THE UNIVERSITY *of* EDINBURGH

Reports and Financial Statements for the year to **31 July 2008**

Scottish Charity Number SC005336

Contents

Principal's Report
for the year ended 31st July 2008

My first Principal's Report for the University's annual Financial Statements in 2002 highlighted a turnover of £314 million. The fact that just six years later income has grown to £555 million is one indicator of the tremendous performance of the University over this period and reflects the breadth and quality of its teaching, research and commercialisation activity. The University's role as a driver of economic growth has never been more significant or more important. Over the past six years, the number of staff directly employed by the University has increased by over 1500, student numbers have grown by over 4000, and our research activities and success in commercialisation have gone from strength to strength. It is pleasing to note that, throughout this period, the University has reported income and expenditure surpluses, reflecting the clear linkage between institutional performance and financial sustainability.

As we move into a more demanding economic environment, where continuing the growth and strong financial performance will be much more challenging, it is heartening to note that 2007-08 was another record year for research grant awards, with colleagues attracting over £200 million of funding. It is also pleasing to report that the University's popularity as a destination of choice shows no sign of waning. There has been further growth in student numbers for the 2008-09 academic year, with the number of high calibre applicants to our undergraduate programmes again far exceeding the number of available places and the University avoiding any need to enter the UK clearing system for the third consecutive year. The University's reputation for excellence was further strengthened by its performance in the recent Times Higher Education World University league table, in which it was ranked 23rd for the second year in succession.

There is, however, no room for complacency and we will need to work hard to build upon these foundations. The University has recently published a new Strategic Plan setting out our vision, goals and objectives for the next four years to 2012. The Plan sets ambitious new targets across the board designed to ensure that we continue to compete at the very highest level. I am confident that, with the talent and dedication of our staff and the support of our students and alumni, these can be achieved.

The Strategic Plan places a renewed focus on three key areas of activity that will be vital to the University's future success and sustainability. It highlights our aim of enhancing the quality of our student experience for all of our students, helping us to continue to attract and support the very best students from around the world. It reflects our determination to advance the University's international influence and reach, an aim which will be supported by the publication shortly of a new Internationalisation Strategy.

Lastly, the Plan outlines our desire to further strengthen our alumni relations and philanthropic giving, building upon the excellent progress already made in raising funds through our Enlightenment Campaign. The support and generosity of our alumni and the philanthropy of other individuals and organisations is integral to the continued success of our University and allows us to grow our research and extend our teaching in ways that would not otherwise be possible. This past year, for example, tremendous philanthropic support has enabled the establishment of three important new research centres: the Centre for the Study of Islam in the Contemporary World, the Scottish Centre for Diaspora Studies, and the Euan MacDonald Centre for Motor Neurone Disease Research.

In 2002, I referred to the challenges faced in finding and allocating adequate resources to meet our recurrent and capital needs in order to raise standards, teach a growing number of students, compete internationally in a wide range of research disciplines and maintain the necessary physical infrastructure. These challenges are no less prevalent and no less serious today, but the University is fortunate in facing them now from a more robust and confident position.

In a period of a tightening of the resources available to the sector both from public and private sources, I want to conclude by highlighting some findings from a recent report commissioned by the University to review its own economic impact. This estimates that the gross value added to the Scottish economy by the University of Edinburgh is equivalent to £826 million and to 19,580 jobs. Taken together with its impact on the knowledge economy, skills and education, health, society and culture, these findings recognise and reinforce the University's key role in contributing to economic and social development. They also underline the fact that financial support for this University, whatever the source and whatever the amount, represents a valuable and effective investment that stretches well beyond the bounds of this institution and indeed of higher education.

Timothy O'Shea

Professor Sir Timothy O'Shea
Principal and Vice–Chancellor

Operating and Financial Review

for the year ended 31st July 2008

Summary of the Year

The University enjoyed another successful year financially, as summarised below.

	2008 £m	2007 Restated £m
Income	555.3	479.5
Expenditure	549.9	471.3
Operating Surplus	5.4	8.2
Exceptional Items	0.5	8.5
Other Items	(0.7)	(1.2)
Surplus retained within general reserves	5.2	15.5

The surplus at £5.2 million was lower than the previous year when the sale of MTEM, a University spin out company, resulted in an exceptional gain of £8.2 million. Income to the University was boosted by Roslin Institute, an animal health and welfare research organisation whose activities became part of the University on the 1 May 2008. The total turnover of £555 million was 16% above the previous year.

In addition, the turnover growth was driven by real increases in Scottish Funding Council funding of 9%. This was the result of new research pooling funding and continuing capital funding being used for capital building and refurbishment. 2007-08 was another buoyant year for student recruitment. In particular, fees from students outside the EU grew by 16% and now total £38 million.

Research Grants and Contracts Income grew by £20.6 million (17%), the result of growth in new grants awarded to the University in the previous year and the impact of new grants from the Research Councils, which are funded at 80% of the full economic cost, replacing grants ending that were funded on a marginal cost basis.

Under Other Income, residences, catering and conferences had another strong performance with turnover up by 8%. This was the result of the first full year of new facilities, such as the Salisbury Green Hotel coming on-stream, as well as higher occupancy rates outside term-time. In 2007 HECToR, the latest national high performance computing service for the UK academic community, became operational. This activity explains the dramatic increase in academic services and support activities turnover to £31 million.

The University continued to receive funding for its capital building programme in advance of the commencement of the main construction phase. This boosted cash balances on deposit, and along with the well-above base rate interest paid, increased interest income to over £8 million. The University recognises that this 'windfall' situation will not continue, as major new buildings such as the Scottish Centre for Regenerative Medicine and the new Royal Dick Veterinary School teaching buildings commence on site by the end of 2008.

Total expenditure increased by £79 million (17%) with staff costs increasing by £28 million (10%). Staff costs increased by this amount due to above-inflation national pay awards, increased pension contributions to the support staff pension scheme and an increase in staff employed, with over 200 arriving from Roslin Institute.

Other operating expenses moved up by £48 million (27%). Major drivers of this increase were the HECToR facility and research grant expenditure, as well as a general increase in the University's activities.

Cash Flow

Cash and short-term investments at the year end amounted to £142 million, an increase of £25 million. This was the result of strong income and expenditure performance and the receipt of funds for the capital building programme ahead of the commencement of the main building phase. This growth in deposits was possible despite the increase in the size of the capital building programme, which at £44 million was at a record level. This was due to the programme being almost entirely funded by external sources.

Capital Projects

A very complex capital building programme has been undertaken in the last year and is planned to continue through the next three years. The Informatics Forum, a £42 million project, was completed on budget. A range of projects around the central area of Old Edinburgh have also moved forward, including the first phase of the library refurbishment that has been completed at a cost of £12 million. This, and other major refurbishment projects such as the Old Medical School and the Appleton Tower, have large elements of spend which, on external valuer's advice, are being charged as revenue expenditure. The amount charged to revenue is included under repairs and general maintenance, which at £34 million is 15% above the level in the previous year.

Investment Performance

During the year the University received £7.9 million of new endowments, the most remarkable of which was the bequest from the estate of Dr Albert McKern, who died in a prisoner of war camp in Sumatra in 1945.

Operating and Financial Review
continued

The turmoil in financial markets caused a fall in the value of the total endowment funds at the year-end to £185 million. The total return on the fund at -11.8% was below that of the benchmark due to the poor performance of the UK equity portfolio. Over the last 5 years, the fund has returned 7.7% per annum compared to the benchmark of 7.8%. By the 31 October, the value of the endowment fund had fallen below £160 million, and any recovery from this point will be dependent primarily on UK and world financial markets as well as the investment strategy of the University.

Net income received on the investment was £8.9 million or 4.92%. After the year-end, work commenced on implementing a new investment strategy agreed by the Investment Committee after a thorough review.

Pensions

The two main pensions schemes for University staff are the national USS for more senior academic and related staff and the University SBS scheme for support staff. Since USS is a multi-employer scheme, the FRS17 position is not reported. The FRS17 deficit on the SBS scheme increased to £79.5 million, the result of declining investment values, increased inflation and longer mortality assumptions. USS is currently carrying out its triennial valuation as at the 31 March 2008, and it is likely that this will result in increased contributions in 2009. We see meeting this increased cost as a shared responsibility with USS members as is the case with the support staff SBS scheme.

