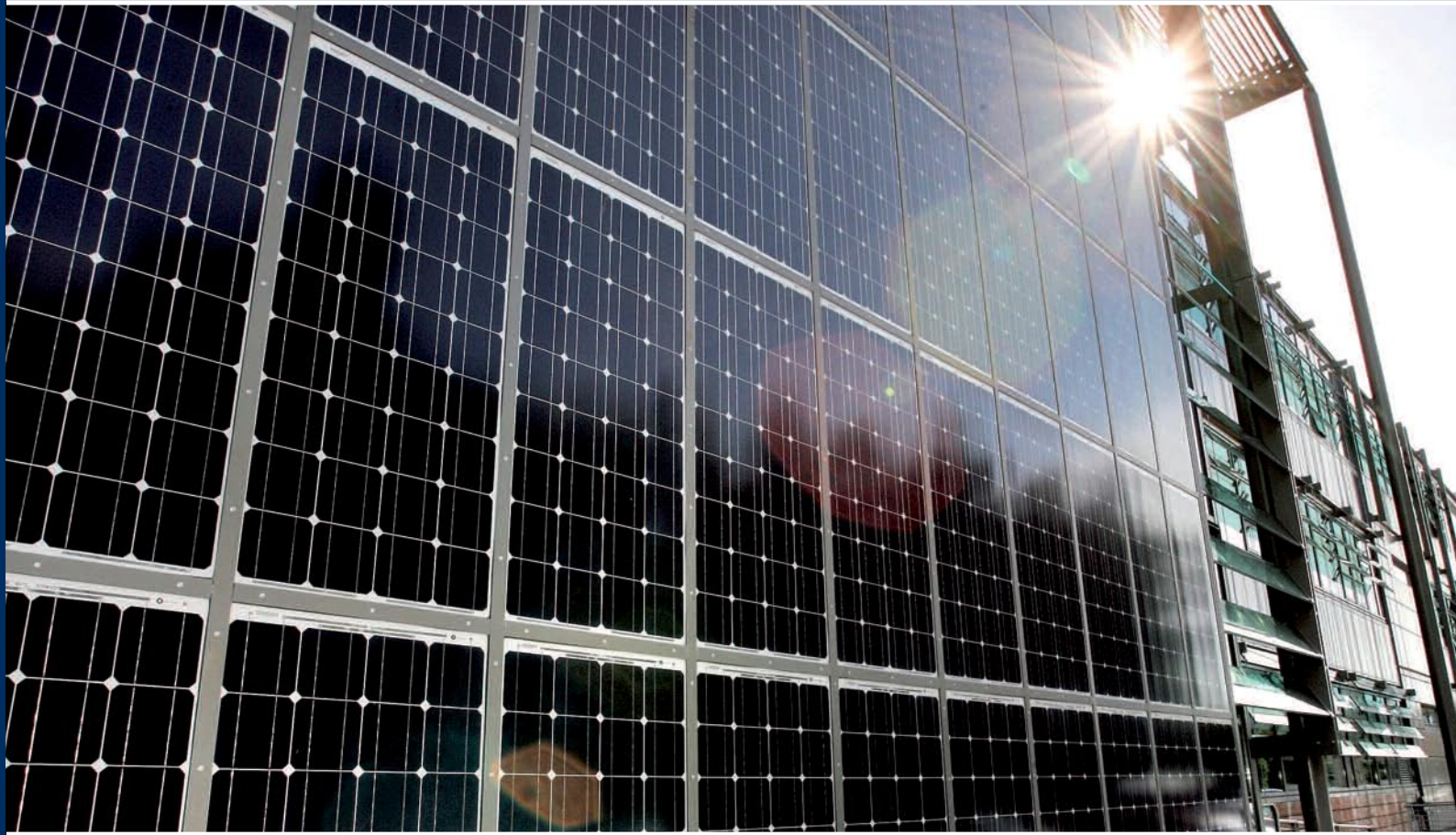


The University of Edinburgh
Reports and Financial Statements
for the year to 31 July 2007



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Principal's Report

for the year ended 31st July 2007

The strong financial performance of the University over recent years continued last year, rooted, as ever, in the University's excellence in teaching, research, commercial spin out and support activity. With a number of important new projects and activities underway, I believe we can be confident that the University will maintain its strong performance in the future.

A buoyant, high quality and engaged student body is vital to the health of any university and we are fortunate in the success of our efforts to recruit the best students both from here in Scotland and the UK, and from across the world. This past financial year saw another excellent performance in terms of UK student recruitment. The University did not need to enter clearing for the recruitment of UK/EU undergraduate students and we were particularly pleased that UCAS data showed encouraging rises for the University in traditionally "hard to recruit" areas such as engineering and European languages. Undergraduate applications to engineering, for example, increased by 25 percent on 2005. Our international student body continues to grow strongly, reflecting the reputation of the University and of the city, as a great place to study and to live.

The University's research activity has once again grown very substantially. Our ability to attract external research funds is a key measure of our research excellence. In 2006-07, 943 research awards valued at £209.7 million were received; an outstanding 50% increase from the previous year.

During the year a number of significant awards were made, among them:

- the Scottish Institute for Research in Economics (SIRE), which will be centred at the University, secured funding of £21 million. It will bring together researchers from ten Scottish universities focusing on three thematic programmes: behaviour, incentives and contracts; work and well-being and macroeconomics; financial linkages and the regions.
- a centre of excellence based at the University is to be at the forefront of global efforts to prevent an avian flu pandemic. The new Interdisciplinary Centre for Human and Avian Influenza Research (ICHAIR) received £2 million from the Scottish Funding Council and will aim to develop new therapeutic agents to combat this public health threat.
- the University signed a hugely important contract for the supercomputer HECToR worth £65 million over three years. Funded by the UK Research Councils and installed at the University's Advanced Computing Facility, it will benefit academic research across the whole of Britain.

There have been a wide range of exciting discoveries and outputs from existing research projects during the last year, among them:

- the University announced new hope for sufferers of Rett Syndrome, a form of autism. Research led by Professor Adrian Bird showed that the symptoms of the disorder are capable of being reversed in mice following the activation of a specific gene.
- in the 300th anniversary year of the Union, researchers in the University's Institute of Governance published findings on the nature of Britishness. The study, which used unique data from the Scottish and British Social Attitudes surveys, showed that a sense of Britishness in Scotland is not on the decline, despite a strengthening sense of Scottishness.
- by using satellite observations, researchers in the School of Geoscience, in collaboration with colleagues from University College London, identified four Antarctic glaciers that pose a threat to future sea levels.
- in the largest study of its kind, research led by Professor Keith Fox showed that deaths from severe heart attacks following admission to hospital have nearly halved in six years as a result of advances in medical treatment. The research analysed treatment and outcomes for 44,372 patients admitted to 113 hospitals in 14 countries.

Edinburgh Research and Innovation, the University subsidiary which manages our knowledge transfer activity had an outstanding year. The acquisition of MTEM Limited for \$275 million, from which the University received over £8 million, is a remarkable outcome for a company set up in 2004.

A major boost to company formation activity was the creation of a £25 million fund by Braveheart Investment Group plc along with the University to support commercialisation investment prospects arising from the University. I am encouraged that the private sector continues to recognise and benefit from the output of academic research from our staff.

The strong financial performance of the last year has allowed a number of strategic investments to be made in key areas of activity:

- New funding received of over £1 million as part of the Edinburgh Campaign has allowed a further investment to be made in three new initiatives involving bursaries and scholarships for international, e-learning and Chevening Programme students. This growth in studentships has

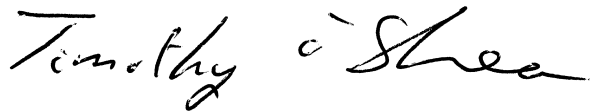
been supplemented by the use of a substantial part of the proceeds of the MTEM sale to support postgraduate studentships, recognising that it was a research student that made a crucial contribution to the exploitation of the academic discovery.

- International activities have been very important throughout the history of this University. Building on the growth in international student recruitment, research collaboration and alliances is a very important area of future growth. Up to £3.5 million of the surplus achieved in 2006-07 is to be used in taking forward this agenda over the next five years.
- Surpluses on the Income and Expenditure accounts are a crucial contributor to the University having high quality facilities for staff and students. This year's strong financial performance has enabled investments in major refurbishment projects for the Library, at a cost of £60 million, and the McEwan Hall, one of the University's iconic buildings. Making these investments and delivering matching funding for the large new build projects, which are mentioned in the Convener of Finance and General Purposes Committee's report, would not be possible without the financial surpluses delivered in recent years.

In recent years the University has grown strongly using real increases in funding from Government to grow its turnover by 37% in four years reflecting the quality, improvement and volume growth in its student and research activity. The announcement of the comprehensive spending review outcome for the three years from April 2008 gives a clear guide to a tightening financial environment for Scottish Universities. Although the UK funding to the Research Councils continues to grow in real terms to meet the cost of moving to funding 80% of the full economic cost of research projects, recurrent funding from the Scottish Funding Council will go up little above the Government's measure of inflation. Since the UK 2006 pay agreement for all university staff will increase pay by about 6.5% during 2008, sustaining existing activity will be difficult unless we are able to expand existing income streams and identify new opportunities.

The University will continue its efforts to encourage the Scottish Government that in order to remain competitive with the top universities elsewhere in the UK, Scottish Universities must benefit from a similar level of funding. The current position, whereby the Higher Education Funding Council for England has received a greater uplift in recurrent funding than that awarded to the Scottish Funding Council, puts Scottish Universities at a disadvantage. This is all the more the case when one considers the likely growth in income from tuition fees at English institutions.

