRS17	Other	
	Provision	Provision	Provisions	£000's
	£000's	£000's	£000's	£000's
As at 1 August 2002	–	8,822	356	9,178
Utilised in year	–	(748)	–	(748)
Transfer from income and expenditure account	1,000	748	–	1,748
As at 31 July 2003	<u>1,000</u>	<u>8,822</u>	<u>356</u>	<u>10,178</u>

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

Shortfalls have been identified in the funding of past service benefits due to members of the University of Edinburgh Staff Benefit Scheme and the Strathclyde Pension Fund. Under the requirements of SSAP24 Accounting for Pension Costs, the funding shortfall is being amortised over the average remaining working lives of scheme members. This has given rise to a charge to income and expenditure of £1,000,000 (2002: NIL) during the year.

The University has a liability of £6,522,000 (2002 £6,522,000) 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 to former members of the University staff has been recognised under the requirements of Financial Reporting Standard FRS17.

As a result of a ruling by the European Court of Justice (ECJ) in the Preston case relating to indirect sex discrimination, the University has an obligation to provide pension scheme benefits for part-time employees. There is therefore a liability to provide additional benefits for service before the pension scheme rules were changed to allow access for part-time employees. The University has charged the estimated cost of additional employer's contributions due of £250,000 to income and expenditure during the year.

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.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

20 DEFERRED CAPITAL GRANTS

Group	Funding Council £000's	Other grants and benefactions £000's	Research income £000's	Total £000's
As at 1 August 2002				
Land	103	170	–	273
Buildings	73,827	57,023	–	130,850
Equipment	997	238	10,002	11,237
	<u>74,927</u>	<u>57,431</u>	<u>10,002</u>	<u>142,360</u>
Capital expenditure during the year				
Buildings	5,976	3,416	–	9,392
Equipment	473	851	4,798	6,122
	<u>6,449</u>	<u>4,267</u>	<u>4,798</u>	<u>15,514</u>
Released to income and expenditure account				
Buildings	1,099	904	–	2,003
Equipment	485	304	5,308	6,097
	<u>1,584</u>	<u>1,208</u>	<u>5,308</u>	<u>8,100</u>
Disposal of Buildings	77	187	–	264
	<u>1,661</u>	<u>1,395</u>	<u>5,308</u>	<u>8,364</u>
As at 31 July 2003				
Land	103	170	–	273
Buildings	78,627	59,348	–	137,975
Equipment	985	785	9,492	11,262
	<u>79,715</u>	<u>60,303</u>	<u>9,492</u>	<u>149,510</u>

20 DEFERRED CAPITAL GRANTS

University	Funding Council £000's	Other grants and benefactions £000's	Research income £000's	Total £000's
As at 1 August 2002				
Land	103	170	–	273
Buildings	73,827	57,023	–	130,850
Equipment	997	238	10,002	11,237
	<u>74,927</u>	<u>57,431</u>	<u>10,002</u>	<u>142,360</u>
Capital expenditure during the year				
Buildings	5,976	3,416	–	9,392
Equipment	473	816	4,798	6,087
	<u>6,449</u>	<u>4,232</u>	<u>4,798</u>	<u>15,479</u>
Released to income and expenditure account				
Buildings	1,099	904	–	2,003
Equipment	485	304	5,308	6,097
	<u>1,584</u>	<u>1,208</u>	<u>5,308</u>	<u>8,100</u>
Disposal of Buildings	77	187	–	264
	<u>1,661</u>	<u>1,395</u>	<u>5,308</u>	<u>8,364</u>
As at 31 July 2003				
Land	103	170	–	273
Buildings	78,627	59,348	–	137,975
Equipment	985	750	9,492	11,227
	<u>79,715</u>	<u>60,268</u>	<u>9,492</u>	<u>149,475</u>