Corporate Social Responsibility

Promoting equality, diversity, sustainability and social responsibility is a key strategic theme of the University's new Strategic Plan. That the University performs well on these issues is crucial to the future success of the institution.

The University has for a number of years been taking strong action in the areas of widening participation. Over £10 million has been raised to support the provision of access bursaries. On environmental areas, the Informatics Forum, opened during the year, achieved a BREEAM Excellent rating, reflecting the environmentally sustainable design and construction of the building. Other successes have been in the Combined Heat and Power facilities, which generated £1 million of savings in this financial year, an energy saving campaign and transport initiatives.

The University's interaction with the local and Scottish community is considerable. It is one of the largest local employers and a major generator of economic activity, which amounts, according to a recent study, to 1% of Scotland's Gross Domestic Product. It makes contributions to the Arts, Sports and political debate, through its staff, students and facilities.

For its large endowment investments the University has in place a Social and Responsible Investment policy, which excludes direct tobacco investments.

Governance of the University follows best practice within the sector. In dealing with our students, continuous improvements are made to the teaching and services offered, and performance is monitored through questionnaires and benchmarking.

Looking forward, the University has specific targets for recruiting students from under-represented groups, improving the promotion prospects of female academic staff, and reducing absolute CO2 emissions.

Risks and Uncertainties

Sound risk management is an essential discipline for running the University efficiently and pursuing our strategy successfully. The University has a University-wide risk management process, monitored by the Risk Management Committee which reports to Court to ensure a consistent and coherent approach. This is detailed in the Corporate Governance Statement.

In this section, we describe some of the principal risks that the Court believes could materially affect the University, its reputation, revenues, liquidity and capital resources. The nature of risk is such that other risks may arise, or risks not currently considered material may become so in future.

The University Court recognises the following key institutional risks as particularly deserving attention. The delivery of our strategy is crucially reliant on growing our income from all sources at least at the same rate as our UK and International competition. To mitigate this risk, there are university-wide activities and incentives to grow income from students, governments, other funders and customers.

The University is conscious that Government funding for Higher Education in Scotland is diverging from the rest of the UK. Senior management is focused on assuring that the University is not disadvantaged, as compared to our competitors, by this situation.

The University's staff salaries are arrived at through a national pay bargaining procedure. The last pay agreement which ran for three years has resulted in pay awards in the final year well above our growth in income. Given the rising costs of the University's defined benefits pensions schemes and higher inflation, the University is taking mitigating actions to influence negotiations regarding future pay and pensions costs, and maintaining effective relations with local trade unions.

The University has a vast portfolio of buildings and facilities which are crucial to the delivery of the strategic plan. It is a major challenge to invest sufficient funds in the development and maintenance of these assets to deliver facilities that are attractive to students and funders. It is important that the University has the space to attract new activities, as well as minimising building maintenance. This risk is mitigated by a new estates strategy backed by much-enhanced actual and planned capital and recurrent spending on buildings.

The University was disappointed in its performance in the National Student Survey. This is already being addressed by a number of initiatives across all Schools and the University is in close consultation with the Student Association on the matter. In addition, capital building developments are prioritising facilities, such as the main Library, which will improve the student experience and further mitigate this risk.

There are a number of other risks around the areas or staff recruitment and retention, financial sustainability and major change projects, which though very major risks, are currently assessed as not being likely, due to longstanding and effective risk mitigation measures.

In recent months, the University has concluded that the global financial crisis and its impact on the world and UK economy is likely to have a considerable impact on the University. Endowment and pension fund values have reduced very significantly. The University is undertaking new initiatives to increase income and contain costs and much activity is ongoing as part of a wide ranging value for money strategy. The level of funds available for voluntary staff severance and early retirement has been expanded, and a national group is now negotiating with trade unions on the future funding and benefits of USS.

The University Court believes that the University has the leadership, skills and financial strength to cope with a reduced level of growth without damaging its core strengths.

Looking Forward

Since the year end, staff have received a 5% RPI linked pay award effective from October. This, together with increased utility costs, has tightened the University's financial position. The performance on student recruitment has, however, been positive and the level of research grant awards obtained continues to grow.

Against this background, a new strategic plan has been agreed. This advocates continued growth in income through the growth in postgraduate and international student numbers, enhanced commitment to the University of Edinburgh Campaign and further increases in research grant and commercialisation activity. On expenditure, strong initiatives will be undertaken to improve the efficiency of the use of the estate, investing in systems to deliver long-term cost saving and reduce expenditure on activities that do not support our core strategic aims. With staff costs accounting for about 60% of total costs, action is already being taken to reduce salary costs by not refilling some posts that become vacant and selective voluntary severance and early retirement. This activity started in the last year with about 60 staff agreeing to leave by the end of 2008. The University has embedded in its strategic plan 2008-2012 key performance targets against all the elements of the plan. This drives institutional direction in what is a very diverse and devolved University.

By continuing to strive to attract new income and tightly control cost, I believe the University can maintain strong institutional momentum. Financially, however, revenue performance is likely to weaken in the coming year, as costs of staff severance funding and revisions to income and expenditure as a result of decisions now being taken take time to make a positive impact.

The University will aim to continue with its very large capital building programme by working to raise funding from a mixture of external sources for the major projects which will start on site in 2008-09. The vast majority of this funding is in place. The challenge on the two largest projects, the Scottish Centre for Regenerative Medicine and the new Royal Dick Veterinary School teaching building that start in 2008-09, has been to obtain tenders that give cost certainty that the projects, with a total budgeted spend approaching £100 million, can be delivered on budget. Against a background of rising raw materials costs, it is pleasing that this has been achieved. However, the cost pressures on the capital building programme are increasing and action to avoid cost-overrun is becoming more difficult.

There are, however, some external factors which are favourable to the University. It is likely that Sterling will remain weak compared to other currencies, which will be positive in attracting international students to the UK. Money market rates and our interest income are currently very high. Finally, Edinburgh is much better placed in terms of financial strength to deal with this period of financial turbulence.

Operating and Financial Review
continued

The University has benefited for well over 10 years from a period of economic growth, which has boosted both public and private income to the University. In the current environment, the University will focus on delivering against its strategic aims and, I believe, will continue to move forward strongly based on the quality of both its academic excellence and its managerial competence.

John Markland
Convener, Finance and General Purposes Committee.

Corporate Governance Statement

31st July 2008

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 in its 2006 guidance. 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 2008.**

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 Senate, the regulation of degrees, admission and discipline of students: it is responsible for ensuring that the Senate 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 has 22 members and is chaired by the Rector. It has a majority of lay members, including assessors appointed by the Chancellor, the General Council and the City of Edinburgh Council: there are also staff and student members, with the Principal being an ex-officio member. 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 Scottish Funding Council and the University.

The Court normally meets five times per year. It consults with the Senate and the General Council as required by statute. The Court is committed to the Nolan Committee Principles regarding standards to be adopted in public life. It maintains a register of interest of its members and senior University officers which is publicly available for inspection.

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.aaps.ed.ac.uk/Governance/Governance.htm . Actions arising from this review were implemented in the two years since it was conducted.

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 strategic plan operative during 2007-08 was revised and updated during the year: the University Court adopted the new Strategic Plan for the period 2008-2012 at its June 2008 meeting, and it has recently been published. The strategic planning process is lead 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, an Investment 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 is also a Central Management Group that consists of senior academic and administrative managers who advise the Principal on senior management decisions and the

Corporate Governance Statement
continued

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. Investment Committee of the Court has 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 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** 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 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 Audit service together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. It has explicit responsibility for advising on the effectiveness of the University's risk management arrangements. The Committee also receives and considers reports from the Funding Council as they affect the University's business and monitors adherence to regulatory requirements. It has authority to investigate any matters within its terms of reference. Some senior University officers routinely attend meetings of the Audit Committee, but they are not members of the committee and once a year the Committee meets the Internal and External Auditors on their own for independent discussions.