With the University likely to achieve a turnover greater than £0.5 billion in the financial year now in progress, Edinburgh is showing it has the academic and financial strength to compete successfully internationally. We will be striving even harder in the years ahead to build upon our solid position.



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

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Operating and Financial Review

for the year ended 31st July 2007

Scope of the Financial Statements

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

In compliance with FRS17, pension assets and liabilities have been disclosed in full in the Balance Sheet and the Statement of Total Recognised Gains and Losses

Results for the Year

The University's consolidated Income and Expenditure Account for the year to 31st July 2007 is summarised as follows:

	2007	2006
	£m	£m
Income	477.1	435.6
Expenditure	469.5	428.7
Operating Surplus	7.6	6.9
Exceptional Items	8.5	3.3
Other Items	(1.2)	(2.0)
Surplus retained within general reserves	14.9	8.2

The Operating Surplus for the year was £7.6 million (2006: £6.9 million), augmented by a profit on the sale of fixed assets of £0.3m and the profit on sale of an investment in a spinout company, MTEM, which realised £7.6 million in respect of the shareholding and £0.6m in respect of a buyout of the associated royalty stream. After taking account of taxation and transfers to specific endowment reserves, the overall surplus for the year was £14.9m (2006: £8.2m).

Gross income increased by £41.5 million (9.5%) compared to the previous year. Funding Council Grants increased by £14.2 million (9.5%) partly reflecting the application of infrastructure funds to major refurbishment projects and partly as a result of above inflation increases in research funding, including further success in attracting new research pooling grants. In this latter category, the University is now involved in 7 projects.

The continued growth in student numbers was, once again, particularly notable in international students where fee income increased by £3.7 million (12.6%). The growth in research grants and contracts income, up by £7.1 million, from £113.7 million to £120.8 million (6.3%) was boosted by

the increasing take-up of full economic costing and pricing for research. Other income was boosted by an increase of £3.4 million in Development Trust income including legacies. Endowment and investment income grew by £0.7 million, 5% over the previous year, in part as a result of increased deposit balances, and also due to interest rates being higher than the previous year.

Cash Flow

Cash and short-term investments at the year end amounted to £117.0 million, up by £4.8 million from the previous year-end. This excludes a strategic reserve of £20 million transferred to fixed asset investments during the year and invested on the same basis as the endowment fund. The net cash inflow from operating activities was very strong, aided by the increase in accruals and deferred income linked to profiled research grants, prepayment of rents and unspent Scottish Funding Council (SFC) funding for infrastructure. The overall cash position has supported increased capital expenditure on the estate of £41.5 million (2006: £28.4 million), with a significant proportion again funded from external sources. Cash and deposits will start to reduce during 2007-08 as new capital building projects now underway progress towards completion.

Capital Projects

The Estates Strategic Plan was updated during 2006-07 to cover the period up to 2015. Projects completed during the year included the Combined Heat and Power project in George Square and the Hugh Robson Building refurbishment. Other major on-going projects during the year included continuing work on the new Informatics Building in the Potterrow, the refurbishment of the Main Library, the George Square Lecture Theatre and the Advanced Computing Facility. Elsewhere, steps have been taken with regard to further major developments including a Scottish Centre for Regenerative Medicine building at Little France, the refurbishment of the John McIntyre Centre at Pollock Halls of Residence, the construction of a new hall of residence, and new research and teaching buildings for the Royal (Dick) School of Veterinary Studies at Easter Bush.

In total the cost of completing these and other projects will be in excess of £170 million. They will be funded by a mixture of external funding and internally generated cash.

Investment Performance

2006-07 was the first full year of management of the endowments within the University, following the dissolution of the No1 and No 2 Trusts at the end of 2005-06. The total value of endowment funds at the year end increased to £216.0 million (2006: £201.3 million). The increase included new endowments invested of £5.8 million reflecting new scholarship endowments received,

Operating and Financial Review

continued

together with capital appreciation. The UoE Endowment Fund (managed by Baillie Gifford) made a total return of 9.48% for the year (compared to a benchmark of 9.24%). This included an income yield of 3.8% or £7.7million disbursed from the fund. Over 5 years the fund returned 12.1% per annum compared to the bench mark return of 11.1%.

Pensions

The University contributes to a number of pension schemes. The majority of staff belong to one of two schemes; these are the Universities Superannuation Scheme (USS) and the University of Edinburgh Staff Benefits Scheme (EUSBS). USS as a multi-employer scheme has no FRS17 impact on these accounts. During 2005-06 a triennial valuation reported a £6,568 million deficit for the scheme as a whole. Though this did not immediately trigger an increase in contributions, some reduced benefits linked to early retirement have been introduced and the University welcomes the work that has commenced to allow the long-term viability and affordability of the scheme to be addressed. The FRS17 deficit of the EUSBS scheme at 31 July 2007 showed a decrease to £29 million. Following the March 2006 triennial valuation, both the University and staff will be making contributions to the scheme rising over three years to a total of 27.8%. The Strathclyde Pension Scheme FRS17 position moved to a surplus. The contribution rates on this scheme increase in steps to 18.6% of pensionable salary from April 2008. The University is fully committed to maintaining access to defined benefit schemes for all its staff but recognises that it will have to work with staff to ensure that this policy is affordable.

Employment of Disabled Persons

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

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

- seek to ensure that employees with disabilities are placed in jobs suited to their aptitudes, abilities and qualifications;
- seek to ensure that disabled employees are considered for promotion according to their aptitudes, abilities and qualifications;
- ensure that disabled people are not disadvantaged when the renewal of fixed-term contracts is being considered; and
- make use of the services and advice offered by the

Employment Service wherever appropriate so as to make it possible to recruit a disabled person or retain an existing employee who has become disabled.

Currently 77 of our 7,400 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 18 days of purchases from suppliers. The amount paid under the Late Payments of Commercial Debts (Interest) Act was nil.

Looking forward

The University is in a strong financial position to meet what is, in terms of our traditional funding sources, an unpredictable environment.

In terms of Government funding, the funding methodology for teaching is being reviewed. The University has made a very strong submission to the 2008 Research Assessment Exercise and expects future funding for research to reflect the excellence it demonstrates. Decisions on these two funding streams, which are likely in 2009, will clearly be influenced by the overall level of funding made available to higher education in Scotland.

The other major source of income from Government is through the Research Councils. Success in obtaining new grants in the last year (up by 50% by value), the successful introduction of prices meeting 80% of their full economic costs and the planned growth in Government funding, points to this being a major area for increased University activity.

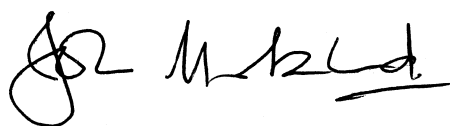
International competition for staff and students becomes ever more challenging. The University continues to recruit new academic staff from around the world, helped by its strong reputation. The cost of new staff is substantial both in salary costs and setting up new facilities. Meeting these costs will remain a challenge. The high level of sterling against the dollar may have aided international staff recruitment but could possibly suppress demand from international students to come to the UK to study. The University will be working hard to maintain the growth in international student numbers, particularly in the postgraduate area.

As well as the continuing cost pressures on pay, the University

has to be mindful of the continuing upward pressure on other costs. It is likely that the contribution to the national pension scheme for academic staff and those on equivalent grades, USS, will have to rise. Utilities are now likely to increase again following the increases of recent years. The increase in general inflation on University costs continues to run ahead of Government assumptions used to set funding and fee levels.

Over the next few years the capital building programme is to grow further. The funding will come from a mixture of external sources including grants, fundraising, via our £350 million Enlightenment Campaign, and a major increase in the use of internally generated funds. In addition to the major building projects outlined previously, a number of very major refurbishment projects will take place in the central area. These include the Main Library, the William Robertson Building and the Adam Ferguson Building. The total estimated capital expenditure on building the approved programme from 2006-07 to the end of 2009-10 is £255million. The major risk with the programme is cost escalation above the budgeted levels. To mitigate this risk, optimism bias is being addressed and assumptions of building inflation well above GDP inflation are being budgeted.

The University therefore faces major challenges in continuing to enhance its academic reputation and grow its income and activity in a financially sustainable way. I believe that the academic success of recent years, linked to the strong financial performance, points to further strong progress in the future.



John Markland

Convener, Finance and General Purposes Committee.

Corporate Governance Statement

Introduction and Statement of Compliance

The University of Edinburgh is committed to achieving the highest possible standards of corporate governance relevant to the higher education sector. This summary describes the manner in which the University has applied the principles set out in the revised Combined Code on Corporate Governance issued in 2003, in so far as it applies to the higher education sector, and has taken due regard to the Turnbull Committee guidance on internal control 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 2007.**

University Governance

The University of Edinburgh is constituted by the Universities (Scotland) Acts 1858 to 1966.

The Universities (Scotland) Acts make specific provision for three major bodies in the Governance of the University – The Court, The Senate and The General Council.

The University Court

The University Court, the University's governing body, 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, staff appointments and, on the recommendation of Senatus, the regulation of degrees, admission and discipline of students: it is responsible for ensuring that the Senatus has in place effective arrangements for academic quality assurance and enhancement. The Court is responsible for the strategic development of the University, advised by the Principal in consultation with the Central Management Group. The University Court normally meets five times per year. The Court consults with the Senatus Academicus and the General Council as required by statute.

