

CONTENTS

	Pages
Principal's Report	1
Operating and Financial Review	3-5
Corporate Governance Statement	6-9
Responsibilities of the Court	10
Membership of the Main Committees of Court	11-14
Auditor's Report	15-16
Financial Statements	
Statement of Accounting Policies	17-19
Group Income and Expenditure Account	20
Group Statement of Historical Cost Surpluses and Deficits	21
Statement of Total Recognised Gains and Losses	21
Balance Sheets	22-23
Group Cash Flow Statement	24
Notes to the Accounts	25-46
University Income and Expenditure Account	47

PRINCIPAL'S REPORT

For the year ended 31st July 2004

The year to the 31st July 2004 has again been one of achievement for the University in each of our core areas of Research, Teaching and Learning, and Knowledge Transfer.

Recent successes, such as the work on predicting the menopause and the exciting interdisciplinary research in the Centre for Science at Extreme Conditions, has continued to enhance the University's reputation for research in an increasingly competitive global arena. This reputation, coupled with continued investment in internationally competitive facilities, like the £44m Research Institute for Medical Cell Biology, which is under construction and due for completion in the summer of 2005, enables us to continue to attract leading researchers from institutions across the world. As well as the reputational success, it is pleasing to report that external research grant income rose to £103m for the year ended 31 July 2004 (2003: £97m).

The economic relevance of our research is also clear. The flotation of Wolfson Microelectronics plc, originally a University spin-out company, and its subsequent valuation as one of Scotland's 20 largest companies is the most recent example of successful commercialisation. The University continues to be one of the leading UK institutions for commercialisation of intellectual property with 23 licenses signed and 4 company formations by staff or students in the past year. The taxation consequences on founder academics of the Schedule 22 provisions of the Finance Act 2003 have reduced the level of spin out activity in the past year, however it is pleasing to note that the Government has recognised the issue and is engaged in productive dialogue with the Sector on how to address it.

The opportunity of being taught by inspiring academics at the forefront of their discipline continues to attract large numbers of applications not only from the UK but also from across the world. With 5,000 of the University's 22,000 students coming from overseas, a diverse cultural environment continues to thrive. The University has always promoted its facilities and services to enhance the life of students and their academic and other accomplishments. It is pleasing therefore to record that 3 alumni competed in the Olympic games in Athens recently, with Chris Hoy achieving cycling gold, and Katherine Grainger achieving a rowing silver. The University continues to provide leading, and award winning, sports and recreation facilities.

These successes are also reflected in the continuing strength of the University's financial position. Turnover, at £369m, is 6.4% up on the previous year, with an overall surplus for the year of £2.4m.

In summary, the University continues to enhance its reputation for excellence, both at home and abroad, and is well placed to address the challenges that lie ahead.

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

OPERATING AND FINANCIAL REVIEW

For the year to the 31st July 2004

Scope of the Financial Statements

The Financial Statements comprise the consolidated results of the University, its subsidiary companies, and its fund-raising arm, the University of Edinburgh Development Trust.

Results for the Year

Group turnover for the year rose from £347m to £369m, a rise of 6.4%, with growth in funding council grants (2.8%), tuition fees and educational contracts (13.1%), research grants and contracts (6.2%) and other income (8.7%) being achieved. Research Grant income, at £102.8m, exceeded the £100m marker for the first time. However, income on Endowment Funds and Investments fell slightly short of last year, mainly due to the final phasing out of tax credits for charities.

The University achieved a Surplus on Continuing Operations of £2.4m for the year (2003 – £1.7m), having depreciated tangible assets based on their current replacement value. Net Gains on Disposal of Properties of £0.7m (2003 – £12.5m) were matched by a transfer of £0.7m (2003 – £nil) to accumulated reserves within endowment asset investments, enabling a total surplus for the year of £2.4m (2003 – £14.2m) to be reported.

Group Net Assets, at £869m, have increased from £721m at the end of the previous year, a rise of 20.5%. Within this, Endowment Assets increased from £146m to £156m, reflecting both new endowments and an appreciation of assets of £6.8m consequent on the success of the University's fund managers and the rising stock market. Tangible Fixed Assets rose from £602m to £737m, principally due to capital investment of £35m and property revaluation increase of £116m.

Group Cash and Short-Term Deposits increased from £55.8m to £69.5m whilst total long term borrowings reduced from £62.0m to £60.9m. Net interest payments fell slightly to just under £4.7m reflecting the fixed interest nature of much of the University's debt.

Research

As indicated above, research income in the year at £102.8m exceeded £100m for the first time. This confirms the University's reputation as one of the leading high quality, research-intensive universities in the UK, and amongst the top 50 in the world. Research grant applications and awards have both grown over the past year, indicating a healthy pipeline of activity into the future. Of particular note has been the University's success in the EU Framework 6 collaborative programme, where the University is lead institution for 2 projects and is participating in 37 others. The University welcomes the drive for sustainability of research and the funding programmes outlined in the Science Innovation and Investment Strategy (2004) issued by the UK Government. It continues to implement the sector-wide Transparent Approach to Costing initiative. This will provide a comprehensive understanding of the full economic costs of all activities, including Research, and will inform the University's approach to pricing.

Capital Projects

The University has an Estates Strategic plan covering the period 1998 to 2008. Over the past year, major new developments have been progressed, and significant work has taken place to develop master plans for each of the University's main footprints for agreement with the City Planning authorities.

The largest current on-going capital project is the development of the new Research Institute for Medical Cell Biology at Little France. Funding for this project came from a number of sources, including charitable donations from the Wellcome Trust, the British Heart Foundation, the Medical Research Council, Wolfson Foundation, Rayne Foundation, Gannochy Trust, Garfield Weston Foundation and the Robertson Trust. The University is also very grateful for the support of its alumni in the funding of this project. Other major projects progressed

OPERATING AND FINANCIAL REVIEW

For the year to the 31st July 2004

during the current year include the Ashworth Building extension, the Advanced Computer Facility Building at Easter Bush and the combined heat and power developments undertaken by UoE Utilities Supply Company.

Fundraising has now successfully started in respect of the new central area research facility for the School of Informatics, the School having lost significant facilities in the major Edinburgh city centre fire in December 2002. Additionally, the University is partnering Scottish Enterprise in the development of the flagship Centre for Biomedical Research facility, to be located at Little France, adjacent to the new Edinburgh Royal Infirmary, the University's new medical school and the Research Institute for Medical Cell Biology.

Employment of Disabled Persons

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 78 of our 7,000 staff have declared that they have a disability.

Creditor Payment Policy

The University has published standard terms and conditions of trade that will apply to payments to suppliers unless other terms and conditions are agreed prior to business taking place. The University's policy is to pay agreed invoices in accordance with the agreed terms of payment. At the year end the amount due to trade creditors was equivalent to 23 days of purchases from suppliers.

Pensions

The University participates in five pension schemes. The four major schemes are defined benefit schemes whilst the final scheme is a small defined contribution scheme. Two of the defined benefit schemes are multi-employer schemes where assets and liabilities related to individual employers are not separable. These are accounted for on a defined contribution basis. For the other two schemes, assets and liabilities pertaining to the University can be identified and they are accounted for on a defined benefits basis. Both of these schemes are in deficit under the terms of FRS17 and the University is closely monitoring the position with regard to these schemes. The issue of pension fund deficits continues to be one that affects the whole higher education sector.