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

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

The **Health and Safety Committee** provides oversight and guidance to the University's Health and Safety Services department (which also includes Occupational Health, Occupational Hygiene Unit, Fire Safety and Radiation Protection functions) and advises the Court in regard to compliance with its statutory responsibilities in this area. It is chaired by the Director of Corporate Services, 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 Senate and through the Finance and General Purposes Committee to Court. The Central Management Group 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 University's system of internal control

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

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 2007-08. 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 2007-08 and was adopted by Court on 20 October 2008 : it aligns to the University Strategic Plan 2008-12.

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 2 October 2008 and expressed itself satisfied with the outcome.

By its 15 December 2008 meeting, the Court had received the Audit Committee and Risk Management Committee reports for the year ended 31 July 2008; it also had taken account of relevant events since 31 July 2008. 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 2008.

Corporate Governance Statement
continued

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; and

d) the work of managers within the institution, who have responsibility for the development and maintenance of the internal control framework, and by any relevant comments made by other external agencies (e.g. the Quality Assurance Agency for Higher Education, SFC).

Charitable Status

The University had charitable status (No. SC005336) under the legislative framework operative throughout the 2007-08 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.

Responsibilities of the Court
continued

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 Court and 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 Sir Timothy O'Shea
The Chancellor's Assessor, Lord Cameron of Lochbroom

General Council Assessors

Mrs M Tait
Mr D A Connell
Professor A M Smyth

Senatus Academicus Assessors

Professor L Yellowlees
Professor C Hillenbrand (until 30 September 2008)
Dr L Collins (until 31 July 2008)
Professor D J Finnegan (until 31 July 2008)
Dr M Aliotta (from 1 August 2008)
Professor P Munn (from 1 August 2008)

City of Edinburgh Council Assessor

Rt Hon G Grubb, Lord Provost

Co–opted Members

Dr J A Markland (Vice Convener)
Ms G M Stewart
Mr I Darling
Mr G M Murray
Mr D Workman
Professor J Barbour
Professor S Monro
Ms A Richards

Non–Teaching Staff Assessor

Ms J Glover

Student Members

Mr J MacAlister (until 8 June 2008)
Ms A Davidson (until 8 June 2008)
Mr A Ramsay (from 9 June 2008)
Mr G Bromley (from 9 June 2008)

Membership of the Finance and General Purposes Committee and the Audit Committee covering the period of these financial statements and up to the date of signing was as follows:

Finance and General Purposes Committee

Convener: Dr J A Markland

The Principal
Vice-Principal Professor S Chapman
Mr M D Cornish, University Secretary
Mr J Gorringe, Director of Finance
Mr J MacAlister President of Students' Association (until 8 June 2008)
Mr A Ramsay President of the Students' Association (from 9 June 2008)
Mr M Murray
Mrs M Tait
Professor J Barbour
Professor D J Finnegan
Mr D A Connell

Audit Committee

Convener: Ms G M Stewart

Mr F H Hitchman
Mr D Bentley
Professor S Monro
Professor A M Smyth
Ms A Richards

Independent Auditors' 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 2008 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 (2007), 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 (2007). 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.

Opinion

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 2008 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 (2007);

- 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 2008 have been applied for the purposes for which they were received; and

- in all material respects, income during the year ended 31 July 2008 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

15 December 2008

Group Income and Expenditure Account
for the year ended 31st July 2008

	Note	2008 £ 000's	2007 Restated £ 000's
INCOME			
Funding council grants	2	176,905	162,865
Tuition fees and education contracts	3	82,343	73,373
Research grants and contracts	4	143,322	122,696
Other income	5	133,014	105,078
Endowment and Investment income	6	19,735	15,489
TOTAL INCOME		555,319	479,501
EXPENDITURE			
Staff costs	7	297,135	269,092
Other operating expenses	9	227,618	179,234
Depreciation	13	21,119	19,036
Interest payable	10	4,012	3,994
TOTAL EXPENDITURE		549,884	471,356
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		5,435	8,145
Gains on disposal of fixed assets	13 & 14	471	8,476
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION		5,906	16,621
Taxation	11	(26)	(22)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAXATION AND BEFORE MINORITY INTEREST		5,880	16,599
Minority interest		(4)	4
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		5,876	16,603
Surplus for the year transferred to accumulated income in endowment funds		(674)	(1,131)
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES	12	5,202	15,472

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

Group Statement of Historical Cost Surpluses

for the year ended 31st July 2008

	Note	2008 £ 000's	2007 Restated £ 000's
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		5,435	8,145
Gains on disposal of fixed assets in the year	13 &14	471	8,476
Realisation of revaluation gains of previous years	23	930	680
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	23	5,800	5,620
HISTORICAL COST SURPLUS BEFORE TAXATION		12,636	22,921
HISTORICAL COST SURPLUS AFTER, TAXATION, MINORITY INTEREST AND TRANSFERS TO SPECIFIC ENDOWMENT ASSET INVESTMENTS		11,932	21,772

Group Statement of Total Recognised Gains and Loses

for the year ended 31st July 2008

	Note	2008 £ 000's	2007 Restated £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		5,876	16,603
(Depreciation)/Appreciation on fixed asset investments	14	(607)	201
(Depreciation)/Appreciation on endowment asset investments	15	(33,502)	10,261
Unrealised surplus on revaluation of tangible fixed assets	23	125,462	–
Impairment of tangible fixed assets	23	–	(1,368)
New endowments	22	5,849	3,069
Actuarial (Loss)/Gain in respect of Pension schemes	31	(55,938)	23,191
TOTAL GAINS RECOGNISED DURING THE CURRENT YEAR		47,140	51,957
Prior year adjustment (note 38)		10,144	–
TOTAL GAINS RECOGNISED SINCE THE LAST FINANCIAL STATEMENTS		57,284	51,957
Reconciliation:			
Opening reserves and endowments at 1 August as restated		824,652	772,695
Total recognised gains for the year		47,140	51,957
Closing reserves and endowments at 31 July		871,792	824,652

Balance Sheet
for the year ended 31st July 2008

	Note	Group 2008 £ 000's	Group 2007 Restated £ 000's	University 2008 £ 000's	University 2007 Restated £ 000's
FIXED ASSETS					
Tangible assets	13	1,006,241	850,651	1,000,579	843,974
Investments	14	21,467	23,809	24,808	27,898
		1,027,708	874,460	1,025,387	871,872
ENDOWMENT ASSET INVESTMENTS	15	185,038	212,017	185,038	212,017
CURRENT ASSETS					
Stocks and stores in hand		2,313	2,149	1,619	1,319
Debtors	16	79,937	67,536	76,545	66,463
Assets held for resale	35	715	715	715	715
Investments: Bank deposits	30	117,812	100,574	110,051	90,728
Cash at bank and in hand	30	24,569	16,393	14,609	7,387
		225,346	187,367	203,539	166,612
CREDITORS: Amounts falling due within one year	17	(172,472)	(126,581)	(155,752)	(111,648)
NET CURRENT ASSETS		52,874	60,786	47,787	54,964
TOTAL ASSETS LESS CURRENT LIABILITIES		1,265,620	1,147,263	1,258,212	1,138,853
CREDITORS: Amounts falling due after more than one year	18	(61,524)	(62,674)	(61,524)	(62,674)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(7,095)	(7,095)	(7,095)	(7,095)
TOTAL NET ASSETS EXCLUDING PENSIONS LIABILITY		1,197,001	1,077,494	1,189,593	1,069,084
PENSION LIABILITY	31	(84,391)	(29,000)	(84,391)	(29,000)
TOTAL NET ASSETS INCLUDING PENSION LIABILITY		1,112,610	1,048,494	1,105,202	1,040,084

		Group		University	
Represented by:	Note	2008 £ 000's	2007 Restated £ 000's	2008 £ 000's	2007 Restated £ 000's
DEFERRED CAPITAL GRANTS	21	240,801	223,830	238,245	220,817
ENDOWMENTS					
Expendable	22	130,401	154,009	130,401	154,009
Permanent	22	54,637	58,008	54,637	58,008
		185,038	212,017	185,038	212,017
RESERVES					
Revaluation Reserve	23	550,658	432,533	550,658	432,533
General Reserves excluding pension liability	24	220,487	209,102	215,652	203,717
Pension Reserve	31	(84,391)	(29,000)	(84,391)	(29,000)
General Reserve including pension liability		136,096	180,102	131,261	174,717
Total Reserves		686,754	612,635	681,919	607,250
MINORITY INTERESTS		17	12	–	–
TOTAL FUNDS		1,112,610	1,048,494	1,105,202	1,040,084