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

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

The University operates processes for the identification, evaluation and management of significant risks. The **risk management framework** established in the University includes a Risk Management Committee as a formal Court sub-committee which oversees implementation of the Risk Management Policy adopted in 2002 and reviewed and renewed in 2006-07. The University Risk Register focuses primarily on risks related to the attainment of the University's strategic objectives, and identifies responsibility for the overall management of each risk. The most recent update was revised during 2006-07 and was adopted by Court on 29 October 2007: it aligns to the University Strategic Plan 2004-08.

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

Internal Audit undertake an independent review of the operation of the overall risk management process, having regard to best practice as recommended by professional institutes and other relevant organisation. The Audit Committee considered the Internal Audit report on this matter at its meeting on 4 October 2007 and expressed itself satisfied with the outcome.

By its 17 December 2007 meeting, the Court had received the Audit Committee and Risk Management Committee reports for the year ended 31 July 2007; it also had taken

account of relevant events since 31 July 2007. The Audit Committee in particular is responsible for advising Court on the effectiveness of policies and procedures for risk assessment and risk management. The Court considers, on the recommendation of the Audit Committee, **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 2007.

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, along with the Principal's expression of satisfaction with the performance of the Internal Audit service in his capacity as Accountable Officer;
- 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 managers within the institution, who have responsibility for the development and maintenance of the internal control framework, and by any relevant comments made by other external agencies (e.g. the Quality Assurance Agency for Higher Education, SFC).

The Court has taken full account of the **Guide for Members of Governing Bodies** issued by the Committee of University Chairmen in November 2004. It notes that compliance with this Guidance is not a formal requirement of the Scottish Further and Higher Education Funding Council. The Court believes that its operations are very largely compliant with this Guidance. During 2005-06 the Court conducted a review of its own effectiveness in keeping with the relevant part of the Guidance. The Court has adopted a statement of its view of its effectiveness in fulfilling its responsibilities, which it believes to be of a high standard, and of the actions it wishes to take further to enhance its effectiveness. This statement and the outcome of the review is available as part of the University's Freedom of Information publication scheme at <http://www.pubs.recordsmanagement.ed.ac.uk/>. A number of actions arising from this review were implemented in 2006-07 in the

light of this review, and some further changes are being implemented in 2007-8.

The Court has overall responsibility for the University's strategic development. It is actively engaged in the University's strategic planning processes and in monitoring progress against the strategic plan. The current strategic plan runs from 2004 - 2008, and is being updated during the 2007-08 academic year. The strategic planning process is led by the Principal with support from the Vice-Principal (Planning and Resources) and the Director of Planning.

The Court's Committee Structure

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

The **Finance and General Purposes Committee** oversees the University's financial affairs on behalf of the Court. This includes the design of the planning and budgeting process, approval of the resulting plan and budget in the context of the University's overall strategy, and ensuring adequate monitoring thereafter. It is chaired by the Vice-Convener of the Court and includes a majority of lay members. It normally meets six times a year. From 1 August 2006 an **Investment Committee** of the Court had responsibility for overseeing of the University's Endowment Funds and deposit balances. It reports to Court via Finance and General Purposes Committee.

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

Corporate Governance Statement

continued

Convener of the Court, has a majority of lay members and includes an external advisor. It meets as necessary, at least once a year, and conducts business by correspondence when appropriate.

The **Staff Committee's** remit has been reviewed in 2006–07. The Committee provides advice and guidance on the University's strategic human resources objectives, and provides assurance that the University is monitoring its performance and managing its HR issues effectively. The Committee is chaired by a Vice-Principal and its membership includes a two members 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 any changes to accounting policies and advising the Court accordingly. In addition, the Committee considers detailed reports from the Internal and External Auditors together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. 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. 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 meets the Internal and External Auditors on their own for independent discussions.

The Court receives the minutes of each Audit Committee meeting and an annual report of its proceedings.

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

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

The **Health and Safety Committee** provides oversight and guidance to the University's Health and Safety Services department (which also includes Occupational Health, Occupational Hygiene Unit, Fire Safety and Radiation Protection functions) and advises the Court in regard to compliance with its statutory responsibilities in this area. It is chaired by the Director of Corporate Services, meets at least twice a year and conducts business through electronic communications between meetings.

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

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

The **Central Management Group**, whilst formally advisory to the Principal, is the senior body for consideration of management issues. Its members are, between them, responsible and accountable for all components of the University's budget, both income and expenditure. As such it plays an important part in the internal governance and academic operations of the University, and brings together the academic, financial, human resources and accommodation aspects of planning. 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 Senate

The Senate is the academic authority of the University and draws its membership from the academic staff and students of the University. Its role is to superintend and regulate the teaching and discipline of the University and it has power to promote research.

The General Council

The General Council consists of graduates and academic staff. It has a statutory right to comment on matters which affect the well-being and prosperity of the University.

The Principal

The Principal acts as the Chief Executive Officer of the University. He is directly accountable to Court for the proper conduct of the institution's affairs. The Principal is also directly accountable to the Chief Executive Officer of the Scottish Funding Council for the University's proper use of funds deriving from Scottish Ministers and compliance with the Financial Memorandum between the SFC and the University.

Charitable Status

The University had charitable status (No. SC005336) under the legislative framework operative throughout the 2006-07 financial year. The University Court considers that the University meets the 'Charity Test' set out in Section 7 of the Charities and Trustees Investment (Scotland) Act 2005. It will take such actions as are necessary to ensure continued full compliance with the legislation and retention of charitable status.

The University's general and specific endowments are administered as the University of Edinburgh Endowment Fund, overseen by the Investment Committee, other than one specific endowment which is held as a separate Trust with its own Trustees (The University of Edinburgh No.3 Trust). Professional fund managers are employed by that Committee on behalf of the University Court and by the Trustees of the No.3 Trust. Investment income is applied for the specific purposes of the relevant endowments, or in the case of general endowment, for the University's general purposes. All of those purposes are charitable for the purposes of the new legislation.

Income derived from philanthropic donations and benefactions arising from the University's Development activities is disbursed by a Trust with separate charitable status, The University of Edinburgh Development Trust. The Board of Trustees includes individuals external to the University: the Convener is a former member of the Court. The Trustees meet

twice a year. All disbursements are applied for the specific purposes of the relevant donations and benefactions, or in the case of general donations and benefactions, for the University's general purposes. All of those purposes are charitable for the purposes of the new legislation.

Going concern

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

Responsibilities of the Court

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

The Court's primary responsibilities are:

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

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

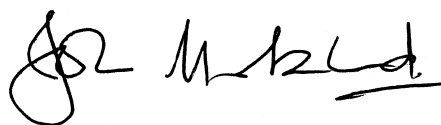
The Court is responsible for keeping proper accounting records which disclose, with reasonable accuracy, the financial position of the University at any time and enable it to ensure that the financial statements are prepared in accordance with the Universities (Scotland) Acts 1858-1966, the Statement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



John Markland
Vice-Convener

Membership of Main Committees

Court Membership

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

The Rector (Convener), Mr M Ballard
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
Mr R O Blair (until 31 August 2007)
Mr G W T Scott (until 31 August 2007)
Mr D A Connell (from 1 September 2007)
Professor A M Smyth (from 1 September 2007)

Senatus Academicus Assessors

Professor L Yellowlees
Professor C Hillenbrand
Dr L Collins
Professor D J Finnegan

City of Edinburgh Council Assessor

Councillor L A Hinds (until 2 May 2007 election)
Rt Hon G Grubb, Lord Provost (from 17 May 2007)

Co-opted Members

Dr J A Markland (Vice-Convener)
Ms S Macpherson (until 31 August 2007)
Professor A D Milne (until 31 August 2007)
Ms G M Stewart
Mr I Darling
Mr G M Murray
Mr D Workman
Professor J Barbour
Dr S Monro (from 1 September 2007)
Ms A Richards (from 1 November 2007)

Non-Teaching Staff Assessor

Ms J Glover

Student Members

Mr T Goodwin (until 10 June 2007)
Mr R Neilson (until 10 June 2007)
Mr J MacAlister (from 11 June 2007)
Ms A Davidson (from 11 June 2007)

Standing Committees of the University Court

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

Membership of the main committees of Court

Finance and General Purposes Committee

Convener: Dr J A Markland

The Principal
Senior Vice-Principal Professor M Anderson (until 17 August 2007)
Vice-Principal Professor S Chapman (from 1 September 2007)
Mr M D Cornish, University Secretary
Mr J Gorringer, Director of Finance
Mr T Goodwin, President of the Students' Association (until 10 June 2007)
Mr J MacAlister, President of Students' Association (from 11 June 2007)
Ms S Macpherson (until 31 August 2007)
Mr G M Murray
Mrs M Tait
Professor J Barbour
Professor D Finnegan
Mr D A Connell (from 1 September 2007)

Investment Committee

Chairman/Convener: Dr D B B Smith

Mr K Forman
Mr M Gibson
Mr G Menzies
Mr A G D Johnston
The Principal
Dr J A Markland (from 1 September 2006)

Nominations Committee

Convener: Dr J A Markland

The Principal
Professor L Yellowlees
Mr M D Cornish, University Secretary
Mr R O Blair (until 31 August 2007)

Ms G Stewart
 Lord Cameron of Lochbroom
 Professor A M Smyth (from 1 September 2007)

Remuneration Committee

Convener : Dr J A Markland

The Principal
 Ms S Macpherson (until 31 August 2007)
 Mr I Darling
 Dr S Monro (from 1 September 2007)
 Ms G Stewart