The cost of standard contributions for the year was £20.0m, up from £17.1m in 2002/03, mainly driven by an increase at 1st August 2003 in the contribution rate from 7.4% per annum to 13.3% for the University of

OPERATING AND FINANCIAL REVIEW

For the year to the 31st July 2004

Edinburgh Staff Benefits Scheme. Additionally, provision was made for a further £1.0m towards closing the valuation shortfall in the University of Edinburgh Staff Benefits Scheme. Contribution rates for the University as employer vary from an effective 7.75% per annum to 14.4%.

Corporate Governance

The University is committed to exhibiting relevant best practice in corporate governance. The Corporate Governance Statement can be found on page 5.

Conclusion

In common with all others in the UK higher education sector, we have suffered in the past from the central funding policies for student and research activities. It is therefore pleasing to note that both the recent Scottish Executive Spending Review and the UK Government Spending Review for 2005 – 2008 are both proposing above inflation increases in funding for the sector.

Having had another successful year financially, the University is well placed to face the numerous challenges ahead and to enhance its reputation as a centre of excellence in research, teaching and learning, and knowledge transfer.

Mr A J Gavin
Convenor, Finance and General Purposes Committee.

CORPORATE GOVERNANCE STATEMENT

Introduction and Statement of Compliance

The University of Edinburgh is committed to exhibiting relevant best practice in 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, and to set out the basis for **the Court's opinion that the University has fully complied with that Code throughout the year ended 31 July 2004.**

Internal Control and Risk Management

The University Court (the University's governing body) is responsible for the University's system of internal control and is responsible for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit which include recommendations for improvement.

University management and governance has routinely included the identification, evaluation and management of significant risk. In 2003/04 the University consolidated and developed the risk management processes in the University. Reviews of all risks identified in the first University Risk Register were undertaken by the relevant risk owner and the outcomes were discussed and ratified by the Risk Management Committee; work on the College, Support Group and Subsidiary Risk Registers was reviewed by the Risk Management Committee; an 'in year' log of risks/incidents was maintained; an Assurance Map was prepared, identifying the sources of assurance that are available to enable a view to be taken on the University's management of its key risks; and the University Risk Register was updated in the light of all this work. The University Court formally adopted version two of the University Risk Register on 5 July 2004. 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 2003/04 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 13 December 2004 meeting, the Court had received the Audit Committee and Risk Management Committee reports for the year ended 31 July 2004 and took account of relevant events since 31 July 2004. The Court considers, on the recommendation of the Audit Committee, which has responsibility for advising it on the effectiveness of policies and procedures for risk assessment and risk management, that a risk management process wholly compliant with the guidance provided by the Combined Code, as amended by the British Universities Finance Directors Group, in so far as its provisions apply to the higher education sector, has been in place throughout the year ended 31 July 2004.

Reports 2003/2004

THE UNIVERSITY OF EDINBURGH

CORPORATE GOVERNANCE STATEMENT

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;
- 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. the Quality Assurance Agency for Higher Education, SHEFC).

Going concern

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

The role of the Court

By the Universities (Scotland) Act (1889), the University Court is a body corporate, with perpetual succession and a common seal. The present powers of the Court are defined in the Universities (Scotland) Act (1966) and include, inter alia, the amendment of the composition, powers and functions of bodies in the University and the creation of new bodies, the administration and management of the whole revenue and property of the University, internal arrangements of the University, appointments, review of decisions of Senatus and, on the recommendation of Senatus, the regulation of degrees, admission and discipline of students. The Court is responsible for the strategic development of the University, advised by the Principal in consultation with the Central Management Group. The University Court normally meets five or six 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

Reports 2003/2004

THE UNIVERSITY OF EDINBURGH

CORPORATE GOVERNANCE STATEMENT

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 six times a year.

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

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

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

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

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

The **Risk Management Committee** supports and advises the Central Management Group, and through it the University Court, on the implementation and monitoring of the University's risk management policy and strategy. It ensures that the identification and evaluation of key risks that threaten achievement of the University's objectives is carried out; that a register of these risks is maintained; that risks are being actively managed, with the appropriate strategies in place and working effectively; and contributes to raising awareness of risk

CORPORATE GOVERNANCE STATEMENT

generally across the University and to maintaining the profile of risk management. It is chaired by the Director of Corporate Services and includes a lay member of the Court amongst its membership and normally meets at least five times a year.

The **Health and Safety Committee** provides oversight and guidance to the University's Health and Safety Services department (which also includes Occupational Health, Occupational Hygiene Unit, Fire Safety and Radiation Protection functions) and advises the Court in regard to compliance with its statutory responsibilities in this area. It is chaired by the Director of Corporate Services 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 13. It is advised by the Risk Management Committee in regard to formulation and implementation of risk management policy. It reports through the Academic Policy Committee to Senatus and through the Finance and General Purposes Committee to Court. CMG is chaired by the Principal; it normally meets ten times each year.

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 the Convener. 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.

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

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), Dr T Dalyell
The Principal and Vice-Chancellor, Professor T M M O'Shea
The Chancellor's Assessor, Lord Cameron of Lochbroom

General Council Assessors

Mrs M Tait
Mrs C M Vaughan Griffiths (to 30/9/2003)
Mr R D D Bertram (to 30/9/2003)
Mr R O Blair (from 1/10/2003)
Mr G W T Scott (from 1/10/2003)

Senatus Academicus Assessors

Professor L A M Waterhouse
Professor I M L Donaldson (to 30/9/2003)
Dr L Collins
Dr S van Heyningen
Professor Y Suleiman (from 1/10/2003)

City of Edinburgh Council Assessor

Councillor Lesley Hinds

Co-opted Members

Dr D B B Smith (Vice-Convener) (to 30/9/2003)
Mr A J Gavin (Vice-Convener from 1/10/2003)
Miss E A Mackay (to 30/9/2003)
Dr J A Markland
Sir John Shaw (to 30/9/2003)
Ms S Macpherson
Professor A D Milne
Rt Hon Sir Malcolm Rifkind (from 1/10/2003)
Ms G Stewart (from 1/10/2003)
Mr I Darling (from 1/10/2003)
Mr G M Murray (from 1/10/2003)

Non-Teaching Staff Assessor

Ms M Jackson

Student Members

Mr W Garton (to 30/6/2004)
Ms S Nicholson to 30/6/2004)
Mr S Cockburn (from 1/7/2004)
Ms S Russo (from 1/7/2004)

Reports 2003/2004

THE UNIVERSITY OF EDINBURGH

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

Standing Committees of the University Court

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

Membership of the main committees of Court

Audit Committee

Convener: Dr J A Markland

Mr F H Hitchman
 Professor A D Milne
 Mr G M Murray (to 16/10/2003)
 Mr G W T Scott (from 1/10/2003)
 Mr J Stretton
 Mr D Bentley (from 16/2/2004)