Financial Statements 2002/2003

THE UNIVERSITY OF EDINBURGH

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

21 ENDOWMENT FUNDS

	Group and University		
	Specific £000's	General £000's	Total £000's
As at 1 August 2002	139,279	2,788	142,067
Additions	1,319	–	1,319
Transfers	9	(9)	–
Returned to benefactor	(1,002)	–	(1,002)
Appreciation on realisation and revaluation	3,444	66	3,510
Income for the year	6,390	128	6,518
Transferred to income and expenditure account (note 5)	(5,740)	(117)	(5,857)
Transferred to deferred capital grants	(170)	–	(170)
Administration fee	(508)	(10)	(518)
As at 31 July 2003	143,021	2,846	145,867

During the year, the Duke of Edinburgh Chair of Cardiology endowment fund of £1,002,000 was returned to the British Heart Foundation. Under the new funding arrangement, the British Heart Foundation have agreed to meet the cost of the Chair annually.

	2003 £000's	2002 £000's
Representing:		
Prizes and scholarship funds	64,564	61,795
Chairs and lectureship funds	38,798	39,631
Other funds	39,659	37,853
General purposes	2,846	2,788
	145,867	142,067

Transfers to deferred capital grants of £170,000 (2002 £75,000) were expended in the year (see Note 20, Deferred capital benefactions funding building capital expenditure).

22 REVALUATION RESERVE

	Group and University £000's
As at 1 August 2002	304,540
Transfer to general reserve – depreciation on revalued assets (note 23)	(4,241)
Disposals in the year (note 23)	(8,235)
As at 31 July 2003	292,064

23 MOVEMENT ON GENERAL RESERVES
INCOME AND EXPENDITURE ACCOUNT RESERVE

	Group £000's	University £000's
As at 1 August 2002	106,614	106,212
Surplus attributable to the year	14,156	13,747
Transfer from revaluation reserve- depreciation on revalued assets (note 22)	4,241	4,241
Realisation of revaluation gains of previous years (note 22)	8,235	8,235
Balance at 31 July 2003	133,246	132,435

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

24 RECONCILIATION OF CONSOLIDATED SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2003 £000's	2002 £000's
SURPLUS BEFORE TAX	14,148	107
Depreciation (note 12)	16,135	13,974
Deferred capital grants released to income (note 20)	(8,364)	(6,323)
Endowment income (note 5)	(5,857)	(5,664)
Endowment administration fees (note 21)	(518)	(539)
Profit on disposal of fixed assets	(12,436)	(647)
Interest payable (note 9)	4,712	4,850
(Increase)/Decrease in stocks	(276)	35
Increase in debtors	(6,258)	(10)
Increase in accruals and deferred income	2,676	10,498
Increase/(Decrease) in creditors	1,908	(2,339)
Increase in provisions (note 19)	1,000	43
Interest receivable (note 5)	(2,052)	(2,337)
NET CASH INFLOW FROM OPERATING ACTIVITIES	4,818	11,648
 25 RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Endowment funds dividends and interest received	6271	6,723
Interest received	2052	2,418
Interest paid	(4,475)	(4,670)
Finance lease interest paid	(310)	(176)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	3,538	4,295
 26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
	2003 £000's	2002 £000's
Purchases of tangible assets (note 12)	(34,135)	(41,555)
Proceeds from sale of tangible assets	10,440	2,386
Proceeds from sale of investments	193	–
Deferred capital grants received – Funding councils and research equipment	11,247	15,851
Deferred capital grants received – Other capital benefactions	4,097	6,388
Purchase of Endowment investment assets (note 14)	(2,094)	(2,999)
Disposal of Endowment investment assets (note 14)	1,663	1,093
New Endowments received (note 21)	1,319	1,079
Endowment returned to benefactor (note 21)	(1,002)	–
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(8,272)	(17,757)

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

27 MANAGEMENT OF LIQUID RESOURCES

	2003 £000's	2002 £000's
(Decrease)/Increase in deposits	(8,607)	5,672
NET CASH (OUTFLOW)/INFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	<u>(8,607)</u>	<u>5,672</u>

28 FINANCING

New loan principal	3,200	–
Loan repayments	(800)	(687)
Capital repayment of finance lease obligations	–	(12)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING	<u>2,400</u>	<u>(699)</u>