Staff Committee

Convener: Professor L A M Waterhouse

Ms E C MacArthur (until 28 Feb 2007)
 Ms S Gupta (from 1 March 2007)
 Mrs S Cannell (until 31 August 2006)
 Vice-Principal Professor J Haywood (from 1 September 2006)
 Professor P Munn
 Professor E Watson
 Professor A Calder
 Professor A Lawrence
 Dr D Welch
 Dr V O'Halloran
 Mr A Currie
 Dr J A Markland

Audit Committee

Convener: Ms G Stewart

Mr F H Hitchman
 Professor A D Milne (until 31 August 2007)
 Mr D Bentley
 Mr G W T Scott (until 31 August 2007)
 Mr R O Blair (until 31 August 2007)
 Dr S Monro (from 1 September 2007)
 Professor A M Smyth (from 1 September 2007)
 Ms A Richards (from 1 November 2007)

Risk Management Committee

Convener: Mr N A L Paul

Mr F Gribben
 Mr L Golightley
 Dr D A Welch
 Mr M D Cornish
 Mr J Gorrige
 Mr B A C Gilmore
 Professor S van Heyningen
 Mr I Darling
 Professor J Ansell

Membership of other main committees

Estates Advisory Group

Convener: Vice-Principal Professor S Chapman

Vice-Principal Ms H Hayes (until March 2007)
 Vice-Principal Professor J Haywood (from March 2007)
 Dr L Collins, Executive Dean (Resources), College of Humanities and Social Sciences
 Mr L Golightley, Registrar, College of Medicine and Veterinary Medicine
 Dr J Martin, Deputy Head of College, College of Science and Engineering
 Mr M D Cornish, University Secretary
 Mr N A L Paul, Director of Corporate Services
 Mr J Gorrige, Director of Finance
 Mr A Currie, Director of Estates
 Dr A Easson, Director of Planning
 Mr R Kington, Director of Accommodation Services
 Mr I Darling
 Mr G M Murray (from 14 December 2006)
 Mr T Goodwin, President of the Students' Association (until 10 June 2007)
 Mr J MacAlister President of Students' Association (from 11 June 2007)

Central Management Group

Convener: Principal

Senior Vice-Principal Professor M Anderson (until 17 August 2007)
 Vice-Principal Professor S Chapman
 Vice-Principal Professor L A M Waterhouse
 Vice-Principal Professor G S Boulton
 Vice-Principal Professor V Bruce
 Vice-Principal Professor J Savill
 Vice-Principal Professor G Bulfield
 Vice-Principal Professor S van Heyningen
 Vice-Principal Ms H Hayes (until March 2007)
 Vice-Principal Professor J Haywood (from March 2007)
 Vice-Principal Professor M Bownes
 Vice-Principal Mr Y Dawkins
 Vice-Principal Professor R D Kenway
 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 group and parent University financial statements of the University of Edinburgh for the year ended 31 July 2007 which comprise the group Income and Expenditure Account, the group and parent University Balance Sheets, the group Cash Flow Statement, the group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective Responsibilities of the University Court and Auditors

The University Court's responsibilities for preparing the Operating and Financial Review and the group and parent University financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2003), applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2003). We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Scottish Funding Council. We also report to you whether in our opinion the Operating and Financial Review is not consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

Basis of Opinion

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

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

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and parent University as at 31 July 2007 and of the group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2003);
- in all material respects, income from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2007 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2007 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.

KPMG LLP

KPMG LLP

Chartered Accountants
Registered Auditor
20 Castle Terrace
Edinburgh
EH1 2EG

17 December 2007

Group Income and Expenditure Account

for the year ended 31st July 2007

	Note	2007 £ 000's	2006 £ 000's
INCOME			
Funding council grants	2	162,865	148,693
Tuition fees and education contracts	3	73,373	65,417
Research grants and contracts	4	120,849	113,674
Other income	5	105,104	93,680
Endowment and Investment income	6	14,871	14,105
TOTAL INCOME		477,062	435,569
EXPENDITURE			
Staff costs	7	267,852	238,849
Other operating expenses	9	178,627	166,894
Depreciation	13	19,036	19,017
Interest payable	10	3,994	3,919
TOTAL EXPENDITURE		469,509	428,679
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		7,553	6,890
Gains on disposal of fixed assets	13 & 14	8,476	3,283
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION		16,029	10,173
Taxation	11	(22)	(8)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAXATION AND BEFORE MINORITY INTEREST		16,007	10,165
Minority interest		4	3
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		16,011	10,168
Transfers to accumulated income within specific endowment asset investments		(1,131)	(1,958)
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES	12	14,880	8,210

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

Group Statement of Historical Cost Surpluses

for the year ended 31st July 2007

	Note	2007 £ 000's	2006 £ 000's
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION			
		7,553	6,890
Gains on disposal of fixed assets in the year	13 & 14	8,476	3,283
Realisation of revaluation gains of previous years	24	680	1,650
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	24	5,620	5,613
HISTORICAL COST SURPLUS BEFORE TAXATION		22,329	17,436
HISTORICAL COST SURPLUS AFTER, TAXATION, MINORITY INTEREST AND TRANSFERS TO SPECIFIC ENDOWMENT ASSET INVESTMENTS		21,180	15,473

Group Statement of Total Recognised Gains and Losses

for the year ended 31st July 2007

	Note	2007 £ 000's	2006 £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST			
		16,011	10,168
Appreciation on endowment asset investments	15	10,462	13,629
Impairment of tangible fixed assets	23	(1,368)	-
New endowments	22	3,069	3,070
Endowment transferred to deferred capital grants	22	-	(500)
Actuarial Gain/(Loss) in respect of pension schemes	31	23,191	(16,191)
TOTAL GAINS RECOGNISED SINCE THE LAST FINANCIAL STATEMENTS		51,365	10,176
Reconciliation:			
Opening reserves and endowments at 1 August		763,143	752,967
Total recognised gains for the year		51,365	10,176
CLOSING RESERVES AND ENDOWMENTS AT 31 JULY		814,508	763,143

Balance Sheets

for the year ended 31st July 2007

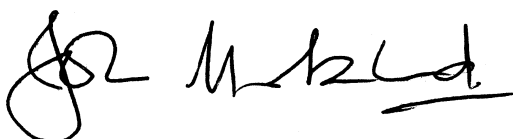
	Note	Group		University	
		2007	2006	2007	2006
		£ 000's	£ 000's	£ 000's	£ 000's
FIXED ASSETS					
Tangible assets	13	850,651	832,000	843,974	824,339
Investments	14	19,854	149	23,943	5,205
		870,505	832,149	867,917	829,544
ENDOWMENT ASSET INVESTMENTS					
	15	215,972	201,310	215,972	201,310
CURRENT ASSETS					
Stocks and stores in hand		2,149	2,137	1,319	1,193
Debtors	16	67,536	64,260	66,463	63,380
Assets held for resale	36	715	715	715	715
Investments: bank deposits	30	100,574	93,467	90,728	85,693
Cash at bank and in hand	30	16,393	18,653	7,387	13,188
		187,367	179,232	166,612	164,169
CREDITORS: Amounts falling due within one year	17	(136,452)	(122,402)	(119,484)	(109,004)
NET CURRENT ASSETS		50,915	56,830	47,128	55,165
TOTAL ASSETS LESS CURRENT LIABILITIES		1,137,392	1,090,289	1,131,017	1,086,019
CREDITORS: Amounts falling due after more than one year	18	(62,674)	(63,806)	(62,674)	(63,806)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(7,095)	(8,059)	(7,095)	(8,059)
TOTAL NET ASSETS EXCLUDING PENSIONS LIABILITY		1,067,623	1,018,424	1,061,248	1,014,154
PENSION LIABILITY	24	(29,000)	(50,623)	(29,000)	(50,623)
TOTAL NET ASSETS INCLUDING PENSION LIABILITY		1,038,623	967,801	1,032,248	963,531

	Note	Group		University	
		2007	2006	2007	2006
Represented by:		£ 000's	£ 000's	£ 000's	£ 000's
DEFERRED CAPITAL GRANTS	21	224,103	204,650	221,090	201,180
ENDOWMENTS					
Specific	22	212,017	197,554	212,017	197,554
General	22	3,955	3,756	3,955	3,756
		215,972	201,310	215,972	201,310
RESERVES					
Revaluation Reserve	23	429,886	437,554	429,886	437,554
General Reserves excluding pension liability	24	197,650	174,902	194,300	174,110
Pension Reserve	24	(29,000)	(50,623)	(29,000)	(50,623)
General Reserve including pension liability		168,650	124,279	165,300	123,487
Total Reserves		598,536	561,833	595,186	561,041
MINORITY INTERESTS		12	8	–	–
TOTAL FUNDS		1,038,623	967,801	1,032,248	963,531

The financial statements on pages 18 to 46 were adopted by Court on 17 December 2007 and were signed on its behalf by:



Professor T M M O'Shea
Principal



Dr J A Markland
Member of the University Court



J P Gorrige
Director of Finance

Group Cash Flow Statement

for the year ended 31st July 2007

	Note	2007 £'000's	2006 £'000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	19,385	29,725
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	26	9,241	8,516
TAXATION	11	(22)	(8)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	27	(23,114)	(10,152)
MANAGEMENT OF LIQUID RESOURCES	28	(7,107)	(34,410)
FINANCING	29	(1,114)	(1,092)
DECREASE IN CASH IN THE PERIOD	30	(2,731)	(7,421)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Decrease in cash in the period		(2,731)	(7,421)
Cash outflow from increase in liquid resources	28	7,107	34,410
Change in net debt resulting from cashflows	30	1,114	1,092
Movement in net funds for the period	30	5,490	28,081
Net funds at start of year	30	53,334	25,253
NET FUNDS AT CLOSE OF YEAR	30	58,824	53,334

Notes to the Financial Statements

for the year ended 31st July 2007

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

i) Accounting Convention

The financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Funding Council which requires compliance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2003). The financial statements are further prepared under the historical cost convention as modified, also in accordance with the SORP, by the revaluation of Endowment and Investment Assets and certain Land and Buildings.

ii) Basis of Consolidation

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

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

iii) Recognition of Income

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

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

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

iv) Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded

lease obligations 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.

v) Land and Buildings

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

Additions since 1 August 2004 are shown at cost. Depreciation on buildings has been provided on a straight-line basis using an assessment of the remaining useful life of each building. No depreciation is provided on land.