Finance and General Purposes Committee

Convener: Dr D B B Smith (to 31/8/2003)

The Principal
 Senior Vice-Principal Professor M Anderson
 Mr A J Gavin (Convener from 1/9/2003)
 Miss E A Mackay (to 21/9/2003)
 Sir John Shaw (to 21/9/2003)
 Professor I M L Donaldson (to 30/9/2003)
 Mr M D Cornish, University Secretary
 Mr G O Sutherland, Director of Finance (to 30/6/2004)
 Mr W Garton (President of the Students Association) (to 30/6/2004)
 Mr S Cockburn (President of the Students Association) (from 1/7/2004)
 Ms S Macpherson (from 22/9/2003)
 Mr G M Murray (from 22/9/2003)
 Mrs M Tait (from 22/9/2003)
 Ms G Stewart (from 22/9/2003)
 Professor Y Suleiman (from 22/9/2003)

Reports 2003/2004

THE UNIVERSITY OF EDINBURGH

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

Nominations Committee

Convener: Dr D B B Smith (to 30/9/2003)

The Principal, Professor T M M O'Shea
 Professor L A M Waterhouse
 Miss E A Mackay (to 30/9/2003)
 Mr A J Gavin (Convener from 1/10/2003)
 Mr M D Cornish
 Dr J Markland (from 1/10/2003)
 Mr R O Blair (from 1/10/2003)

Remuneration Committee

Dr D B B Smith (Convener) (to 30/9/2003)
 Ms S Macpherson (from 7/7/2003)
 Mr A J Gavin (from 7/7/2003) (Convener from 1/10/2003)
 Mr J Stretton (from 1/10/2003)

In attendance: The Principal

Risk Management Committee

Convener: Mr N A L Paul

Mr F Gribben
 Mr L Golightley
 Dr D A Welch
 Mr M D Cornish
 Mr G O Sutherland (to 30/6/2004)
 Mr B A C Gilmore
 Dr S van Heyningen
 Mr I Darling (from 1/10/2003)
 Dr M Menlowe

In attendance: Mr H McKay, Chief Internal Auditor

Staff Committee

Convener: Professor L A M Waterhouse

Dr J Martin
 Ms S Eden
 Ms E C MacArthur
 Dr A Jarman
 Professor D R Ladd
 Mrs S Cannell
 Professor N A Seaton
 Ms R Arshad
 Dr J A Markland
 Mrs J Draper (to 1/12/2003)

Reports 2003/2004

THE UNIVERSITY OF EDINBURGH

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

Membership of the Central Management Group

Convener: Professor T M M O'Shea

Senior Vice-Principal Professor M Anderson
Vice-Principal Professor G S Boulton
Vice-Principal Professor G Kirk (to 23/09/03)
Vice-Principal Dr F D Dow (to 13/01/04)
Vice-Principal Ms H Hayes (from 23/09/03)
Vice Principal Professor M Bownes (from 13/01/04)
Vice-Principal Professor V Bruce
Vice-Principal Professor J Savill
Vice-Principal Professor G Bulfield
Assistant Principal Professor R D Kenway
Assistant Principal Dr S van Heyningen
Assistant Principal Dr D Dewhurst
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 20 to 46 which have been prepared in accordance with the accounting policies set out on page 17 to 19.

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 10, 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 (including the corporate governance statement) 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.

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

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 misstatements, 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.

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 2004 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
13 December 2004

Reports 2003/2004

THE UNIVERSITY OF EDINBURGH

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

Income from Specific Endowments is credited to Income and Expenditure on a realisable basis and any income in excess of that applied to the specific purposes is transferred to the accumulated income of those endowments funds and disclosed in the Balance Sheet. This represents a change to the presentation of specific endowment income in line with the new SORP and the 2003 comparative figures have been restated for consistency. This change has no impact on the retained surplus or reserves reported in the financial statements.

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 is 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 has complied with the requirements of FRS 15, Tangible Fixed Assets, through an interim review of the above valuations within the required five-year cycle specified by the reporting standard. The interim valuation of land and buildings held by the University at 1 August 2002 was also performed by Messrs Gerard Eve, Chartered Surveyors.

STATEMENT OF ACCOUNTING POLICIES

5 Land and Buildings (continued)

Additions since 1 August 2002 are shown at cost. Depreciation on buildings has been provided on a straight-line basis using an assessment of the remaining useful life of each building. No depreciation is provided on land.

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

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

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. All University 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.

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

7 Investments

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

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 re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

STATEMENT OF ACCOUNTING POLICIES

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.

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 2004

	Note	2004 £ 000's	2003 £ 000's
INCOME			
Funding council grants	1	125,498	122,046
Tuition fees and education contracts	2	53,563	47,367
Research grants and contracts	3	102,827	96,861
Other income	4	79,021	72,671
Endowment and Investment income	5	8,182	7,882
Total Income		369,091	346,827
EXPENDITURE			
Staff costs	6	206,759	193,419
Other operating expenses	8	136,201	130,876
Depreciation	12	19,047	16,135
Interest payable	9	4,674	4,712
Total Expenditure		366,681	345,142
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION			
		2,410	1,685
Gains on Disposal of Properties (Exceptional item in 2003)	12	665	12,436
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION			
		3,075	14,121
Taxation	10	(4)	(5)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAXATION AND BEFORE MINORITY INTEREST			
		3,071	14,116
Minority Interest		15	13
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST			
		3,086	14,129
Transfers (to)/from accumulated income within specific endowment asset investments		(717)	27
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES			
	11	2,369	14,156

The notes on pages 25-46 form part of the Financial Statements

GROUP STATEMENT OF HISTORIC COST SURPLUSES AND DEFICITS
For the year ended 31 July 2004

	Note	2004 £ 000's	2003 £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		2,410	1,685
Gain On Disposal of Properties in the year	12	665	12,436
Realisation of revaluation gains of previous years	23	475	8,235
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	23	5,540	4,241
HISTORICAL COST SURPLUS BEFORE TAXATION		<u>9,090</u>	<u>26,597</u>
HISTORICAL COST SURPLUS AFTER TAXATION, MINORITY INTEREST AND TRANSFERS TO/FROM SPECIFIC ENDOWMENT ASSET INVESTMENTS		<u>8,384</u>	<u>26,632</u>

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 July 2004

	Note	2004 £ 000's	2003 £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		3,086	14,129
Appreciation/(Depreciation) on endowment asset investments	14	6,803	3,510
New endowments net of return to benefactor	21	2,262	317
Unrealised surplus on revaluation of tangible fixed assets	22	116,395	-
TOTAL GAINS RECOGNISED DURING THE CURRENT YEAR		<u>128,546</u>	<u>17,956</u>
Reconciliation:			
Opening reserves and endowments at 1 August 2003		571,177	
Total recognised gains for the year		<u>128,546</u>	
Closing reserves and endowments at 31 July 2004		<u>699,723</u>	