29 ANALYSIS OF NET DEBT

	As at 1 August 2002 £000's	Cashflows £000's	Other Changes £000's	As at 31 July 2003 £000's
Cash in hand and at bank	7,021	11,227	–	18,248
Endowment asset investments:				
Cash balance held by University	702	(141)	–	561
Total cash in hand and at bank	7,723	11,086	–	18,809
Debt due within 1 year	(716)	716	(920)	(920)
Debt due after 1 year	(58,855)	(3,116)	909	(61,062)
Finance leases	(2,245)	–	11	(2,234)
Current asset investments:				
Bank deposits	46,122	(8,607)	–	37,515
Total	<u>(7,971)</u>	<u>79</u>	<u>–</u>	<u>(7,892)</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

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
- f) Other schemes.

a) 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 2002. 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	5.0%	6.0%	Incl. additional 1% return
Earnings increases per annum	3.7%	3.7%	
Pensions increase per annum	2.7%	2.7%	

The valuation was carried out using the projected unit method.

The following amounts were measured at the last valuation date:

	<u>£million</u>
Total market value of assets	19,938
Present value of scheme past service liabilities	<u>19,776</u>
Surplus in the scheme – Net pension asset	<u>162</u>

The assets therefore were sufficient to cover 101% 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 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

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

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The next formal valuation is due at 31 March 2005 when the above rates will be reviewed.

	Year to 31 July 2003	Year to 31 July 2002
	£000's	£000's
Total pension cost for the University in relation to USS	14,041	13,022
Outstanding contributions at the balance sheet date	1,827	1,688

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 Second Pension (S2P) 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 was adopted by the Scheme's Trustees. A further full valuation, yet to be adopted, was carried out at March 2003 and has been updated by an interim valuation at 31 July 2003. Valuations were carried out by a qualified independent actuary.

The major assumptions used by the actuary at July 2003 were as follows:

Rate of increase in salaries	3.75%
Rate of increase in pensions in payment	2.25%
Discount Rate	5.50%
Inflation assumption	2.25%

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

	Long term rate of return	Value at 31 July 2003 £ million	Long term rate of return	Value at 31 July 2002 £ million
Equities	8.00%	103.9	8.50%	92.7
Bonds	4.75%	12.2	5.00%	15.7
Property	6.00%	1.9	6.25%	2.5
Other – Mainly Cash	4.75%	3.7	5.00%	3.8
		121.7		114.7

The regular pension cost is assessed at each actuarial revaluation and applied until the next valuation. The variation from regular pension cost which recognises the excess of liabilities over assets of the EUSBS pension scheme, is spread over the average remaining working lives of the scheme members. An accrual of £1,000,000 is included in unfunded pension provisions. This represents the annual charge required to meet the excess of the accumulated pension cost over the amount funded as at 31 July 2003.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

b) The University of Edinburgh Staff Benefits Scheme (EUSBS) (continued)

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

	Value at 31 July 2003 £millions	Value at 31 July 2002 £millions
Total market value of assets	121.7	114.7
Present value of scheme liabilities	147.4	138.0
Deficit in the scheme – net pension liability	(25.7)	(23.3)
	Year to 31 July 2003 £000's	Year to 31 July 2002 £000's
Total pension cost for the University in relation to SBS	2,329	2,251
Outstanding contributions at the balance sheet date	363	–

The contribution rate payable by the University was 7.4% of pensionable salary. This has increased to 13.3% with effect from 1 August 2003 in order to fully fund future service benefits.

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 Second Pension (S2P) 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 deficit 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 next full report on the actuarial valuation of the STSS, as at 31 March 2001, is not expected to be received until early next year and the last full valuation was at 31 March 1996. However the Government Actuary has produced an interim report containing the assumptions and other data which have the most significant effect on the determination of the contribution levels. These are as follows:

	Prospective Benefits		
Actuarial Method			
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 31 July 2003 £000's	Year to 31 July 2002 £000's	
Total pension cost for the University in relation to STSS	245	251	
Outstanding contributions at the balance sheet date	20	–	

Financial Statements 2002/2003

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

c) Scottish Teachers Superannuation Scheme (STSS) (continued)

During the year, the employer's contribution increased from 7.15% to 7.4% of pensionable salary with effect from 1 April 2003. This will increase to 12.5% with effect from 1 October 2003. Of this increase, 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. The remaining 0.35% represents a further stepped increase in the University employers contribution.