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

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

vi) Equipment

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

Notes to the Financial Statements

continued

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.

vii) Investments

In 2005-06 Endowment Assets were held in separate Trusts under the control of trustees appointed by Court. These were as follows:

- University of Edinburgh No. 1 Trust
Scottish Charity No. SC007301;
- University of Edinburgh No. 2 Trust
Scottish Charity No. SC018323; and
- Norman Salvesen Emphysema Research No.3 Trust
Scottish Charity No. SC011510

During 2005-06 the University Court took the decision to wind up the No.1 and No.2 Trusts and transfer their combined assets back to the University as at 1 August 2006. The combined endowment asset investments continue to be administered by an external fund manager as the University of Edinburgh Endowment Fund. The Norman Salvesen Emphysema Research No.3 Trust continues as a separate charity.

The University of Edinburgh Endowment Fund together with the Norman Salvesen Emphysema Research No.3 Trust are included in endowment assets and funds disclosed in the accounts of the University. Endowment Asset Investments are included in the Balance Sheet at market value. Temporary deposits are included at cost. Other investments are valued at cost, market value or nominal value as appropriate.

viii) Stocks

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

ix) Maintenance of Premises

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

x) Provisions for Liabilities and Changes

In compliance with FRS 12: Provisions, contingent liabilities and contingent assets provisions relate only to contractual and legal obligations of the University. The provision for unfunded pensions is accounted for as required by the Accounts Direction issued by the Scottish Funding Council.

xi) Foreign Currencies

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

xii) Taxation Status

The University has charitable status and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (Charity No. SC005336). Accordingly the University is recognised by HM Revenue & Customs as a charity for the purposes of Section 505, Income and Corporation Taxes Act 1988 and is exempt from the corporation tax on its charitable activities. The exemption from taxation in respect of income or capital gains received within categories covered by Section 505 applies 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.

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

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

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

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

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

A small number of subsidiary company employees are members of other defined contribution schemes. Contributions are charged in the Income and Expenditure

Account in the year in which they become payable.

xiv) Comparatives

In compliance with FRS 28: Corresponding Amounts, prior year figures disclosed have been adjusted where required in order that they are directly comparable with the amount shown in respect of the current financial year.

Notes to the Financial Statements

continued

	2007	2006
	£ 000's	£ 000's
2. FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	79,598	75,509
Research	61,933	52,168
Specific grants		
Information systems	3,730	3,410
Infrastructure Grants for Research, Teaching & Learning including research pooling	6,476	10,947
Other including research pooling	8,853	4,726
Deferred capital grants released in year		
Buildings (note 21)	1,689	1,468
Equipment (note 21)	586	465
	162,865	148,693
3. TUITION FEES AND EDUCATION CONTRACTS		
UK and EU Higher Education Students	34,986	31,285
Full-time students charged overseas fees	32,961	29,317
Research training support grants	1,430	1,249
Short course and other fees and support grants	3,996	3,566
	73,373	65,417
4. RESEARCH GRANTS AND CONTRACTS		
Grants		
Research councils	42,588	40,563
UK based charities	32,019	30,625
UK central government bodies, local and health authorities	20,714	21,347
UK industry, commerce and public corporations	7,556	6,040
EU government bodies	11,630	8,324
EU other	549	151
Other overseas	2,813	4,013
Other sources	2,980	2,611
	120,849	113,674
Deferred capital grants:		
Research income of £2,009,000 (2006 - £3,807,000) has been deferred (see note 21) to match purchases of items of equipment costing in excess of £25,000 which have been capitalised. The income includes Deferred Capital Grants released during the year of £4,196,000 (see note 21) (2006 - £4,894,000)		
5. OTHER INCOME		
Residences, Catering and Conferences	30,988	26,459
Other income generating activities	26,279	26,717
Donations, Specific Grants and Other Designated Income	29,960	24,944
General Income – Academic Activity	8,509	8,293
Other Income – Support Activities	7,091	4,865
Released from deferred capital grants		
Buildings (note 21)	1,350	1,325
Equipment (note 21)	927	1,077
	105,104	93,680

	2007	2006
	£ 000's	£ 000's
6. ENDOWMENT AND INVESTMENT INCOME		
Specific endowment income	6,993	7,408
General endowment income	145	122
Other investment income	25	-
Other interest receivable	6,508	4,681
Net return on pension scheme assets (note 31)	1,200	1,894
	14,871	14,105
	2007	2006
	Number	Number
7. STAFF		
Staff numbers (expressed as full-time equivalents as at 31 July) were as follows :		
Academic and related support	3,131	3,035
Research grants and contracts	1,611	1,585
Library, computer and other academic support services	436	446
Administration and central services	603	554
Premises	588	611
Other including income generating operations	82	81
Residences and catering operations	411	363
	6,862	6,675
Staff numbers (expressed as an employee count as at 31 July) were as follows :		
Staff on open ended contracts	5,530	4,997
Staff on fixed term contract	1,870	2,212
	7,400	7,209
Percentage of Employees on Fixed Term Contracts	25.3%	30.7%
	2007	2006
	£ 000's	£ 000's
Staff cost analysis of above persons:		
Academic and related support	141,749	125,523
Research grants and contracts	61,149	54,250
Library, computer and other academic support services	15,945	14,582
Administration and central services	20,924	17,962
Premises	13,346	12,668
Other including income generating operations	3,608	3,267
Residences and catering operations	8,740	7,759
Unfunded pensions	(377)	606
Pension costs less employer contributions payable (note 31)	2,768	2,232
	267,852	238,849

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 Financial Statements

continued

	2007	2006
	£ 000's	£ 000's
7. STAFF (continued)		
Staff cost analysis by type:		
Salaries and wages	219,293	195,224
Social security costs	18,381	16,147
Other pension costs (note 31)	29,719	26,219
Severance costs and unfunded pensions	459	1,259
	267,852	238,849

8. SENIOR POST HOLDERS

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

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

	2007 Number	2006 Number
£70,000 – £79,999	71	55
£80,000 – £89,999	44	40
£90,000 – £99,999	29	27
£100,000 – £109,999	21	13
£110,000 – £119,999	14	13
£120,000 – £129,999	9	9
£130,000 – £139,999	11	12
£140,000 – £149,999	14	7
£150,000 – £159,999	13	7
£160,000 – £169,999	7	4
£170,000 – £179,999	4	10
£180,000 – £189,999	7	5
£190,000 - £199,999	5	7
£200,000 - £209,999	2	1
£210,000 - £219,999	1	-
	252	210

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

Emoluments of the Principal	2007 £ 000's	2006 £ 000's
Salary	208	199
Benefits in kind	1	1
	209	200
Pension contributions	31	52
	240	252

Pension contributions for the Principal are paid to the USS at the same rate as for other academic staff. The contributions due in respect of 2007 emoluments were £31,483 (2006: £26,452). An additional £25,283 was paid in 2006 in respect of contributions underprovided in prior years.

Compensation for loss of office

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

	2007 £ 000's	2006 £ 000's
9. OTHER OPERATING EXPENSES BY ACTIVITY		
Academic and related expenditure	42,875	37,779
Research grants and contracts	40,939	37,751
Library, computer and other academic support services	13,039	15,123
Administration and central services	13,994	10,610
Premises	48,849	44,165
Other including income generating operations	3,761	9,125
Residences and catering operations	15,170	12,341
	178,627	166,894

OTHER OPERATING EXPENSES BY TYPE

Equipment and furniture not capitalised	14,014	15,049
Operating lease rentals	4,249	6,598
Residences, catering and conferences operating expenses	14,819	12,341
Repairs and general maintenance	29,535	29,127
Heat, light, water and power	8,845	8,031
Other premises costs	6,721	6,329
Printing, stationery and office expenses	4,281	3,738
Computer software and supplies	1,750	1,267
Consumables and laboratory expenditure	6,138	4,596
Contributions to other bodies	3,425	2,798
Travel, subsistence and accommodation	6,106	5,648
Research travel	4,705	4,030
Books and periodicals	4,110	3,948
Lecturers' fees and student demonstrators	2,493	2,437
Postgraduate studentships and other assistance	9,129	6,101
Fellowships, scholarships and prizes	3,772	3,120
Grants to University of Edinburgh Students' Association	2,065	1,883
Fees charged by External Auditors		
Audit of these financial statements	54	47
Audit of financial statements of subsidiaries pursuant to legislation	28	23
Other Services	65	65
Bad debt provision	256	2,474
Other services	3,978	4,223
Other research expenses	31,910	30,402
Other expenses	16,179	12,619
	178,627	166,894