Financial Statements 2003/2004

THE UNIVERSITY OF EDINBURGH

BALANCE SHEETS
As at 31 July 2004

	Note	Group		University	
		2004 £ 000's	2003 £ 000's	2004 £ 000's	2003 £ 000's
FIXED ASSETS					
Tangible assets	12	736,715	602,038	729,943	598,557
Investments	13	175	179	5,560	1,271
		<u>736,890</u>	<u>602,217</u>	<u>735,503</u>	<u>599,828</u>
ENDOWMENT ASSET INVESTMENTS	14	<u>155,649</u>	<u>145,867</u>	<u>155,649</u>	<u>145,867</u>
CURRENT ASSETS					
Stocks and stores in hand		1,746	1,966	1,057	1,280
Debtors	15	65,657	61,804	68,703	68,908
Debtors receivable after more than one year	15	–	5,153	–	5,153
Assets held for resale	33	1,110	3,130	1,110	3,130
Investments: Bank deposits	29	52,192	37,515	47,583	32,572
Cash at bank and in hand	29	17,259	18,248	14,076	14,486
		<u>137,964</u>	<u>127,816</u>	<u>132,529</u>	<u>125,529</u>
CREDITORS: Amounts falling due within one year	16	(89,427)	(81,709)	(84,133)	(77,909)
NET CURRENT ASSETS		<u>48,537</u>	<u>46,107</u>	<u>48,396</u>	<u>47,620</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		941,076	794,191	939,548	793,315
CREDITORS: Amounts falling due after more than one year	17	(61,649)	(63,296)	(61,649)	(63,296)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(10,207)	(10,178)	(10,207)	(10,178)
TOTAL NET ASSETS		<u>869,220</u>	<u>720,717</u>	<u>867,692</u>	<u>719,841</u>

BALANCE SHEETS
As at 31 July 2004

Represented by:	Note	Group		University	
		2004 £ 000's	2003 £ 000's	2004 £ 000's	2003 £ 000's
DEFERRED CAPITAL GRANTS	20	169,482	149,510	167,789	149,475
ENDOWMENTS					
Specific	21	152,666	143,021	152,666	143,021
General	21	2,983	2,846	2,983	2,846
		<u>155,649</u>	<u>145,867</u>	<u>155,649</u>	<u>145,867</u>
RESERVES					
Revaluation reserve	22	402,444	292,064	402,444	292,064
General reserves	23	141,630	133,246	141,810	132,435
		<u>544,074</u>	<u>425,310</u>	<u>544,254</u>	<u>424,499</u>
MINORITY INTERESTS		15	30	–	–
TOTAL FUNDS		<u>869,220</u>	<u>720,717</u>	<u>867,692</u>	<u>719,841</u>

The financial statements on pages 17 to 46 were adopted by Court on 13 December 2004 and were signed on its behalf by:

Professor Timothy O'Shea Principal

A J Gavin Member of the University Court

D C I Montgomery Acting Director of Finance

Financial Statements 2003/2004

THE UNIVERSITY OF EDINBURGH

GROUP CASH FLOW STATEMENT
For the year ended 31 July 2004

	Note	2004 £ 000's	2003 £ 000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	24	11,337	4,818
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	25	4,263	3,538
TAXATION	10	(4)	(5)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	26	(2,620)	(8,272)
MANAGEMENT OF LIQUID RESOURCES	27	(14,677)	8,607
FINANCING	28	(1,113)	2,400
INCREASE/(DECREASE) IN CASH IN THE PERIOD	29	<u>(2,814)</u>	<u>11,086</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)			
Increase/(Decrease) in cash in the period		(2,814)	11,086
Cash outflow/(inflow) from increase in liquid resources	27	14,677	(8,607)
Change in net debt resulting from cashflows	29	<u>1,113</u>	<u>(2,400)</u>
Movement in net funds for the period	29	12,976	79
Net (debt)/funds at start of year	29	(7,892)	(7,971)
Net funds/(debt) at close of year	29	<u>5,084</u>	<u>(7,892)</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

	2004 £ 000's	2003 £ 000's
1 FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	73,274	70,413
Research	38,848	37,527
Specific grants		
Information systems	2,399	2,284
Other	9,281	10,161
Deferred capital grants released in year		
Buildings (note 20)	1,155	1,176
Equipment (note 20)	541	485
	<u>125,498</u>	<u>122,046</u>
2 TUITION FEES AND EDUCATION CONTRACTS		
UK and EU Higher Education Students	26,760	23,998
Full-time students charged overseas fees	21,976	18,195
Research training support grants	1,072	930
Short course and other fees and support grants	3,755	4,244
	<u>53,563</u>	<u>47,367</u>
3 RESEARCH GRANTS AND CONTRACTS		
Grants		
Research councils	34,835	30,822
UK based charities	28,003	26,723
UK central government bodies, local and health authorities	21,547	21,002
UK industry, commerce and public corporations	5,771	6,476
EU government bodies	6,693	5,993
EU other	328	312
Other overseas	3,564	3,151
Other sources	2,086	2,382
	<u>102,827</u>	<u>96,861</u>
Deferred capital grants:		
Research income of £6,158,510 (2003 – £4,798,000) 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 (see note 20) of £6,672,000 (2003 – £5,308,000).		
4 OTHER INCOME		
Residences, Catering and Conferences	22,594	19,678
Other services rendered	42,074	35,407
Health Authorities	727	756
Released from/ (reversed to) deferred capital grants		
Buildings (note 20)	(150)	1,091
Equipment (note 20)	516	304
Other Income	13,260	15,435
	<u>79,021</u>	<u>72,671</u>

Deferred capital grants in the year include a reversal of £1,125,000 in respect of the revaluation of certain properties. Revaluation deficits had been charged to expenditure in prior years. The reversal of these deficits arising from the latest revaluation has been credited to expenditure in the year.

Financial Statements 2003/2004

THE UNIVERSITY OF EDINBURGH

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

	2004 £ 000's	2003 £ 000's
5 ENDOWMENT AND INVESTMENT INCOME		
Specific endowment income	5,877	5,712
General endowment income	116	118
Other interest receivable	2,189	2,052
	<u>8,182</u>	<u>7,882</u>
	2004 Number	2003 Number
6 STAFF		
Staff numbers (expressed as full time equivalents) were as follows :		
Senior management team	8	7
Academic and related support staff	2,669	2,603
Research grants & contracts	1,517	1,480
Library, computer and other academic support services	492	467
Administration and central services	471	460
Premises	552	580
Other including income generating operations	72	68
Residences and catering operations	362	394
	<u>6,143</u>	<u>6,059</u>
Staff numbers (expressed as an employee count) were as follows :		
Staff on open ended contracts	4,649	4,588
Staff on fixed term contract	2,366	2,357
	<u>7,015</u>	<u>6,945</u>
Percentage of Employees on Fixed Term Contracts	<u>33.7%</u>	<u>33.9%</u>
	2004 £ 000's	2003 £ 000's
Staff cost analysis of above persons:		
Senior management team	1,090	883
Academic and related support staff	105,733	99,391
Research grants and contracts	49,694	46,249
Library, computer and other academic support services	13,687	13,137
Administration and central services	13,977	13,683
Premises	11,051	9,964
Other including income generating operations	2,717	2,174
Residences and catering operations	6,614	5,988
Unfunded pensions	2,196	1,950
	<u>206,759</u>	<u>193,419</u>