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 Second Pension (S2P) Scheme.

The last full valuation was carried out at 31 March 2002 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 2002;
- Pension fund accounts for the year to 31 March 2003; 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 2003 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 were:

	31 July 2003	31 July 2002
Rate of increase in salaries	4.1%	3.9%
Rate of increase in pensions in payment	2.6%	2.4%
Discount rate	5.5%	6.0%
Inflation assumption	2.6%	2.4%

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

	Long term rate of return	Value at 31 July 2003 £ million	Long term rate of return	Value at 31 July 2002 £ million
Equities	8.0%	4,219.2	8.0%	4,171.0
Bonds	5.0%	563.5	5.5%	618.0
Property	6.0%	594.4	6.0%	583.0
Other – Mainly Cash	3.5%	143.4	4.0%	198.0
		<u>5,520.5</u>		<u>5,570.0</u>

On the basis of the actuary's calculations, the asset share in respect of the University at 31 July 2003 was 0.210% (2002: 0.231%).

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

d) Strathclyde Pension Fund (SPF) (continued)

The regular pension cost is assessed at each actuarial revaluation and applied until the next valuation. The University's share of the variation from regular pension cost which recognises the excess of liabilities over assets of the SPF pension scheme, is not considered to be material. No provision has been made as at 31 July 2003.

The following amounts at 31 July 2003 with regard to the University were measured in accordance with the requirements of FRS 17:

	Value at 31 July 2003 £millions	Value at 31 July 2002 £millions
Total market value of assets	11,570	12,836
Present value of scheme liabilities	15,250	15,050
Deficit in the scheme – net pension liability	(3,680)	(2,214)
	Year to 31 July 2003	Year to 31 July 2002
The total pension cost for the University in relation to SPF	271	267
Outstanding contributions at the balance sheet date	22	–

The contribution rate payable by the University increased from 13.2% to 13.8% of pensionable salary on 1 April 2003 with further stepped increase to 15.0% planned for 2004 and 2005.

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.

	Year to 31 July 2003 £000's	Year to 31 July 2002 £000's
Total pension cost for the University in relation to FSSU	13	17
Outstanding contributions at the balance sheet date	3	4

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

	Year to 31 July 2003 £000's	Year to 31 July 2002 £000's
Total pension cost for University in relation to other schemes	162	74

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

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

	Year to 31 July 2003 £000's	Year to 31 July 2002 £000's
USS	14,041	13,022
SBS	2,329	2,251
STSS	245	251
SPF	271	267
FSSU	13	17
Other	162	74
	<u>17,061</u>	<u>15,882</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.		
	Year to 31 July 2003 £000's	Year to 31 July 2002 £000's
Payment to retired members in respect of the USS Supplementation scheme	55	76

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 at 31 July 2003 would be as follows:

	31 July 2003 £000's	31 July 2002 £000's
Net assets excluding pension assets	720,717	695,624
Pension asset: EUSBS	121,700	114,700
Strathclyde Pension Fund	11,570	12,836
Net assets including pension assets	<u>853,987</u>	<u>823,160</u>
Income and Expenditure reserves excluding pension assets	133,246	106,614
Pension reserves: EUSBS	(25,700)	(23,301)
Strathclyde Pension Fund	(3,680)	(2,214)
Income and Expenditure reserve including pension liability	<u>103,866</u>	<u>81,099</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

Financial Statements Impact (continued)

The following amounts would have been recognised in the University's Income and Expenditure in the year to 31 July 2003.