The financial statements on pages 16 to 50 were adopted by Court on 15 December 2008 and were signed on its behalf by:

Timothy O'Shea

Professor Sir Timothy O'Shea
Principal

Dr J A Markland
Member of the University Court

JP Gorringe

J P Gorringe
Director of Finance

Group Cash Flow Statement

for the year ended 31st July 2008

	Note	2008 £'000's	2007 £'000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	18,555	19,385
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	26	13,686	9,241
TAXATION	11	(26)	(22)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	27	(5,288)	(23,114)
MANAGEMENT OF LIQUID RESOURCES	28	(17,238)	(7,107)
FINANCING	29	(1,133)	(1,114)
INCREASE/(DECREASE) IN CASH IN THE PERIOD	30	8,556	(2,731)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)			
Increase/(decrease) in cash in the period		8,556	(2,731)
Cash outflow from increase in liquid resources	28	17,238	7,107
Change in net debt resulting from cashflows	30	1,133	1,114
Movement in net funds for the period	30	26,927	5,490
Net funds at start of year	30	58,824	53,334
NET FUNDS AT CLOSE OF YEAR	30	85,751	58,824

Notes to the Financial Statements

for the year ended 31st July 2008

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies selected follow the principles laid out in FRS18 and have been applied consistently in dealing with items considered material in relation to the financial statements.

i) Accounting Convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments and certain Land and Buildings, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (SORP07) and applicable accounting standards.

ii) Prior Year Adjustment

Changes in accounting policies arise from the adoption of a new accounting standard or a SORP. These reflect and changes in recognition criteria, measurement bases or methods of presentation and are dealt with as prior year adjustments.

iii) 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. Intra-group transactions are eliminated on consolidation. 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.

iv) Recognition of Income

Tuition fees for each academic year are recognised in full in the financial year in which they are chargeable with the exception of fees for post-graduate students with non-standard start dates where only the portion of the fee related to the financial year is recognised. The fee elements of bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

All income from funding council grants is disclosed separately and annual "block" funding awards are recognised in the year of receipt.

Specific grants for special purposes are accounted for on an accruals basis and included in income to the extent of the expenditure incurred during the year. Grants for specific buildings and equipment are deferred to the extent that the related expenditure is capitalised and amortised over the useful life of the fixed asset.

Income from Restricted 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 receivables 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 Fixed Assets Investments is credited to the Income and Expenditure Account on a receivable basis.

Income from the sale of goods and services is credited to the income and expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Income from general fundraising and donations received supporting the general purposes of the University or individual departments is recognised in the year it is receivable.

Any increase in value arising on the revaluation of fixed assets investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus.

Increases and decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment assets, crediting or debiting the endowment fund and is reported in the statement of total recognised gains and losses.

v) Research and Development Expenditure

Income from Research Grants and Contracts is included to the extent that related expenditure is incurred during the year.

Notes to the Financial Statements
continued

Research and development costs incurred by the University on its own behalf is written off in the year is incurred with the exception of any equipment or software that is capitalised in line with the University's accounting policy.

vi) Leases

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

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

vii) Land and Buildings

Land and buildings held by the University at 1 August 2007 were revalued at that date at valuations by Messrs Gerald Eve, an independent firm of Chartered Surveyors. The majority of buildings were valued on the depreciated replacement cost basis. Certain other buildings, mainly residential accommodation, retail properties and land were valued on existing use or open market value bases. The University complies with the requirements of FRS 15: Tangible Fixed Assets, through a review of the above valuations within the required five-year cycle specified by the reporting standard.

Additions since 1 August 2007, including buildings under construction, are shown at cost. Depreciation on buildings has been provided on a straight-line basis using an assessment of the expected useful life of each building as assessed by the University's qualified valuers. No depreciation is provided on land. The range of depreciation rates used for the majority of buildings is as follows:

- Major infrastructure plant: 10 to 15 years
- System built properties: 15 to 25 years
- General buildings: 50 to 80 years
- Historic and legacy properties: 100 years

Other lives within this range are applied to reflect the circumstances of specific buildings. Where buildings are depreciated over a period greater than 50 years, the carrying value is subject to an annual impairment review in accordance with FRS 11. Buildings under construction are not depreciated.

Costs incurred in relation to a tangible fixed asset, after its initial purchase or production, are capitalised to the extent that they increase the expected future value to the institution beyond its previously assessed value, the cost of any such enhancements are added to the gross carrying amount of the tangible fixed asset concerned. Assets under construction are stated at cost and are not depreciated until the period in which they are brought into use.

viii) Repairs and maintenance

The depreciation rates used reflect the University's policy of maintaining buildings to functional and regulatory compliance standards through a planned refurbishment programme that is reviewed annually. The expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure in the period it is incurred.

Acquisition with the aid of specific grants

Where buildings are constructed or 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, and 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.

ix) Assets held for Resale

Assets held for resale are stated at market value and are disclosed as current assets within one year of sale.

x) 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 and the purchase or external development costs of major new applications software is capitalised. All University capitalised equipment is stated at cost and depreciated over a four-year period from the year in which the equipment or software is commissioned.

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 building 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.

xi) Investments

The University's investments continue to be administered by an external fund manager and comprise the following main funds:

- the Norman Salvesen Emphysema Research Fund a separate charity, Scottish Charity No. SC011510 held in the No.3 Trust
- the combined assets of the University's other restricted endowment funds held in the University of Edinburgh Endowment Fund
- the University's former general endowment are now included in investments within fixed assets. These funds are also invested in the University of Edinburgh Endowment Fund
- the University's general investments held in the University of Edinburgh general Reserve Fund

Listed investments held as fixed assets or endowment assets are shown at market value. Investments in subsidiary companies are shown at the lower of cost or net realisable value and the investments in associates, where material are shown in the consolidated balance sheet at the attributable share of net assets.

Current asset investments include temporary and money market deposits and are included at the lower cost and net realisable value.

xii) Endowments

Restricted expendable endowments are those where both the capital and interest are expended for the purpose specified by the donor.
Restricted permanent endowments are those where the capital is retained on a permanent basis and the interest is expended for the purpose specified by the donor.

xiii) Stocks

Stocks for resale and other stocks are included at the lower of cost and net realisable value. Where necessary provision is made for obsolete, slow moving and defective stocks.

xiv) Cash flows and liquid resources

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, cash at bank and deposits repayable on demand. Deposits are repayable on demand if they are available within 24 hours without penalty. No other investments however liquid are included as cash.

Liquid resources comprise assets held as readily disposable stores of value. They include cash term deposits and bank notice accounts held as part of the Institution's treasury management activities. They exclude any such assets held as part of fixed asset and endowment asset investments.

xv) Foreign Currency Translations

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.

xvi) 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.

xvii) 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)

Notes to the Financial Statements
continued

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

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

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

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

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

The University also contributes to The Federated Superannuation System, 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.

xviii) Comparatives

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

	2008 £ 000's	2007 £ 000's
2. FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	81,215	79,598
Research	68,689	61,933
Specific grants		
Information systems	4,151	3,730
Infrastructure Grants for Research, Teaching & Learning including research pooling	10,406	6,476
Other including research pooling	10,040	8,853
Deferred capital grants released in year		
Buildings (note 21)	1,700	1,689
Equipment (note 21)	704	586
	176,905	162,865
3. TUITION FEES AND EDUCATION CONTRACTS		
UK and EU Higher Education Students	37,812	34,986
Full-time students charged overseas fees	38,286	32,961
Research training support grants	2,043	1,430
Short course and other fees and support grants	4,202	3,996
	82,343	73,373
4. RESEARCH GRANTS AND CONTRACTS		
Grants		
Research councils	58,381	43,644
UK based charities	34,903	32,019
UK central government bodies, local and health authorities	19,234	20,837
UK industry, commerce and public corporations	9,510	8,224
EU government bodies	14,066	11,630
EU other	253	549
Other overseas	3,090	2,813
Other sources	3,885	2,980
	143,322	122,696

The prior year comparatives for research income and expenditure in notes 7 & 9 have been restated to reflect the gross value of the University's share of the research activity of the Scottish Universities Environmental Research Centre (SUERC), a joint activity with the University of Glasgow.