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

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

6 STAFF (continued)

	2004 £ 000's	2003 £ 000's
Staff cost analysis by type:		
Salaries and Wages	170,150	160,889
Social security costs	13,899	12,122
Funded pension costs (note 30)	19,965	17,061
Severance costs and unfunded pensions	2,745	3,347
	206,759	193,419

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:

	2004 Number	2003 Number
£50,000 - £59,999	144	138
£60,000 - £69,999	69	79
£70,000 - £79,999	63	37
£80,000 - £89,999	26	19
£90,000 - £99,999	17	20
£100,000 - £109,999	16	5
£110,000 - £119,999	3	14
£120,000 - £129,999	12	3
£130,000 - £139,999	5	7
£140,000 - £149,999	9	-
£150,000 - £159,000	-	1
£170,000 - £179,999	1	-
	365	323

Emoluments of the Principal:

Lord Sutherland of Houndwood – retired 30 September 2002

Professor O'Shea – appointed 1 October 2002

	2004 £ 000's	2003 £ 000's
Lord Sutherland of Houndwood – retired 30 September 2002	-	28
Professor O'Shea – appointed 1 October 2002	171	134
	171	162

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 £14,000 for Professor O'Shea (2003 – £11,424 for Professor O'Shea and £3,886 for Lord Sutherland).

	2004 £ 000's	2003 £ 000's
Compensation for loss of office paid to senior members of staff earning in excess of £70,000 per annum or whose compensation arrangement exceeded £75,000:		
Payments to USS for enhanced pension benefits	109	130
Other payments in respect of loss of office	90	-
	199	130

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

	2004 £ 000's	2003 £ 000's
8 OTHER OPERATING EXPENSES		
Equipment and furniture not capitalised	20,551	18,030
Operating Lease Rentals	7,347	5,489
Residences, catering and conferences operating expenses	10,138	9,824
Repairs and general maintenance	18,042	20,410
Heat, light, water and power	5,298	5,074
Other premises costs	7,589	4,459
Printing, stationery and office expenses	3,671	3,386
Computer software and supplies	1,244	1,014
Consumables and laboratory expenditure	3,422	3,339
Contributions to other bodies	3,270	2,924
Travel, subsistence and accommodation	4,647	4,577
Research travel	3,771	3,641
Books and periodicals	1,771	2,521
Lecturers' fees and student demonstrators	2,061	1,891
Postgraduate studentships and other assistance	3,852	3,083
Fellowships, scholarships and prizes	1,987	2,089
Grants to University of Edinburgh Students' Association	1,667	1,587
Fees charged by External Auditors		
Audit	60	61
Non-Audit Services	11	–
Bad debt provision	723	574
Other services	340	118
Other research expenses	25,990	25,460
Other expenses	8,749	11,325
	<u>136,201</u>	<u>130,876</u>
9 INTEREST PAYABLE		
Bank and other loans	4,355	4,450
Finance leases	319	262
	<u>4,674</u>	<u>4,712</u>
10 TAXATION		
UK corporation tax charge on subsidiaries' profits	4	5
11 SURPLUS FOR THE YEAR		
The Group surplus for the period is made up as follows:		
University's surplus for the period excluding surpluses paid under Gift Aid to the University by subsidiaries	2,509	12,684
(Deficit)/Surplus generated by subsidiary undertakings	(140)	1,472
Total	<u>2,369</u>	<u>14,156</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

12 TANGIBLE ASSETS

Group

	Land and Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
<u>Cost or valuation</u>				
As at 1 August 2003	585,969	37,791	50,689	674,449
Revaluation Adjustment	94,405	–	–	94,405
Additions at cost	24,730	–	10,762	35,492
Reclassification	9,737	(9,737)	–	–
Disposals	(481)	–	–	(481)
As at 31 July 2004	<u>714,360</u>	<u>28,054</u>	<u>61,451</u>	<u>803,865</u>
<u>Depreciation</u>				
As at 1 August 2003	36,946	–	35,465	72,411
Written back on Revaluation	(21,990)	–	–	(21,990)
Net (reversal of)/charge for impairment of Fixed Assets	(2,302)	–	–	(2,302)
Charge for the year	10,625	–	8,422	19,047
Disposals	(5)	–	(11)	(16)
As at 31 July 2004	<u>23,274</u>	<u>–</u>	<u>43,876</u>	<u>67,150</u>
<u>Net book value</u>				
As at 31 July 2004	<u>691,086</u>	<u>28,054</u>	<u>17,575</u>	<u>736,715</u>
As at 31 July 2003	<u>549,023</u>	<u>37,791</u>	<u>15,224</u>	<u>602,038</u>

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

Under the requirement of FRS 15 Tangible Fixed Assets, an interim revaluation of Land and Buildings was performed by Messrs Gerald Eve, Chartered Surveyors as at 1st August 2002 and has been reflected in these accounts. Because of their specialised nature the majority of the buildings were revalued on the Depreciated Replacement Cost basis. Certain other buildings, mainly residential accommodation, retail properties and land, were valued on existing use or open market bases as appropriate. The revaluation led to a write back of depreciation provided since 2000 of £21,990,000 in addition to an adjustment to the costs and valuations at which the buildings were previously stated of £94,405,000. This represented a net increase in the book value of land and buildings held at 1st August 2002 of £116,395,000 (see note 22).

Gains on disposals of fixed assets amounted to £665,000 (2003 – £12,436,000 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).

Land and buildings with a net book value of £88,515,000 (2003 – £78,730,000) 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.

Financial Statements 2003/2004

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

12 TANGIBLE ASSETS (continued)

University	Land and Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
<u>Cost or valuation</u>				
As at 1 August 2003	585,965	37,791	47,012	670,768
Revaluation Adjustment	94,405			94,405
Additions at cost	24,730	–	6,962	31,692
Reclassification	9,737	(9,737)	–	–
Disposals	(477)	–	–	(477)
As at 31 July 2004	<u>714,360</u>	<u>28,054</u>	<u>53,974</u>	<u>796,388</u>
<u>Depreciation</u>				
As at 1 August 2003	36,945	–	35,266	72,211
Written back on Revaluation	(21,990)			(21,990)
Net (reversal of)/charge for impairment of Fixed Assets	(2,302)	–	–	(2,302)
Charge for the year	10,625	–	7,905	18,530
Disposals	(4)	–	–	(4)
As at 31 July 2004	<u>23,274</u>	<u>–</u>	<u>43,171</u>	<u>66,445</u>
<u>Net book value</u>				
As at 31 July 2004	<u>691,086</u>	<u>28,054</u>	<u>10,803</u>	<u>729,943</u>
As at 31 July 2003	<u>549,020</u>	<u>37,791</u>	<u>11,746</u>	<u>598,557</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 £3,373,000 (2003- £1,708,000) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £42,000 (2003 - £23,000).