10. INTEREST PAYABLE

Bank and other loans	3,726	3,657
Finance leases	268	262
	3,994	3,919

11. TAXATION

UK corporation tax charge on subsidiaries' profits	22	8
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Notes to the Financial Statements

continued

	2007 £ 000's	2006 £ 000's
12. SURPLUS FOR THE YEAR		
The Group Surplus for the period is made up as follows:		
University's surplus for the period excluding surpluses paid under Gift Aid to the University by subsidiaries	13,221	6,931
Surplus generated by subsidiary undertakings	1,659	1,279
Total	14,880	8,210

13. TANGIBLE ASSETS

Group	Land and Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation				
As at 1 August 2006	809,723	27,979	57,431	895,133
Additions at cost	10,026	25,219	5,732	40,977
Reclassification	10,302	(10,302)	–	–
Disposals	(1,437)	–	(110)	(1,547)
As at 31 July 2007	828,614	42,896	63,053	934,563
Depreciation				
As at 1 August 2006	23,527	–	39,606	63,133
Impairment of Fixed Assets	1,832	–	–	1,832
Charge for the year	11,600	–	7,436	19,036
Disposals	(16)	–	(73)	(89)
As at 31 July 2007	36,943	–	46,969	83,912
Net book value				
As at 31 July 2007	791,671	42,896	16,084	850,651
As at 31 July 2006	786,196	27,979	17,825	832,000

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

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

Gains on disposals of land and building fixed assets amounted to £350,000 (2006 - £3,283,000).

Land and Buildings with a net book value of £111,482,000 (2006 - £100,923,000) have been financed from Exchequer Funds. Should these assets be sold, the University may be liable, under the terms of the Financial Memorandum with the Funding Council, to surrender the proceeds.

13 TANGIBLE ASSETS (continued)

University	Land and Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Total £ 000's
Cost or valuation				
As at 1 August 2006	809,723	27,979	46,980	884,682
Additions at cost	10,026	25,219	5,677	40,922
Reclassification	10,302	(10,302)	–	–
Disposals	(1,437)	–	(110)	(1,547)
As at 31 July 2007	828,614	42,896	52,547	924,057
Depreciation				
As at 1 August 2006	23,527	–	36,816	60,343
Impairment of Fixed Assets	1,832	–	–	1,832
Charge for the year	11,600	–	6,397	17,997
Disposals	(16)	–	(73)	(89)
As at 31 July 2007	36,943	–	43,140	80,083
Net book value				
As at 31 July 2007	791,671	42,896	9,407	843,974
As at 31 July 2006	786,196	27,979	10,164	824,339

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

The net book value of tangible fixed assets includes an amount of £2,005,000 (2006 - £2,030,000) of buildings, fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £25,050 (2006 - £25,050).

An impairment arises on the value of certain properties occupying sites identified for redevelopment that are vacated or have a reduced remaining useful life.

Net book value historical cost equivalent

	Group		University	
	2007 £ 000's	2006 £ 000's	2007 £ 000's	2006 £ 000's
Land and buildings	429,750	401,686	429,750	401,686
Equipment	16,084	17,825	9,407	10,164
	445,834	419,511	439,157	411,850

The group depreciation charge has been matched by:

	2007 £ 000's	2006 £ 000's
Deferred capital grants released (note 21)	8,748	9,231
Revaluation reserve transferred to general reserves (note 23)	5,620	5,613
Earnings in subsidiaries	1,039	1,030
General income	3,629	3,143
	19,036	19,017

Notes to the Financial Statements

continued

	Group		University	
	2007 £ 000's	2006 £ 000's	2007 £ 000's	2006 £ 000's
14. INVESTMENTS WITHIN FIXED ASSETS				
Movement in the year:				
Balance at beginning of year	149	193	5,205	5,713
Additions	20,000	–	20,000	–
Loans Repaid	–	–	(1,150)	(300)
Loan provisions released/(made)	–	–	253	(208)
Disposals	(4)	–	(4)	–
Diminution in value	(291)	(44)	(361)	–
	19,854	149	23,943	5,205
Represented by:				
	Group		University	
	2007 £ 000's	2006 £ 000's	2007 £ 000's	2006 £ 000's
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	3,861	4,758
Fixed interest stocks	4,177	–	4,177	–
Equities	15,146	60	15,016	–
Bank deposits held at fund managers	446	–	446	–
Other investments at cost	85	89	85	89
Total investments within fixed assets	19,854	149	23,943	5,205
Investments at cost	20,085	149	25,201	5,205

Gains on disposals of other investments amounted to £8,126,000 (2006 - NIL). This arose on the sale of the University's entire holding of 18,000 B Ordinary shares in MTEM Ltd to Petroleum Geo-Services ASA together with associated intellectual property rights.

Subsidiary undertakings comprise:

Edinburgh Research and Innovation Limited

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

Edinburgh University Press Limited

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

UoE Accommodation Limited

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

The University of Edinburgh Development Trust

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

Edinburgh Technology Fund Limited

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

UoE Utilities Supply Company Limited

The University owns 100 per cent of the issued share capital of UoE Utilities Supply Company Limited, consisting of 2 ordinary shares of £1. This company was set up to provide utilities services to the University.

UoE HPCX Limited

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

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

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
15. ENDOWMENT ASSET INVESTMENTS			
As at 1 August 2006	197,554	3,756	201,310
Additions (note 27)	5,767	–	5,767
Disposals (note 27)	(1,038)	–	(1,038)
Appreciation on realisation and revaluation (note 22)	10,261	201	10,462
Increase in cash balances held by University	(471)	–	(471)
Increase in working capital held by the University	(58)	–	(58)
As at 31 July 2007	212,015	3,957	215,972

	Group and University	
	2007 £ 000's	2006 £ 000's
Endowment asset investments are comprised of:		
Fixed interest stocks	46,172	41,760
Equities	163,688	154,064
Bank deposits held at fund managers	3,954	2,799
Cash balance held by University (note 30)	1,165	1,636
Debtor balance held by the University	1,132	1,117
Creditors	(139)	(66)
Total endowment asset investments – Market Values	215,972	201,310
Endowment Assets – at Cost	181,270	160,006

Notes to the Financial Statements

continued

	Group		University	
	2007 £ 000's	2006 £ 000's	2007 £ 000's	2006 £ 000's
16. DEBTORS				
Amounts falling due within one year:				
Debtors	62,273	59,750	56,828	56,484
Amounts owing from subsidiary companies	–	–	4,769	3,402
Prepayments	5,263	4,510	4,866	3,494
	67,536	64,260	66,463	63,380

	Group		University	
	2007 £ 000's	2006 £ 000's	2007 £ 000's	2006 £ 000's
17 CREDITORS:				
Amounts falling due within one year:				
Unsecured loans (note 19)	1,080	1,068	1,080	1,068
Finance lease (note 19)	54	48	54	48
Creditors	22,515	27,320	18,723	23,325
Social security and other taxation payable	6,133	5,527	6,111	5,513
Accruals and deferred income	106,670	88,439	93,516	79,050
	136,452	122,402	119,484	109,004

	Group and University	
	2007 £ 000's	2006 £ 000's
18. CREDITORS:		
Amounts falling due after more than one year:		
Bank loans (note 19)	56,101	57,176
Obligations under finance leases (note 19)	2,073	2,130
Other Creditor	4,500	4,500
	62,674	63,806

19. BORROWINGS		
Bank loans		
Instalments are repayable as follows:		
Unsecured loans repayable in one year or less	1,080	1,068
Unsecured loans repayable between two and five years	4,341	4,399
Unsecured loans repayable after five years	51,760	52,777
	57,181	58,244
Less: falling due within one year (note 17)	1,080	1,068
Total bank loans (note 18)	56,101	57,176

19. BORROWINGS (continued)

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

The University's long term credit facilities are:

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

	Group and University	
	2007	2006
	£ 000's	£ 000's
Finance leases		
Obligations under finance leases fall due as follows:		
In one year	54	48
Between two and five years	301	249
After five years	1,772	1,881
	2,127	2,178

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group and University	
	2007	2006
	£ 000's	£ 000's
Unfunded pensions		
As at 1 August	8,059	8,039
Utilised in year	(602)	(662)
Transfer (to)/from income and expenditure account	(362)	682
As at 31 July	7,095	8,059

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

The University has a liability for pensions payable to former members of Moray House staff who have taken early retirement and in respect of the supplementation of FSSU and State pensions granted to former members of the University staff. These represent the unfunded liabilities in respect of pension commitments outwith the defined benefit pension schemes participated in by the University.