Deferred Capital Grants: Research income of £3,245,000 (2007 - £2,009,000) has been deferred (see note 21) to match purchases of items of equipment costing in excess of £25,000 which have been capitalised. Research income includes Deferred Capital Grants released during the year of £3,442,000 (see note 21) (2007 - £4,196,000)

Notes to the Financial Statements
continued

	2008 £ 000's	2007 Restated £ 000's
5. OTHER INCOME		
Residences, Catering and Conferences	33,532	30,988
Specific Grants, Donations and Other Designated Income:		
Academic & related activities	32,087	26,301
Academic services & support activities	31,271	9,775
General Income :		
Academic & related activities	16,060	14,647
Income generating, academic services & support activities	17,613	21,090
Released from deferred capital grants		
Buildings (note 21)	1,500	1,350
Equipment (note 21)	951	927
	133,014	105,078

	2008 £ 000's	2007 Restated £ 000's
6. ENDOWMENT AND INVESTMENT INCOME		
Income from expendable endowments	6,558	5,529
Income from permanent endowments	2,366	2,082
Other investment income	850	160
Other interest receivable	8,332	6,508
Net return on pension scheme assets (note 31)	1,629	1,200
	19,735	15,489

Note 38 provides details of the restatement to figures for the prior year.

	2008 Number	2007 Number
7. STAFF		
Staff numbers (expressed as full-time equivalents as at 31 July) were as follows :		
Academic and related support	3,358	3,131
Research grants and contracts	1,808	1,611
Library, computer and other academic support services	529	503
Administration and central services	537	536
Premises	636	588
Other including income generating operations	88	82
Residences and catering operations	412	411
	7,368	6,862
Staff numbers (expressed as an employee count as at 31 July) were as follows :		
Staff on open ended contracts	6,092	5,530
Staff on fixed term contract	1,979	1,870
	8,071	7,400
Percentage of Employees on Fixed Term Contracts	24.5%	25.3%

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.

	2008 £ 000's	2007 £ 000's
7. STAFF (continued)		
Analysis of the cost of the above staff by activity:		
Academic and related support staff	156,857	141,749
Research grants and contracts	70,028	62,389
Library, computer and other academic support services	19,095	15,945
Administration and central services	22,078	20,924
Premises	14,127	13,346
Other including income generating operations	3,884	3,608
Residences and catering operations	9,328	8,740
Unfunded pensions	656	(377)
Pension costs less employer contributions payable (note 31)	1,082	2,768
	297,135	269,092
Analysis of the above staff cost by type:		
Salaries and wages	234,665	220,533
Social security costs	19,112	18,381
Other pension costs (note 31)	39,332	29,719
Severance costs and unfunded pensions	4,026	459
	297,135	269,092

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:

	2008 Number	2007 Number
£70,000 – £79,999	82	71
£80,000 – £89,999	54	44
£90,000 – £99,999	26	29
£100,000 – £109,999	24	21
£110,000 – £119,999	17	14
£120,000 – £129,999	6	9
£130,000 – £139,999	11	11
£140,000 – £149,999	10	14
£150,000 – £159,999	10	13
£160,000 – £169,999	9	7
£170,000 – £179,999	5	4
£180,000 – £189,999	6	7
£190,000 - £199,999	4	5
£200,000 - £209,999	2	2
£210,000 - £219,999	1	1
£220,000 - £229,999	2	–
	269	252

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

Emoluments of the Principal	2008 £ 000's	2007 £ 000's
Salary	228	208
Benefits in kind	1	1
	229	209
Pension contributions	39	31
	268	240

Pension contributions for the Principal are paid to the USS at the same rate as for other academic staff.

Notes to the Financial Statements
continued

	2008 £ 000's	2007 £ 000's
8. SENIOR POST HOLDERS (continued)		
Compensation for loss of office		
Compensation for loss of office was paid to one senior member of staff earning in excess of £70,000 per annum. In addition compensation in excess of £100,000 was payable to three other members of staff.		
Payments to USS for enhanced pension benefits	402	–
Other payments in respect of loss of office	20	–
	422	–

The severance pay was in accordance with the Remunerations committee policy.

	2008 £ 000's	2007 £ 000's
9. ANALYSIS OF OTHER OPERATING EXPENSES BY ACTIVITY		
Academic and related expenditure	47,319	42,875
Research grants and contracts	46,750	41,546
Library, computer and other academic support services	34,261	13,039
Administration and central services	14,937	13,994
Premises – Refurbishment and maintenance	33,692	29,334
– Utility Costs	10,270	8,845
– Other Premises costs	7,008	8,098
Other including income generating operations	16,751	6,333
Residences and catering operations	16,630	15,170
	227,618	179,234
Other operating expenses include:		
Operating Lease Rentals	21,294	4,249
Fees charged by External Auditors		
Audit of these financial statements	55	54
Audit of financial statements of subsidiaries pursuant to legislation	32	28
Non-Audit Services	78	65
10. INTEREST PAYABLE		
Bank and other loans	3,752	3,726
Finance leases	260	268
	4,012	3,994
11. TAXATION		
UK corporation tax charge on subsidiaries' profits	26	22

	2008 £ 000's	2007 Restated £ 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	1,832	13,813
Surplus generated by subsidiary undertakings	3,370	1,659
Total	5,202	15,472

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 2007	828,614	42,896	63,053	934,563
Revaluation	91,163	–	–	91,163
Additions at cost	33,247	9,562	8,236	51,045
Acquisition of Roslin Institute	1,080	–	–	1,080
Reclassification	35,844	(35,844)	–	–
Disposals	(1,128)	–	–	(1,128)
As at 31 July 2008	988,820	16,614	71,289	1,076,723
Depreciation				
As at 1 August 2007	36,943	–	46,969	83,912
Written back on Revaluation	(34,299)	–	–	(34,299)
Impairment	1,157	–	–	1,157
Charge for the year	12,850	–	7,112	19,962
Disposals	(250)	–	–	(250)
As at 31 July 2008	16,401	–	54,081	70,482
Net book value				
As at 31 July 2008	972,419	16,614	17,208	1,006,241
As at 31 July 2007	791,671	42,896	16,084	850,651

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 FRS15: Tangible Fixed Assets, an interim revaluation of Land and Buildings was performed by Messrs Gerald Eve, Chartered Surveyors, as at 1 August 2007 and has been reflected in these accounts. Valuations were established on the following bases:

– 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.
– Valuations were carried out in compliance with the RICS valuation standards (the "Red Book").
– Where buildings were under construction they were not included in the valuation and are stated at cost.

As a result of the revaluation depreciation previously provided on buildings has been written back.

Gains on disposals of land and building fixed assets amounted to £471,000 (2007 - £350,000).

Land and Buildings with a net book value of £118,111,000 (2007 - £111,482,000) have been financed from Exchequer Funds. Should these assets be sold, the University may be liable, under the terms of the Financial Memorandum with the Funding Council, to surrender the proceeds.

Notes to the Financial Statements
continued

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 2007	828,614	42,896	52,547	924,057
Revaluation	91,163	–	–	91,163
Additions at cost	33,247	9,562	8,206	51,015
Acquisition of Roslin Institute*	1,080	–	–	1,080
Reclassification	35,844	(35,844)	–	–
Disposals	(1,128)	–	–	(1,128)
As at 31 July 2008	988,820	16,614	60,753	1,066,187
Depreciation				
As at 1 August 2007	36,943	-	43,140	80,083
Written back on revaluation	(34,299)	-	-	(34,299)
Impairment	1,157	-	-	1,157
Charge for the year	12,850	-	6,067	18,917
Disposals	(250)	–	–	(250)
As at 31 July 2008	16,401	-	49,207	65,608
Net book value				
As at 31 July 2008	972,419	16,614	11,546	1,000,579
As at 31 July 2007	791,671	42,896	9.407	843,974

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 £2,499,833 (2007 - £2,005,000) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £30,272 (2007 - £25,050).