Net book value historical cost equivalent

	Group		University	
	2004 £ 000's	2003 £ 000's	2004 £ 000's	2003 £ 000's
Land and buildings	332,214	295,848	332,214	295,848
Equipment	17,575	15,224	10,803	11,746
	<u>349,789</u>	<u>311,072</u>	<u>343,017</u>	<u>307,594</u>

The group depreciation charge has been matched by:

	Group	
	2004 £ 000's	2003 £ 000's
Deferred capital grants released (note 20)	8,733	8,100
Revaluation reserve transferred to general reserves (note 22)	5,540	4,241
Earnings in subsidiaries	517	43
General income	4,257	3,751
	<u>19,047</u>	<u>16,135</u>

Financial Statements 2003/2004

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

	Group		University	
	2004 £ 000's	2003 £ 000's	2004 £ 000's	2003 £ 000's
13 INVESTMENTS				
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	5,113	824
Other investments	175	179	89	89
	<u>175</u>	<u>179</u>	<u>5,560</u>	<u>1,271</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.

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 issued 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-subsidiary” 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 issued share capital of 1 ordinary share of £1.

UoE 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 share of £1.

The Group and University have also acquired in excess of 20% of the issued share 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 2004

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
14 ENDOWMENT ASSETS			
As at 1 August 2003	143,021	2,846	145,867
Additions (note 26)	5,388	–	5,388
Disposals (note 26)	(584)	–	(584)
Appreciation on realisation and revaluation	6,666	137	6,803
Decrease in cash balances held by University	(1,825)	–	(1,825)
	<u>152,666</u>	<u>2,983</u>	<u>155,649</u>
As at 31 July 2004			
		Group and University	
		2004	2003
		£ 000's	£ 000's
Endowment asset investments are comprised of:			
Fixed interest stocks		36,343	37,730
Equities		116,966	106,179
Bank deposits held at fund managers		3,604	1,397
(Overdraft)/Cash balance held by University (note 29)		(1,264)	561
Total endowment asset investments - Market Values		<u>155,649</u>	<u>145,867</u>
Endowment Assets – at Cost		<u>139,816</u>	<u>134,155</u>
		Group	University
	2004	2003	2004
	£ 000's	£ 000's	£ 000's
15 DEBTORS			
Amounts falling due within one year			
Debtors	62,838	56,530	60,062
Amounts owing from subsidiary companies	–	–	6,285
Prepayments	<u>2,819</u>	<u>5,274</u>	<u>2,356</u>
	<u>65,657</u>	<u>61,804</u>	<u>68,908</u>
			Group and University
			2004
			2003
			£ 000's
DEBTORS			£ 000's
Amounts receivable after more than one year			<u>–</u>
			<u>5,153</u>

The final portion of the proceeds arising from the disposal of the Cramona campus is due in 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 2004

	Group		University	
	2004 £ 000's	2003 £ 000's	2004 £ 000's	2003 £ 000's
16 CREDITORS:				
Amounts falling due within one year				
Unsecured loans (note 18)	1,040	538	1,040	538
Secured loans (note 18)	398	365	398	365
Finance lease (note 18)	16	17	16	17
Creditors	22,366	18,947	19,431	17,922
Amounts owing to subsidiary companies	–	–	4,720	3,789
Social security and other taxation payable	4,722	4,456	4,644	4,413
Accruals and deferred income	60,885	57,386	53,884	50,865
	89,427	81,709	84,133	77,909
			Group and University	
			2004	2003
			£ 000's	£ 000's
17 CREDITORS:				
Amounts falling due after more than one year				
Bank loans (note 18)			59,449	61,062
Obligations under finance leases (note 18)			2,200	2,234
			61,649	63,296
18 BORROWINGS			Group and University	
			2004	2003
			£ 000's	£ 000's
Bank loans				
Instalments are repayable as follows:				
Unsecured loans repayable in one year or less			1,040	538
Secured loans repayable in one year or less			398	365
Unsecured loans repayable between two and five years			4,637	2,273
Unsecured loans repayable after five years			47,462	51,042
Secured loan repayable between two and five years			1,984	1,820
Secured loan repayable after five years			5,366	5,927
			60,887	61,965
Less: falling due within one year (note 16)			1,438	903
Total bank loans (note 17)			59,449	61,062

The University has unsecured loans with interest charged at 9.6%, 8.9% and 5.5% fixed p.a. and secured loans with interest charged at 8.7% fixed p.a. These loans are repayable over various terms with repayments falling due between 1st August 2004 and 31 July 2017.

The University also has 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.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

18 BORROWINGS (Continued)

Finance leases	Group and University	
	2004	2003
	£ 000's	£ 000's
Obligations under finance leases fall due as follows:		
In one year	16	17
Between two and five years	183	140
After five years	2,017	2,077
	<u>2,216</u>	<u>2,234</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 2003	1,000	8,822	356	10,178
Utilised in year	(1,000)	(690)	–	(1,690)
Transfer from income and expenditure account	1,000	719	–	1,719
As at 31 July 2004	<u>1,000</u>	<u>8,851</u>	<u>356</u>	<u>10,207</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 (2003 – £1,000,000) during the year.

The University has a liability of £6,640,000 (2003 – £6,522,000) for pensions payable to former members of Moray House staff who have taken early retirement. A further liability of £2,211,000 (2003 – £21,182,000) arises in respect of the supplementation of FSSU and State pensions granted to former members of the University staff. These liabilities have been recognised to meet the requirements of Financial Reporting Standard 17.

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 met the full cost of additional employer's contributions in the Financial Statements for the year to 31 July 2004.

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 2004

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 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>
Capital expenditure during the year				
Buildings	10,940	9,253	–	20,193
Equipment	336	2,019	6,158	8,513
	<u>11,276</u>	<u>11,272</u>	<u>6,158</u>	<u>28,706</u>
Released to income and expenditure account				
Buildings	1,154	(150)	–	1,004
Equipment	541	516	6,672	7,729
	<u>1,695</u>	<u>366</u>	<u>6,672</u>	<u>8,733</u>
Disposal of Buildings	1	–	–	1
	<u>1,696</u>	<u>366</u>	<u>6,672</u>	<u>8,734</u>
As at 31 July 2004				
Land	103	170	–	273
Buildings	88,412	68,751	–	157,163
Equipment	780	2,288	8,978	12,046
	<u>89,295</u>	<u>71,209</u>	<u>8,978</u>	<u>169,482</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 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>
Capital expenditure during the year				
Buildings	10,940	9,253	–	20,193
Equipment	336	173	6,158	6,667
	<u>11,276</u>	<u>9,426</u>	<u>6,158</u>	<u>26,860</u>
Released to income and expenditure account				
Buildings	1,154	(150)	–	1,004
Equipment	541	328	6,672	7,541
	<u>1,695</u>	<u>178</u>	<u>6,672</u>	<u>8,545</u>
Disposal of Buildings	1	–	–	1
	<u>1,696</u>	<u>178</u>	<u>6,672</u>	<u>8,546</u>
As at 31 July 2004				
Land	103	170	–	273
Buildings	88,412	68,751	–	157,163
Equipment	780	595	8,978	10,353
	<u>89,295</u>	<u>69,516</u>	<u>8,978</u>	<u>167,789</u>