Notes to the Financial Statements

continued

21. DEFERRED CAPITAL GRANTS

Group	Funding Council £ 000's	Other grants & benefactions £ 000's	Research income £ 000's	Total £ 000's
As at 1 August 2006				
Land	103	170	–	273
Buildings	100,820	91,660	–	192,480
Equipment	643	4,456	6,798	11,897
	101,566	96,286	6,798	204,650
Capital expenditure during the year				
Buildings	12,248	12,683	–	24,931
Equipment	952	309	2,009	3,270
	13,200	12,992	2,009	28,201
Released to income and expenditure account				
Buildings	1,689	1,350	–	3,039
Equipment	586	927	4,196	5,709
	2,275	2,277	4,196	8,748
As at 31 July 2007				
Land	103	170	–	273
Buildings	111,379	102,993	–	214,372
Equipment	1,009	3,838	4,611	9,458
	112,491	107,001	4,611	224,103
University				
	Funding Council £ 000's	Other grants & benefactions £ 000's	Research income £ 000's	Total £ 000's
As at 1 August 2006				
Land	103	170	–	273
Buildings	100,820	91,660	–	192,480
Equipment	643	986	6,798	8,427
	101,566	92,816	6,798	201,180
Capital expenditure during the year				
Buildings	12,248	12,683	–	24,931
Equipment	952	309	2,009	3,270
	13,200	12,992	2,009	28,201
Released to income and expenditure account				
Buildings	1,689	1,350	–	3,039
Equipment	586	470	4,196	5,252
	2,275	1,820	4,196	8,291
As at 31 July 2007				
Land	103	170	–	273
Buildings	111,379	102,993	–	214,372
Equipment	1,009	825	4,611	6,445
	112,491	103,988	4,611	221,090

	Group and University		
	Specific £ 000's	General £ 000's	Total £ 000's
22. ENDOWMENT FUNDS			
As at 1 August 2006	197,554	3,756	201,310
Additions	3,069	–	3,069
Appreciation on realisation and revaluation (note 15)	10,261	201	10,462
Income for the year	7,610	145	7,755
Expenditure for the year	(5,873)	(133)	(6,006)
Administration fee	(606)	(12)	(618)
As at 31 July 2007	212,015	3,957	215,972

	2007 £ 000's	2006 £ 000's
Representing:		
Prizes and scholarship funds	100,761	92,671
Chairs and lectureship funds	54,107	51,330
Other funds	57,149	53,302
General purposes	3,955	3,756
Unallocated	–	251
	215,972	201,310

	Group and University	
	Total 2007 £ 000's	Total 2006 £ 000's
23. REVALUATION RESERVE		
As at 1 August 2006	437,554	444,817
Transfer to general reserve – depreciation on revalued assets (note 24)	(5,620)	(5,613)
Disposals in the year (note 24)	(680)	(1,650)
Impairment in the year	(1,368)	–
As at 31 July 2007	429,886	437,554

Notes to the Financial Statements

continued

	Group	University	Group	University
	2007	2007	2006	2006
	£ 000's	£ 000's	£ 000's	£ 000's

24. MOVEMENT ON GENERAL RESERVES

GENERAL RESERVE INCLUDING PENSION LIABILITY				
At 1 August	124,279	123,487	124,997	124,414
Surplus attributable to the year	14,880	12,322	8,210	8,001
Depreciation on revalued assets (note 23)	5,620	5,620	5,613	5,613
Realisation of revaluation gains of previous years (note 23)	680	680	1,650	1,650
Pension actuarial (loss)/gain	23,191	23,191	(16,191)	(16,191)
Balance at 31 July	168,650	165,300	124,279	123,487

Represented by:

INCOME AND EXPENDITURE ACCOUNT				
At 1 August	174,902	174,110	159,091	158,508
Surplus attributable to the year	14,880	12,322	8,210	8,001
Transfer from from pension reserve	1,568	1,568	338	338
Transfer from revaluation reserve	6,300	6,300	7,263	7,263
Balance at 31 July	197,650	194,300	174,902	174,110

	Group and University	
	2007	2006
	£ 000's	£ 000's
PENSION RESERVE		
At 1 August	(50,623)	(34,094)
Current service cost	(9,838)	(8,330)
Past service gains	221	–
Employer contributions	6,794	6,044
Contributions in respect of unfunded benefits	55	54
Net return on assets	1,200	1,894
Transfer (from)/to income and expenditure account	(1,568)	(338)
Actuarial gain/(loss)	23,191	(16,191)
Pension Reserve (Liability) at 31 July	(29,000)	(50,623)

	2007	2006
	£ 000's	£ 000's
25. RECONCILIATION OF CONSOLIDATED SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Surplus Before Tax And Minority Interest	16,029	10,173
Pension costs less contributions payable (Note 31)	2,768	2,232
Depreciation (Note 13)	19,036	19,017
Impairment of fixed assets	464	–
Diminution in fixed asset investments value (Note 14)	291	–
Deferred capital grants released to income (Note 21)	(8,748)	(9,231)
Profit on disposal of fixed assets properties	(350)	(3,283)
Profit on disposal of fixed assets investments	(8,126)	–
Interest payable (Note 10)	3,994	3,919
Increase in stocks	(12)	(208)
Decrease/(Increase) in debtors	2,079	(3,236)
Increase in accruals and deferred income	12,603	18,974
(Decrease)/Increase in creditors	(4,191)	6,007
(Decrease)/Increase in provisions (Note 20)	(964)	20
Endowment income (Note 22)	(7,755)	(8,084)
Other investment income (Note 6)	(25)	–
Interest receivable (Note 6)	(6,508)	(4,681)
Net return on pension scheme assets (Note 6)	(1,200)	(1,894)
NET CASH INFLOW FROM OPERATING ACTIVITIES	19,385	29,725
26. RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Endowment funds dividends and interest received	7,792	7,651
Other investment income	23	–
Interest received	5,417	4,766
Interest paid	(3,723)	(3,623)
Finance lease interest paid	(268)	(278)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	9,241	8,516
27. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchases of tangible assets	(41,382)	(28,386)
Proceeds from sale of tangible assets	1,808	4,638
Proceeds from sale of investment assets	8,130	–
Deferred capital grants received – funding councils and research equipment	21,239	8,998
Deferred capital grants received – other capital benefactions	8,751	4,407
Purchase of fixed asset investment (note 14)	(20,000)	–
Purchase of Endowment investment assets (note 15)	(5,767)	(4,382)
Disposal of endowment investment assets (note 15)	1,038	1,503
New endowments received (note 22)	3,069	3,070
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(23,114)	(10,152)

Notes to the Financial Statements

continued

	2007	2006		
	£ 000's	£ 000's		
28. MANAGEMENT OF LIQUID RESOURCES				
Increase in deposits	(7,107)	(34,410)		
NET CASH OUTFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	(7,107)	(34,410)		
29. FINANCING				
Loan repayments	(1,063)	(1,070)		
Capital repayment of finance lease obligations	(51)	(22)		
NET CASH OUTFLOW FROM FINANCING	(1,114)	(1,092)		
30. ANALYSIS OF NET FUNDS				
	As at 1 August 2006 £ 000's	Cashflows £ 000's	Other Changes £ 000's	As at 31 July 2007 £ 000's
Cash in hand and at bank	18,653	(2,260)	–	16,393
Endowment asset investments:				
Cash balance held by University (note 15)	1,636	(471)	–	1,165
Total cash in hand and at bank	20,289	(2,731)	–	17,558
Debt due within 1 year	(1,068)	1,068	(1,080)	(1,080)
Debt due after 1 year	(57,176)	(5)	1,080	(56,101)
Finance leases	(2,178)	51	–	(2,127)
Current asset investments:				
Bank deposits	93,467	7,107	–	100,574
TOTAL FUNDS	53,334	5,490	–	58,824

31. PENSION FUNDS

UNIVERSITY PENSION SCHEMES

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

The Universities Superannuation Scheme (USS).

This is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P) Scheme. The assets of the scheme are held in a separate trustee-administered fund. The institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17: Retirement Benefits, accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the Statement of Financial Activities represents the contributions payable to the scheme in respect of the accounting period.

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

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

The valuation was carried out using the projected unit method.

The following amounts were measured at the last valuation date:

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

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

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at the valuation date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy out basis (i.e. assuming the scheme was discontinued at the valuation date) the assets of the scheme would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the financial security of the scheme has improved and the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 100% and on a buy out basis was approximately 84%.

The University's contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries, but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits, which arise at future valuations, may impact the University's future contribution commitment. USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The University of Edinburgh Staff Benefits Scheme (EUSBS).

This is an externally funded defined benefit scheme which is contracted out of the State Second Pension (S2P) Scheme. The assets of the scheme are held in a separate trustee-administered fund. The latest formal actuarial valuation of the scheme was carried out as at 31 March 2006. The FRS17 results are therefore based on full actuarial calculations using the data provided by the Scheme's administrators for the 2006 actuarial valuation. The actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 July 2007 does not introduce any material distortion in the results, provided that the actual experience of the fund has been broadly in line with their assumptions.

Notes to the Financial Statements

continued

The major assumptions used by the actuary at July 2007 were as follows:

	At 31 July 2007	At 31 July 2006	At 31 July 2005
Rate of increase in salaries	4.10%	3.90%	4.20%
Rate of increase in pensions in payment	3.10%	2.90%	2.70%
Discount rate	5.80%	5.10%	5.00%
Inflation assumption	3.10%	2.90%	2.70%

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

	Long term rate of return	Value at 31 July 2007 £ million	Long term rate of return	Value at 31 July 2006 £ million	Long term rate of return	Value at 31 July 2005 £ million
Equities	8.0%	136.6	8.00%	119.2	8.00%	147.9
Bonds	5.1%	55.7	4.60%	55.2	4.40%	9.2
Property	6.6%	11.0	6.30%	10.0	6.20%	1.4
Other – mainly cash	4.1%	0.7	3.90%	0.1	3.70%	8.9
		204.0		184.5		167.4

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

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

	Value at 31 July 2007 £ millions	Value at 31 July 2006 £ millions	Value at 31 July 2005 £ millions
Total market value of assets	204.0	184.5	167.4
Present value of scheme liabilities	233.0	232.0	197.0
Deficit in the scheme – net pension liability	(29.0)	(47.5)	(29.6)

The contribution rate payable by the University was 16.11% of pensionable salary. An increase to 18.0% of pensionable salary is planned from 1st August 2007 and further increases to 19.9% and 21.8% of pensionable salary are planned from 1st August 2008 and 1st August 2009 respectively.