* During the year the University acquired freehold title to land and buildings as part of the Roslin Institute acquisition (see note 39)

Net book value historical cost equivalent

	Group		University	
	2008 £ 000's	2007 £ 000's	2008 £ 000's	2007 £ 000's
Land and buildings	482,500	429,750	482,500	429,750
Equipment	17,208	16,084	11,546	9,407
	499,708	445,834	494,046	439,157

The group depreciation charge has been matched by:

	2008 £ 000's	2007 £ 000's
Deferred capital grants released (note 21)	8,297	8,748
Revaluation reserve transferred to general reserves (note 23)	5,800	5,620
Earnings in subsidiaries	1,046	1,039
General income	4,819	3,629
	19,962	19,036

	Group		University	
	2008 £ 000's	2007 Restated £ 000's	2008 £ 000's	2007 Restated £ 000's
14. INVESTMENTS WITHIN FIXED ASSETS				
Movement in the year				
University General Reserve Fund				
Balance at 1 August	19,639	–	19,639	–
Additions	1,370	20,000	1,370	20,000
Net depreciation	(3,074)	(361)	(3,074)	(361)
Balance at 31 July	17,935	19,639	17,935	19,639
University General Fund				
Balance at 1 August as restated	3,955	3,740	3,955	3,740
(Disposals)/additions	(14)	14	(14)	14
Net (depreciation)/appreciation	(607)	201	(607)	201
Balance at 31 July	3,334	3,955	3,334	3,955
Other Investments				
Balance at 1 August	215	149	4,304	5,205
Loans repaid	–	–	(1,300)	(1,150)
Loan provisions released	–	–	539	253
Disposals	–	(4)	–	(4)
Net (depreciation)/appreciation	(17)	70	(4)	–
Balance at 31 July	198	215	3,539	4,304
Total Investments within Fixed Assets	21,467	23,809	24,808	27,898

	Group		University	
	2008 £ 000's	2007 Restated £ 000's	2008 £ 000's	2007 Restated £ 000's
Represented by:				
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	3,100	3,861
Fixed interest stocks	6,355	5,028	6,354	5,028
Equities	13,694	18,164	13,581	18,034
Bank deposits held at fund managers	1,337	532	1,334	532
Other investments at cost	81	85	81	85
Total investments within fixed assets	21,467	24,809	24,808	27,898
Investments at cost	24,868	23,394	28,326	28,510

No gains on disposal of investments arose during the year (2007 - £8,126,000).

Subsidiary undertakings comprise companies registered in Scotland as follows:

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.

Notes to the Financial Statements
continued

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-subsidiary" of the University under the guidelines of FRS5: Reporting the Substance of Transactions. The primary purpose of the Trust is to act as a fundraiser for the University and to hold and allocate funds for the benefit of the University.

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

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.

Roslin Cells Limited
Following the acquisition of Roslin Institute (see note 39) the University now nominates one member of Roslin Cells, a company limited by guarantees of £1 from each of two members. No share of the accounts of that body is consolidated on the ground of materiality.

In addition to the above subsidiary and associate undertakings, the Group and University nominate members of other companies limited by guarantee and 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	
	2008 £ 000's	2007 Restated £ 000's
15. ENDOWMENT ASSET INVESTMENTS		
As at 1 August	212,017	197,556
Net new endowment invested (note 27)	7,993	5,767
Existing endowments disbursed (note 27)	(2,047)	(1,038)
(Decrease)/Increase in market value of investments (note 22)	(33,502)	10,261
Increase/(Decrease) in cash balances held by University	380	(471)
Increase/(Decrease) in working capital	197	(58)
As at 31 July	185,038	212,017

	Group and University	
	2008 £ 000's	2007 Restated £ 000's
15. ENDOWMENT ASSET INVESTMENTS (continued)		
Endowment asset investments are comprised of:		
Fixed interest stocks	55,720	46,310
Equities	114,636	160,670
Bank deposits held at fund managers	12,941	3,873
Cash balance held by the University (note 30)	1,545	1,165
Working capital	196	(1)
Total endowment asset investments – Market Values	185,038	212,017
Endowment Assets – at Cost	189,666	177,961

The above investments comprise the total assets of the University's permanent and expendable restricted endowments and include the Norman Salvesen Emphysema Research Fund held in the No.3 Trust.

	Group		University	
	2008 £ 000's	2007 £ 000's	2008 £ 000's	2007 £ 000's
16. DEBTORS				
Amounts falling due within one year:				
Debtors	71,554	62,273	63,887	56,828
Amounts owing from subsidiary companies	–	–	4,552	4,769
Prepayments	8,383	5,263	8,106	4,866
	79,937	67,536	76,545	66,463

	Group		University	
	2008 £ 000's	2007 Restated £ 000's	2008 £ 000's	2007 Restated £ 000's
17 CREDITORS:				
Amounts falling due within one year:				
Unsecured Loans (note 19)	1,092	1,080	1,092	1,080
Finance lease (note 19)	59	54	59	54
Creditors	32,286	22,515	28,425	18,723
Social security and other taxation payable	6,721	6,133	6,700	6,111
Accruals and deferred income	132,314	96,799	119,476	85,680
	172,472	126,581	155,752	111,648

Notes to the Financial Statements
continued

	Group and University	
	2008 £ 000's	2007 £ 000's
18. CREDITORS:		
Amounts falling due after more than one year:		
Bank loans (note 19)	55,008	56,101
Obligations under finance leases (note 19)	2,016	2,073
Other Creditor	4,500	4,500
	61,524	62,674
19. BORROWINGS		
Bank loans		
Bank loans are repayable as follows:		
In one year or less	1,092	1,080
Between two and five years	4,524	4,341
In five years or more	50,484	51,760
	56,100	57,181
Less: falling due within one year (note 17)	1,092	1,080
Total bank loans (note 18)	55,008	56,101

Borrowings consist of long term credit facilities and one unsecured loan with a fixed interest rate of 5.5% p.a. The repaid loans were replaced by a single, unsecured long term loan.

The University's long term credit facilities are as follows:
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 annual interest rate 0.23% above Bank of England base rate, repayable between 2005 and 2025

	Group and University	
	2008 £ 000's	2007 £ 000's
Finance leases		
Obligations under finance leases fall due as follows:		
In one year	59	54
Between two and five years	359	301
After five years	1,657	1,772
	2,075	2,127

	Group and University	
	2008 £ 000's	2007 £ 000's

20. PROVISIONS FOR LIABILITIES AND CHARGES

	2008 £ 000's	2007 £ 000's
Unfunded pensions		
As at 1 August	7,095	8,059
Utilised in year	(599)	(602)
Transfer from/(to) income and expenditure account	599	(362)
As at 31 July	7,095	7,095

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.

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 2007 as restated				
Buildings	111,379	102,993	–	214,372
Equipment	1,009	3,838	4,611	9,458
	112,388	106,831	4,611	223,830
Cash receivable				
Buildings	8,432	11,828	–	20,260
Equipment	738	1,025	3,245	5,008
	9,170	12,853	3,245	25,268
Released to income and expenditure account				
Buildings	1,700	1,500	–	3,200
Equipment	704	951	3,442	5,097
	2,404	2,451	3,442	8,297
As at 31 July 2008				
Buildings	118,111	113,321	–	231,432
Equipment	1,043	3,912	4,414	9,369
	119,154	117,233	4,414	240,801

Notes to the Financial Statements
continued

21. DEFERRED CAPITAL GRANTS (continued)

University	Funding Council £ 000's	Other grants & benefactions £ 000's	Research income £ 000's	Total £ 000's
As at 1 August 2007 as restated				
Buildings	111,379	102,993	–	214,372
Equipment	1,009	825	4,611	6,445
	112,388	103,818	4,611	220,817
Cash receivable				
Buildings	8,432	11,828	–	20,260
Equipment	738	1,025	3,245	5,008
	9,170	12,853	3,245	25,268
Released to income and expenditure account				
Buildings	1,700	1,500	–	3,200
Equipment	704	494	3,442	4,640
	2,404	1,994	3,442	7,840
As at 31 July 2008				
Buildings	118,111	113,321	–	231,432
Equipment	1,043	1,356	4,414	6,813
	119,154	114,677	4,414	238,245