Other building grants released have been reduced by an exceptional reversal of £1,366,000 in respect of grants released to income in prior years. This matches the revaluation of the related building asset and the reversal of impairments charged to expenditure in prior years.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

21 ENDOWMENT FUNDS

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
As at 1 August 2003	143,021	2,846	145,867
Additions	2,262	–	2,262
Appreciation on realisation and revaluation	6,666	137	6,803
Income for the year	6,382	126	6,508
Expenditure for the year	(5,160)	(116)	(5,276)
Administration fee	(505)	(10)	(515)
As at 31 July 2004	<u>152,666</u>	<u>2,983</u>	<u>155,649</u>
		2004	2003
		£ 000's	£ 000's
Representing:			
Prizes and scholarship funds		69,396	64,564
Chairs and lectureship funds		41,945	38,798
Other funds		41,325	39,659
General purposes		2,983	2,846
		<u>155,649</u>	<u>145,867</u>

22 REVALUATION RESERVE

	Group and University
	Total £ 000's
As at 1 August 2003	292,064
Revaluation during the year (note 12)	116,395
Transfer to general reserve – depreciation on revalued assets (note 23)	(5,540)
Disposals in the year (note 23)	(475)
As at 31 July 2004	<u>402,444</u>

23 MOVEMENT ON GENERAL RESERVES

	Group and University	
	Group £ 000's	University £ 000's
As at 1 August 2003	133,246	132,435
Surplus attributable to the year	2,369	3,360
Transfer from revaluation reserve- depreciation on revalued assets (note 22)	5,540	5,540
Realisation of revaluation gains of previous years (note 22)	475	475
Balance at 31 July 2004	<u>141,630</u>	<u>141,810</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

24 RECONCILIATION OF CONSOLIDATED DEFICIT BEFORE TAX
 TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 £ 000's	2003 £ 000's
SURPLUS BEFORE TAX AND MINORITY INTEREST	2,358	14,148
Depreciation (note 12)	19,047	16,135
Impairment of Fixed Assets (note 12)	(2,302)	–
Deferred capital grants released to income (note 20)	(8,734)	(8,364)
Endowment expenditure (note 21)	(5,276)	(5,857)
Endowment administration fees (note 21)	(515)	(518)
Profit on disposal of fixed assets	(665)	(12,436)
Interest payable (note 9)	4,674	4,712
(Increase)/Decrease in stocks	220	(276)
Increase in debtors	(1,505)	(6,258)
Increase in accruals and deferred income	2,516	2,676
Increase/(Decrease) in creditors	3,679	1,908
Increase in provisions (note 19)	29	1,000
Interest receivable (note 5)	(2,189)	(2,052)
NET CASH INFLOW FROM OPERATING ACTIVITIES	11,337	4,818

25 RETURN ON INVESTMENT & SERVICING OF FINANCE

Endowment funds dividends and interest received	6,769	6,271
Interest received	2,192	2,052
Interest paid	(4,362)	(4,475)
Finance lease interest paid	(336)	(310)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	4,263	3,538

26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchases of tangible assets	(34,484)	(34,135)
Proceeds from sale of tangible assets	5,700	10,440
Proceeds from sale of investments	–	193
Deferred capital grants received - Funding councils and research equipment	17,434	11,247
Deferred capital grants received - Other capital benefactions	11,272	4,097
Purchase of Endowment investment assets (note 14)	(5,388)	(2,094)
Disposal of Endowment investment assets (note 14)	584	1,663
New Endowments received (note 21)	2,262	1,319
Endowment returned to benefactor (note 21)	–	(1,002)
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(2,620)	(8,272)

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

	2004 £ 000's	2003 £ 000's		
27 MANAGEMENT OF LIQUID RESOURCES				
(Increase)/Decrease in deposits	(14,677)	8,607		
 NET CASH (OUTFLOW)/INFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	 <u>(14,677)</u>	 <u>8,607</u>		
28 FINANCING				
New loan principal	–	3,200		
Loan repayments	(1,096)	(800)		
Capital repayment of finance lease obligations	(17)	–		
 NET CASH (OUTFLOW)/INFLOW FROM FINANCING	 <u>(1,113)</u>	 <u>2,400</u>		
29 ANALYSIS OF NET (DEBT)/FUNDS				
	As at 1 August 2003 £ 000's	Cashflows £ 000's	Other Changes £ 000's	As at 31 July 2004 £ 000's
Cash in hand and at bank	18,248	(989)	–	17,259
Endowment asset investments:				
Cash / (Overdraft) balance held by University	561	(1,825)	–	(1,264)
Total cash in hand and at bank	18,809	(2,814)	–	15,995
 Debt due within 1 year	(920)	903	(1,421)	(1,438)
Debt due after 1 year	(61,062)	193	1,420	(59,449)
Finance leases	(2,234)	17	1	(2,216)
Current asset investments:				
Bank deposits	37,515	14,677	–	52,192
 Total	 <u>(7,892)</u>	 <u>12,976</u>	 <u>–</u>	 <u>5,084</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

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 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 measures at the last valuation date:

Total market value of assets	<u>£million</u> 19,938
Present value of scheme past service liabilities	19,776
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.

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.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

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

	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
Total pension cost for the University in relation to USS	14,824	14,041	13,022
Outstanding contributions at the balance sheet date	1,900	1,827	1,688

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 March 2003 and updated to 31 July 2004 by a qualified independent actuary.

The major assumptions used by the actuary at 31 July 2004 were as follows:

Rate of increase in salaries	4.35%
Rate of increase in pensions in payment	2.85%
Discount Rate	5.75%
Inflation assumption	2.85%

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

	Long term rate of return	Value at 31 July 2004 £ million	Long term rate of return	Value at 31 July 2003 £ million	Long term rate of return	Value at 31 July 2002 £ million
Equities	8.75%	117.0	8.50%	103.9	8.50%	92.7
Bond	5.00%	10.6	5.00%	12.2	5.00%	15.7
Property	6.75%	2.1	6.25%	1.9	6.25%	2.5
Other – Mainly Cash	5.00%	3.9	5.00%	3.7	5.00%	3.8
		<u>133.6</u>		<u>121.7</u>		<u>114.7</u>

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.

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

	Value at 31 July 2004 £ millions	Value at 31 July 2003 £ millions	Value at 31 July 2002 £ millions
Total market value of assets	133.6	121.7	114.7
Present value of scheme liabilities	<u>167.9</u>	<u>147.4</u>	<u>138.0</u>
Deficit in the scheme – net pension liability	<u>(34.3)</u>	<u>(25.7)</u>	<u>(23.3)</u>

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

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

	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
Total pension cost for the University in relation to EUSBS	4,339	2,329	2,251
Outstanding contributions at the balance sheet date	–	363	–

The University provided a further sum of £1.0m under the requirements of SSAP24 Accounting for Pension Costs in respect of the funding shortfall in the Scheme.

The contribution rate payable by the University is 13.3% of pensionable salary.

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 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 next full report on the actuarial valuation of the STSS 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:

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 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
Total pension cost for the University in relation to STSS	355	245	251
Outstanding contributions at the balance sheet date	–	20	–

During the year, the employers contribution increased from 7.4% of pensionable salary to 12.5% 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.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

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 former staff members of Moray House, 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 2004; 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 2004 does not introduce any material distortion in the results, provided that the actual experience of the Fund has been broadly in line with their assumptions.