Scottish Teachers Superannuation Scheme (STSS).

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

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

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

Strathclyde Pension Fund (SPF).

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

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

The actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 July 2007 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 2007 were:

	At 31 July 2007	At 31 July 2006	At 31 July 2005
Rate of increase of salaries	4.1%	4.6%	4.3%
Rate of increase in pensions in payment	3.1%	3.1%	2.8%
Discount rate	5.8%	5.1%	5.0%
Inflation assumption	3.1%	3.1%	2.8%

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

	Long term rate of return	Value at 31 July 2007 £ million	Long term rate of return	Value at 31 July 2006 £ million	Long term rate of return	Value at 31 July 2005 £ million
Equities	8.0%	7,186.0	7.7%	6,365.0	7.3%	5,587.0
Bonds	5.1%	1,245.0	4.7%	1,064.4	4.7%	970.0
Property	6.6%	1,013.0	5.7%	894.0	5.4%	717.0
Other – mainly cash	4.1%	377.0	4.8%	439.1	4.5%	325.0
		9,821.0		8,762.5		7,599.0

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.193% (2006: 0.192%).

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

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

	Value at 31 July 2007 £ 000's	Value at 31 July 2006 £ 000's	Value at 31 July 2005 £ 000's
Total market value of assets	18,954	16,829	15,797
Present value of scheme liabilities	18,232	19,952	20,291
Surplus/(deficit) in the scheme – net pension asset/(liability)	722	(3,123)	(4,494)
Reduction in surplus to recoverable amount	(722)	–	–
Share of deficit recognised in the financial statements	–	(3,123)	(4,494)

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

The next formal valuation of the scheme will be carried out at 31 March 2008 after which contribution rates will be set from April 2009 onwards and any surplus in the scheme that may be recoverable by reduced contributions payable by the University would be identified at that stage. Accordingly the above surplus at 31 July 2007 measured in accordance with FRS17 is not included as a pension asset in these financial statements.

Notes to the Financial Statements

continued

The Federated Superannuation Scheme for Universities (FSSU).

This is a defined contribution scheme.

Total Pension Costs for the year.

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

	Year to 31 July 2007 £ 000's	Year to 31 July 2006 £ 000's
USS – Contributions paid	19,524	17,295
EUSBS – Charge to income and expenditure account	9,276	7,898
STSS – Contributions paid	361	340
SPF - Charge to income and expenditure account	162	408
FSSU - Charge to income and expenditure account	9	9
Other - Charge to income and expenditure account	387	269
	29,719	26,219

	Year to 31 July 2007 £ 000's	Year to 31 July 2006 £ 000's
Outstanding contributions to pension schemes at the Balance Sheet date were as follows:		
The Universities Superannuation Scheme	2,376	2,196
The University of Edinburgh Staff Benefits Scheme	–	681
The Federated Superannuation Scheme for Universities	9	–
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	183	163
Payment to retired members in respect of the FSSU Supplementation scheme	18	15

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

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

	Year to 31 July 2007 £ 000's	Year to 31 July 2006 £ 000's
Current service cost	9,838	8,330
Past service cost	(221)	–
Total operating charge	9,617	8,330
Less: contributions paid	6,849	6,098
Pensions costs less contributions payable (note 7)	2,768	2,232

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

	Year to 31 July 2007 £ 000's	Year to 31 July 2006 £ 000's
Expected return on pension scheme assets	13,977	12,486
Interest on pension scheme liabilities	(12,611)	(10,592)
Reduction in surplus to recoverable amount	(166)	–
Net return on pension scheme assets (note 6)	1,200	1,894

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

	Year to 31 July 2007 £ 000's	Year to 31 July 2006 £ 000's
Difference between expected and actual return on scheme assets	5,180	6,052
Experience gains and (losses) arising on scheme liabilities	(2,686)	(5,611)
Changes in assumptions underlying the present value of the scheme liabilities	20,531	(16,632)
Reduction in surplus to recoverable amount	166	–
Actuarial gain/(loss) recognised in the STRGL	23,191	(16,191)

History of experience gains and losses:

	Year to 31 July 2007 £ 000's	Year to 31 July 2006 £ 000's	Year to 31 July 2005 £ 000's	Year to 31 July 2004 £ 000's	Year to 31 July 2003 £ 000's
Difference between the expected and actual return on assets:					
Amount £ 000's	5,180	6,052	23,319	620	(1,740)
Percentage of scheme assets	2.3%	3.01%	12.7%	0.4%	1.3%
Experience gains and losses on scheme liabilities:					
Amount £ 000's	(2,686)	(5,611)	199	(373)	2,730
Percentage of scheme liabilities	(1.1)%	(2.2)%	0.1%	0.2%	1.7%
Total Amount recognised in STRGL:					
Amount £ 000's	23,191	(16,191)	3,049	(9,173)	(1,730)
Percentage of scheme liabilities	9.2%	(6.4)%	1.4%	1.4%	1.1%

32. POST BALANCE SHEET EVENTS

There are no post balance sheet events to disclose.

33. CAPITAL COMMITMENTS

	Group and University 2007 £ 000's	2006 £ 000's
Commitments contracted for at 31 July	75,000	87,742

Of the above commitments, £38,262,000 (2006: £58,454,000) will be funded through grants and benefactions

Notes to the Financial Statements

continued

34. FINANCIAL COMMITMENTS

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

	2007 £ 000's	2006 £ 000's
Land and Buildings		
Expiring within one year	–	36
Expiring within two to five years	20	20
Expiring in over five years	1,972	1,776
	1,992	1,832
Other		
Expiring within one year	177	16
Expiring within two to five years	5,216	6,679
Expiring in over five years	–	–
	5,393	6,695
Total Financial Commitments	7,385	8,527

35. CONTINGENT LIABILITIES

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

36. ASSET HELD FOR RESALE

Certain properties no longer in use and earmarked for future disposal have been reclassified as assets for resale of £715,000 (2006: £715,000).

37. UNIVERSITY COLLECTIONS

The University Court holds a number of valuable collections including items held on loan, in trust or regarded as inalienable. These heritage assets are not included in the Balance Sheet. The collection is not valued for heritage purposes but for insurance purposes it is valued at £148.2 million. Where items have been purchased during the year these are included in fixed assets. Where items have been donated however they are not disclosed as fixed asset additions. Court does not believe the value of donations to collections is material.

38. STUDENT SUPPORT FUNDS

	HE Hardship £ 000's	HE Chidcare £ 000's	Year to 31 July 2007 £ 000's	Year to 31 July 2006 £ 000's
Opening funds as at 1 August	304	105	409	73
Allocation of funds recieved	865	180	1,045	873
Virement	18	(18)	–	–
Interest earned	33	5	38	26
	916	167	1083	899
Opening funds repaid as Clawback	69	73	142	–
Disbursed on behalf of students	1,065	104	1,169	563
	1,134	177	1,311	563
Closing funds as at 31 July	86	95	181	409
Repayable as clawback	–	77	77	142
Retained for students	86	18	104	267
	86	95	181	409

Five Year Financial Summary

GROUP INCOME & EXPENDITURE ACCOUNT FOR THE YEAR TO 31 JULY

	2007 £ 000's	2006 £ 000's	2005 £ 000's	2004 £ 000's	2003 £ 000's
Total Income	477,062	435,569	402,707	369,091	346,854
Surplus on continuing operations*	7,535	6,885	10,852	2,421	1,693
Gains on disposal of properties	8,476	3,283	440	665	12,436
Transfers to specific endowment reserves	(1,131)	(1,958)	(736)	(717)	27
Surplus retained within general reserves	14,880	8,210	10,556	2,369	14,156

* After tax and minority interest

GROUP BALANCE SHEET* AS AT 31 JULY

	2007 £ million	2006 £ million	2005 £ million	2004 £ million	2003 £ million
Fixed assets	871	832	817	737	602
Endowment asset investments	216	201	183	156	146
Net current assets	51	57	56	49	46
Non-current liabilities and provisions	(70)	(71)	(69)	(73)	(73)
Pension liability	(29)	(51)	(34)	(37)	(29)
TOTAL NET ASSETS	1,039	968	953	832	692

Represented by funding:

Deferred capital grants	224	205	200	169	150
Endowments	216	201	183	156	146
Total reserves	599	562	570	507	396
TOTAL FUNDS	1,039	968	953	832	692

* Prior years are restated to include pension liabilities which are now included in the Balance Sheet under FRS 17: Retirement Benefits

Staff numbers (expressed as full time equivalents)
as at 31 July

6,862	6,675	6,283	6,143	6,059
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University Income and Expenditure Account

for the year ended 31st July 2007

	2007	2006
	£ 000's	£ 000's
INCOME		
Funding council grants	162,865	148,693
Tuition fees and education contracts	73,373	65,417
Research grants and contracts	120,849	113,674
Profits covenanted from subsidiaries	1,659	1,070
Other income	82,402	72,744
Endowment and Investment income	14,841	14,281
TOTAL INCOME	455,989	415,879
EXPENDITURE		
Staff costs	260,323	232,311
Other operating expenses	168,429	154,986
Depreciation	17,997	17,987
Interest payable	3,994	3,919
TOTAL EXPENDITURE	450,743	409,203
OPERATING SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION	5,246	6,676
Gain On Disposal of fixed assets	8,207	3,283
Transfers to accumulated income within specific endowment asset investments	13,453	9,959
	(1,131)	(1,958)
TOTAL SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION	12,322	8,001