22. ENDOWMENT FUNDS

	Group and University			
	Restricted Permanent £ 000's	Restricted Expendable £ 000's	Total 2008 £ 000's	Total 2007 £ 000's
Restated balances				
Capital	50,757	137,539	188,296	176,080
Accumulated income	7,251	16,470	23,721	21,476
At 1 August as restated	58,008	154,009	212,017	197,556
New endowment	5,694	155	5,849	3,069
(Depreciation)/appreciation of endowment asset investments	(9,226)	(24,276)	(33,502)	10,261
Investment Income for the year	2,366	6,558	8,924	7,610
Expenditure for the year	(2,205)	(6,045)	(8,250)	(6,479)
As at 31 July	54,637	130,401	185,038	212,017
Represented by;				
Capital	48,219	116,490	164,709	188,296
Accumulated income	6,418	13,911	20,329	23,721
	54,637	130,401	185,038	212,017

	Group and University	
	Total 2008 £ 000's	Total 2007 Restated £ 000's
23. REVALUATION RESERVE		
As at 1 August as previously stated	429,886	437,554
Prior year adjustment	2,647	2,446
As at 1 August as restated	432,533	440,000
Revaluation of tangible assets during the year	125,462	–
(Diminution)/appreciation in investments during the year	(607)	201
Transfer to general reserve - depreciation on revalued assets (note 24)	(5,800)	(5,620)
Disposals in the year (note 24)	(930)	(680)
Impairment in the year	–	(1,368)
As at 31 July	550,658	432,533

	Group	University	Group	University
	2008 £ 000's	2008 £ 000's	2007 Restated £ 000's	2007 Restated £ 000's
24. MOVEMENT ON GENERAL RESERVES				
GENERAL RESERVE INCLUDING PENSION LIABILITY				
At 1 August as previously stated	168,650	165,300	124,279	123,487
Prior year adjustment	11,452	9,417	10,860	9,417
At 1 August as restated	180,102	174,717	135,139	132,904
Surplus attributable to the year	5,202	5,752	15,472	12,322
Depreciation on revalued assets (note 23)	5,800	5,800	5,620	5,620
Realisation of revaluation gains of previous years (note 23)	930	930	680	680
Pension actuarial (loss)/gain	(55,938)	(55,938)	23,191	23,191
Balance at 31 July	136,096	131,261	180,102	174,717
Represented by:				
INCOME AND EXPENDITURE ACCOUNT				
At 1 August as previously stated	197,650	194,300	174,902	174,110
Prior year adjustment	11,452	9,417	10,860	9,417
At 1 August as restated	209,102	203,717	185,762	183,527
Surplus attributable to the year	5,202	5,752	15,472	12,322
Transfer (to)/from pension reserve	(547)	(547)	1,568	1,568
Transfer from revaluation reserve	6,730	6,730	6,300	6,300
Balance at 31 July	220,487	215,652	209,102	203,717

Notes to the Financial Statements
continued

24. MOVEMENT ON GENERAL RESERVES (continued)

	Group and University 2008 £ 000's	2007 £ 000's
PENSION RESERVE		
At 1 August	(29,000)	(50,623)
Current service cost	(10,438)	(9,838)
Past service gains	(100)	221
Employer contributions	9,399	6,794
Contributions in respect of unfunded benefits	57	55
Net return on assets	1,629	1,200
Transfer from/(to) income and expenditure account	547	(1,568)
Actuarial (loss)/gain (note 31)	(55,938)	23,191
Pension Reserve (Liability) at 31 July	(84,391)	(29,000)

25. RECONCILIATION OF CONSOLIDATED SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £ 000's	2007 Restated £ 000's
Surplus before tax and minority interest	5,906	16,621
Pension service cost in excess of contributions payable (note 31)	1,082	2,768
Depreciation (note 13)	19,962	19,036
Impairment of fixed assets (note 13)	1,157	464
Depreciation in fixed asset investment: general reserve fund (note 14)	3,074	361
Depreciation/(appreciation) of fixed asset investments: other (note 14)	17	(70)
Deferred capital grants released to income (note 21)	(8,297)	(8,748)
Profit on disposal of fixed assets	(471)	(350)
Profit on disposal of fixed asset investments	–	(8,126)
Interest payable (note 10)	4,012	3,994
Increase in stocks	(164)	(12)
Decrease/(Increase) in debtors	(16,263)	2,079
Increase in accruals and deferred income	18,098	12,011
(Decrease)/Increase in creditors	10,177	(4,191)
(Decrease)/Increase in provisions (note 20)	–	(964)
Endowment income (note 22)	(8,924)	(7,610)
Other investment income (note 6)	(850)	(170)
Interest receivable (note 6)	(8,332)	(6,508)
Net return on pension scheme assets (note 6)	(1,629)	(1,200)
NET CASH INFLOW FROM OPERATING ACTIVITIES	18,555	19,385

26. RETURN ON INVESTMENT AND SERVICING OF FINANCE

	2008 £ 000's	2007 Restated £ 000's
Endowment funds dividends and interest received	8,727	7,647
Other investment income	852	168
Interest received	8,121	5,417
Interest paid	(3,751)	(3,723)
Finance lease interest paid	(263)	(268)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	13,686	9,241

	Group and University	
	2008 £ 000's	2007 Restated £ 000's
27. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchases of tangible assets	(50,983)	(41,382)
Proceeds from sale of fixed assets	1,349	1,808
Proceeds from sale of investment assets	-	8,130
Deferred capital grants received - Funding councils and research equipment	27,908	21,239
Deferred capital grants received - Other capital benefactions	17,905	8,751
Purchase of fixed asset investment (note 14)	(1,370)	(20,000)
Purchase of Endowment investment assets (note 15)	(7,993)	(5,767)
Disposal of Endowment investment assets (note 15)	2,047	1,038
New Endowments received (note 22)	5,849	3,069
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(5,288)	(23,114)
28. MANAGEMENT OF LIQUID RESOURCES		
Increase in deposits	(17,238)	(7,107)
NET CASH OUTFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	(17,238)	(7,107)
29. FINANCING		
Loan repayments	(1,081)	(1,063)
Capital repayment of finance lease obligations	(52)	(51)
NET CASH OUTFLOW FROM FINANCING	(1,133)	(1,114)

30. ANALYSIS OF NET (DEBT)/FUNDS

	As at 1 August 2007 £ 000's	Cashflows £ 000's	Other Changes £ 000's	As at 31 July 2008 £ 000's
Cash at bank and in hand	16,393	8,176	–	24,569
Endowment asset investments:				
Cash balance held by University (note 15)	1,165	380	–	1,545
Total cash at bank and in hand	17,558	8,556	–	26,114
Debt due within 1 year	(1,080)	1,080	(1,092)	(1,092)
Debt due after 1 year	(56,101)	1	1,092	(55,008)
Finance leases	(2,127)	52	–	(2,075)
Current asset investments:				
Bank deposits	100,574	17,238	–	117,812
TOTAL FUNDS	58,824	26,927	–	85,751

Notes to the Financial Statements
continued

31. PENSION FUNDS

UNIVERSITY PENSION SCHEMES

The University participates in two active Pension schemes; the Universities Superannuation Scheme (USS) and the University of Edinburgh Staff Benefits Scheme (EUSBS). The University also makes contributions to other legacy Pension schemes that are closed to new employees. Some former employees of 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 (FSSU) covers a small number of academic staff that did not transfer to USS when it was introduced in 1975.

Total Pension Costs for the year.