The major assumptions used by the actuary at 31 July 2004 were as follows:

Rate of increase of salaries	4.4%
Rate of increase in pensions in payment	2.9%
Discount rate	5.8%
Inflation assumption	2.9%

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

	Long term rate of return	Value at 31 July 2004 £ million	Long term rate of return	Value at 31 July 2003 £ million	Long term rate of return	Value at 31 July 2002 £ million
Equities	7.9%	4,414.0	8.0%	4,219.2	8.0%	4,171.0
Bonds	5.4%	875.0	5.0%	563.5	5.5%	618.0
Property	6.7%	567.0	6.0%	594.4	6.0%	583.0
Other – Mainly Cash	4.5%	230.0	3.5%	143.4	4.0%	198.0
		6,086.0		5,520.5		5,570.0

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.210% (2003: 0.210%).

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 2004.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

d) Strathclyde Pension Fund (SPF) (continued)

The following amounts at 31 July 2004 with regard to the University were measured in accordance with the requirements of FRS 17:

	Value at 31 July 2004 £ 000's	Value at 31 July 2003 £ 000's	Value at 31 July 2002 £ 000's
Total market value of assets	12,790	11,570	12,840
Present value of scheme liabilities	16,263	15,250	15,050
Deficit in the scheme – net pension liability	(3,473)	(3,680)	(2,210)
	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
The total pension cost for the University in relation to SPF	264	271	267
Outstanding contributions at the balance sheet date	–	22	–

The contribution rate payable by the University increased from 13.8% to 14.4% of pensionable salary from 1st April 2004. A further increase to 15% of pensionable salary is planned to take place from 1st April 2005.

e) The Federated Superannuation Scheme for Universities (FSSU)

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

	Year to 31 July 2004 £ 000's	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	13	17
Outstanding contributions at the balance sheet date	4	4	4

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

	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
Total pension cost for University in relation to other schemes	170	162	74

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

	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
USS	14,824	14,041	13,022
SBS	4,339	2,329	2,251
STSS	355	245	251
SPF	264	271	267
FSSU	13	13	17
Other	170	162	74
	19,965	17,061	15,882

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

f) Contributions to other pension arrangements by subsidiaries of the University (continued)

	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
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	263	249	236
Payment to retired members in respect of the FSSU Supplementation scheme	26	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 2004 would be as follows:

	31 July 2004 £ 000's	31 July 2003 £ 000's	31 July 2002 £ 000's
Net assets excluding FRS17 pension liability*	870,220	721,717	695,624
Net Pension Liabilities: EUSBS	(34,300)	(25,700)	(23,301)
Strathclyde Pension Fund	(3,473)	(3,680)	(2,210)
Net assets including FRS17 pension liabilities	832,447	692,337	670,113
Income and Expenditure reserves excluding FRS17 pension liability*	142,630	134,246	106,614
Net Pension liabilities: EUSBS	(34,300)	(25,700)	(23,301)
Strathclyde Pension Fund	(3,473)	(3,680)	(2,210)
Income and Expenditure reserve including FRS17 pension liability	104,857	104,866	81,103

*Amounts exclude SSAP24 provision in respect of EUSBS underfunding included within University balance sheet.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

Financial Statements Impact (continued)

The following amounts would have been recognised in the University's Income and Expenditure account in the year to 31 July 2004.

	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's	Year to 31 July 2002 £ 000's
Operating surplus:			
Current Service Cost	5,755	5,980	5,554
Past Service Cost	892	–	24
Curtailment and Settlements	–	–	45
Total charge to operating surplus	<u>6,647</u>	<u>5,980</u>	<u>5,623</u>
Other finance income:			
Expected return on scheme assets	(10,158)	(9,950)	(11,086)
Interest on pension scheme liabilities	8,846	8,690	8,300
Net charge to finance income	<u>(1,312)</u>	<u>(1,260)</u>	<u>(2,786)</u>
Net charge to Income and Expenditure	<u>5,335</u>	<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	620	(1,740)	(38,147)
Experience gains and losses arising on scheme liabilities	(373)	2,730	1,014
Changes in assumptions underlying the present value of scheme liabilities	(9,420)	(2,720)	197
Actuarial loss recognised in the STRGL	<u>(9,173)</u>	<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 2003	(29,370)	(25,510)	11,746
Current Service Costs	(5,755)	(5,980)	(5,554)
Contributions	6,105	2,590	2,497
Past Service Costs	(892)	–	(24)
Impact of Curtailment and Settlements	–	–	(25)
Other finance income (net return on assets)	1,312	1,260	2,786
Actuarial loss	(9,173)	(1,730)	(36,936)
Deficit in the schemes at 31 July 2004	<u>(37,773)</u>	<u>(29,370)</u>	<u>(25,510)</u>
Details of experience gains and losses for the year to 31 July 2004:			
Difference between the expected and actual return on assets:			
Amount £000's	620	(1,740)	(38,147)
Percentage of scheme assets	0.4%	1.3%	29.9%
Experience gains and losses on scheme liabilities:			
Amount £000's	(373)	2,730	1,014
Percentage of scheme liabilities	0.2%	1.7%	0.7%
Total Amount recognised in STRGL:			
Amount £000's	(9,173)	(1,730)	(36,936)
Percentage of scheme liabilities	5.0%	1.1%	24.1%

Financial Statements 2003/2004

THE UNIVERSITY OF EDINBURGH

NOTES TO THE ACCOUNTS
For the year ended 31 July 2004

31 CAPITAL COMMITMENTS

	Group and University	
	2004	2003
	£ 000's	£ 000's
Commitments contracted for at 31 July	64,131	60,398

Of the above commitments, £42,966,000 (2003 – £54,066,000) will be funded through grants and benefactions.

32 CONTINGENT LIABILITIES

The sale of Cramond campus was completed during the year ended 31 July 2003. Under the terms of the sale agreement with AMA (Cramond) Limited and Bryant Homes Scotland Ltd., the final instalment of the consideration is payable in April 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

Certain properties no longer in use and earmarked for future disposal have been reclassified as assets for resale of £1,110,000 (2003 – £3,130,000).

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:

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

UNIVERSITY INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 July 2004

	2004 £ 000's	2003 £ 000's
INCOME		
Funding council grants	125,148	121,851
Tuition fees and education contracts	53,563	47,367
Research grants and contracts	102,827	96,861
Profits paid under Gift Aid from subsidiaries	851	1,063
Other income	62,457	56,628
Endowment and Investment income	8,194	7,698
	353,040	331,468
EXPENDITURE		
Staff costs	201,717	189,077
Other operating expenses	124,707	120,112
Depreciation	18,530	16,092
Interest payable	4,674	4,712
	349,628	329,993
OPERATING SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION		
	3,412	1,475
Gain On Disposal of Properties	665	12,245
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION		
	4,077	13,720
Transfers (to)/from accumulated income within specific endowment asset investments	(717)	27
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES		
	3,360	13,747