	Year to 31 July 2003 £000's	Year to 31 July 2002 £000's
Operating Surplus		
Current Service Cost	5,980	5,554
Past Service cost	–	24
Curtailement and Settlements	–	45
Total charge to operating surplus	<u>5,980</u>	<u>5,623</u>
Other finance income:		
Expected return on scheme assets	(9,950)	(11,086)
Interest on pension scheme liabilities	8,690	8,300
Net charge to finance income	<u>(1,260)</u>	<u>(2,786)</u>
 Net Charge to Income and Expenditure	 <u>4,720</u>	 <u>2,837</u>
 Statement of total recognised gains and losses (STRGL):		
Actual return less expected return on pension scheme assets	(1,740)	(38,147)
Experience gains and losses arising on scheme liabilities	2,730	1,014
Changes in assumptions underlying the present value of scheme liabilities	(2,720)	197
Actuarial loss recognised in the STRGL	<u>(1,730)</u>	<u>(36,936)</u>
 Movement in the University's share of the scheme's deficit:		
Deficit in the schemes as at August 2002	(25,510)	11,761
Current Service Costs	(5,980)	(5,554)
Contributions	2,590	2,497
Past Service Costs	–	(24)
Impact of Curtailement and Settlements	–	(45)
Other finance income (net return on assets)	1,260	2,786
Actuarial loss	(1,730)	(36,936)
Deficit in the schemes at July 2003	<u>(29,370)</u>	<u>(25,515)</u>
 Details of experience gains and losses for the year to 31 July 2003:		
Difference between expected and actual returns on scheme assets:		
Amount £ 000's	(1,743)	(38,147)
Percentage of scheme assets	1.3%	29.9%
Experience gains and losses on scheme liabilities:		
Amount £ 000's	2,730	(986)
Percentage of scheme liabilities	1.7%	0.6%
Total amount recognised in STRGL:		
Amount £ 000's	(1,730)	(36,936)
Percentage of scheme liabilities	1.1%	24.2%

Financial Statements 2002/2003

NOTES TO THE ACCOUNTS
For the year ended 31 July 2003

31 CAPITAL COMMITMENTS

Outstanding capital commitments as at 31 July 2003 were as follows:-

	Group and University	
	2003	2002
	£000's	£000's
Contracts entered into for building work	60,398	44,680

Of the above commitments, £54,066,000 (2002: £13,737,000) will be funded through grants and benefactions.

32 CONTINGENT LIABILITIES

The sale of Cramond campus was completed during the year. Under the terms of the sale agreement with AMA (Cramond) Limited and Bryant Homes Scotland Ltd., final instalments of the consideration are payable in 2004 and 2005. In the event that the full and final consideration is not received, the University Court has the right to rescind the missives. The University considers that the full disposal proceeds would be achieved by an alternative sale.

33 ASSET HELD FOR RESALE

Gains on disposal of properties during the year included gains on the Cramond and Newington sites which had been classified as a current assets for resale at 31 July 2002. Further properties no longer in use have been reclassified as assets for resale of £3,130,000 (2002: Cramond and Newington £5,574,000).

34 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
	23,900

UNIVERSITY INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 July 2003

	2003 £000's	2002 £000's
INCOME		
Funding Council grants	121,851	113,320
Tuition fees and education contracts	47,367	43,101
Research grants and contracts	96,861	87,833
Profits covenanted from subsidiaries	1,063	1,140
Other income	56,628	51,584
Endowment and Investment income	7,725	7,852
	<hr/>	<hr/>
Total Income	331,495	304,830
EXPENDITURE		
Staff costs	189,077	175,311
Other operating expenses	120,112	111,478
Depreciation	16,092	13,856
Interest payable	4,712	4,608
	<hr/>	<hr/>
Total Expenditure	329,993	305,253
 OPERATING SURPLUS/(DEFICIT) AFTER DEPRECIATION OF ASSETS AT VALUATION		
	1,502	(423)
 EXCEPTIONAL ITEMS		
Gains on Disposal of Properties	12,245	647
 TOTAL SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND EXCEPTIONAL ITEMS		
	<hr/> <hr/>	<hr/> <hr/>
	13,747	224