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

	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
USS – Contributions paid*	28,088	19,524
EUSBS – Charge to income and expenditure account*	10,200	9,276
STSS – Contributions paid	374	361
SPF - Charge to income and expenditure account	281	162
FSSU - Charge to income and expenditure account	10	9
Other - Charge to income and expenditure account	379	387
	39,332	29,719

	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
Outstanding contributions to pension schemes at the Balance Sheet date were as follows:		
The Universities Superannuation Scheme	3,002	2,376
The Federated Superannuation Scheme for Universities	9	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	196	183
Payment to retired members in respect of the FSSU Supplementation scheme	16	18

*** Pensions salary sacrifice arrangement ("pensions+")**
With effect from 1 January 2008, members of the USS and EUSBS schemes may elect to give up a portion of their contractual gross pay equal to their employees' pension contribution. In return the University increases its contributions to cover both the employee and employer elements of the pension contribution. This pension salary sacrifice arrangement is referred to within the University as the "pensions +" scheme. No change to staff pensionable salaries or total pension scheme contributions arises from this arrangement. The majority of staff accepted this change to their terms and conditions which results in a reduction in their gross but not their net "take-home" pay. The "pensions+" salary sacrifice arrangement is reported in the financial records and financial statements of the University as follows:

- salaries and wages reflect the reduced gross pay earned by staff;
- pension costs in the above notes and pension contributions to the USS and EUSBS schemes disclosed in this Pensions note in compliance with Financial Reporting Standard 17: Retirement Benefits (FRS 17) include both the employee and employer elements of the pension contributions; and
- employers contribution percentage rates quoted in the above notes represent only the employer's contribution rates specified by the scheme trustees and exclude employees contribution percentage rates.

31. PENSION FUNDS (continued)

The Universities Superannuation Scheme (USS)

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

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

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

The valuation was carried out using the projected unit method.

The following amounts were measured at the last valuation date:

	£ million
Total market value of assets	21,739.1
Present value of scheme past service liabilities	28,307.5
Deficit in the scheme – net pension 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 institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of salaries. The USS Management Committee, acting on actuarial advice, deemed that it was not necessary or appropriate at this stage to adjust the contribution rate to cover the additional 0.3% and it was agreed that the institutions' contribution rate would remain at 14% of salaries.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The next formal triennial actuarial valuation will be prepared as at March 2008. The contribution rate will be further reviewed as part of this 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 2008 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 results of this valuation were not available at the date of these financial statements.

Notes to the Financial Statements
continued

31. PENSION FUNDS (continued)

The major assumptions used by the actuary at each year end were as follows:

	At 31 July 2008	At 31 July 2007	At 31 July 2006
Rate of increase of salaries	4.90%	4.10%	3.90%
Rate of increase in pensions in payment	3.90%	3.10%	2.90%
Discount rate	6.50%	5.80%	5.10%
Inflation assumption	3.90%	3.10%	2.90%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are as follows:

	31 July 2008 £ 000's	31 July 2007 £ 000's
Retiring today		
Males	20.5	19.3
Females	22.8	22.2
Retiring in 20 years		
Males	22.4	20.3
Females	24.7	23.4

The total assets and liabilities in the scheme measured in accordance with the requirements of FRS 17 and the expected rate of return were as follows:

	Long term rate of return	Value at 31 July 2008 £ 000's	Long term rate of return	Value at 31 July 2007 £ 000's	Long term rate of return	Value at 31 July 2006 £ 000's
Equities	8.80%	116,100	8.00%	134,800	8.00%	119,200
Bonds	5.70%	56,500	5.10%	55,700	4.60%	55,200
Property	6.85%	9,000	6.55%	11,000	6.30%	10,000
Private equity	6.85%	4,200	4.10%	1,800	–	–
Other – mainly cash	4.90%	700	4.10%	700	3.90%	100
Total market value of assets		187,500		204,000		184,500
Present value of scheme liabilities		(267,000)		(233,000)		(232,000)
Deficit in the scheme		(79,500)		(29,000)		(47,500)

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 and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

The contribution rate payable by the University decreased on 1 January 2008 from 18.0% to 17.5% of pensionable salary. An increase to 18.9 % of pensionable salary has taken place from 1 August 2008 and a further increase to 20.3% is planned from 1 August 2009.

31. PENSION FUNDS (continued)

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, 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 taken advantage of the exemption in FRS17 and has accounted for its contributions as if it were a defined contribution scheme. The following information is available on the scheme:

Latest actuarial valuation	31 March 2001
Actuarial method	Prospective benefits
Rate of Return (discount rate)	4.6 per cent per annum
Rate of return in excess of salary increases	0.3 per cent per annum
Rate of return in excess of price increases	1.8 per cent per annum
Notional value of assets and liabilities rolled forward to 31 March 2007	£18,750 million

As the scheme is unfunded there can be no surplus or shortfall. Pensions contributions are set by the scheme's actuary at a level to meet the cost of pensions as they accrue.

Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. The contributions rate payable by the University has since increased on 1 April 2007 from 12.5% to 13.5% of pensionable salary.

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

- The membership data submitted for the 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 2008 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 July 2008 were as follows:	At 31 July 2008	At 31 July 2007	At 31 July 2006
Rate of increase in salaries	4.9%	4.1%	4.6%
Rate of increase in pensions in payment	3.9%	3.1%	3.1%
Discount rate	6.5%	5.8%	5.1%
Inflation assumption	3.9%	3.1%	3.1%

Notes to the Financial Statements
continued

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are as follows:

	31 July 2008 £ 000's	31 July 2007 £ 000's
Current Pensioners		
Males	20.5	19.3
Females	22.8	22.2
Future pensioners		
Males	22.4	20.3
Females	24.7	23.4

The assets in the total fund at year end amounted to £9,135 million (2007 £9,821 million). The fair value of the University's asset share and liabilities in the scheme were measured in accordance with the requirements of FRS 17 and the expected rates of return were as follows:

	Long term rate of return	Value at 31 July 2008 £ 000's	Long term rate of return	Value at 31 July 2007 £ 000's	Long term rate of return	Value at 31 July 2006 £ 000's
Equities	8.80%	12,457	8.0%	13,804	7.7%	12,225
Bonds	5.70%	2,602	5.1%	2,500	4.7%	2,044
Property	6.85%	1,547	6.6%	1,905	5.7%	1,717
Other – mainly cash	4.90%	748	4.1%	745	4.8%	843
Total market value of assets		17,354		18,954		16,829
Present value of scheme liabilities						
- Funded		(21,393)		(17,448)		(19,102)
- Unfunded		(852)		(784)		(850)
Deficit in the scheme - net pension (liability)/asset		(4,891)		722		(3,123)

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.190% (2007: 0.193%).

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 and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

The contribution rate payable by the University increased to17.4% of pensionable salary from 1 April 2007. A further increase to 18.6 % of pensionable salary took place from 1 April 2008.

The Federated Superannuation Scheme for Universities (FSSU).

This defined contribution scheme is closed to new members. The University has two active members and 25 deferred members participating in this scheme.

31. PENSION FUNDS (continued)

The following amounts were measured in accordance with the requirements of FRS17 in respect of EUSBS and SPF and have been recognised in these financial statements

Analysis of the amount charged to staff costs (note 7) within operating surplus

	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
Current service cost	10,438	9,838
Past service cost	100	(221)
Total operating charge	10,538	9,617
Less: contributions paid	9,456	6,849
Pensions costs less contributions payable (note 7)	1,082	2,768

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

	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
Expected return on pension scheme assets	15,987	13,977
Interest on pension scheme liabilities	(14,358)	(12,611)
Reduction in surplus to recoverable amount	–	(166)
Net return on pension scheme assets (note 6)	1,629	1,200

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

	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
Difference between expected and actual return on scheme assets	(36,911)	5,180
Experience gains and (losses) arising on scheme liabilities	(3,719)	(2,686)
Changes in assumptions underlying the present value of the scheme liabilities	(15,308)	20,531
Reduction in surplus to recoverable amount	–	166
Actuarial (loss)/gain recognised in the STRGL	(55,938)	23,191

Movement in the deficit during year

	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
Deficit in schemes at 1 August	29,000	50,623
Movement in year:		
Employer service cost (net of employee contributions)	10,438	9,838
Employer contributions	(9,456)	(6,849)
Past service cost	100	(221)
Net interest/return on assets	(1,629)	(1,200)
Actuarial loss/(gain)	55,938	(23,191)
Deficit in schemes at 31 July	84,391	29,000

Notes to the Financial Statements
continued

31. PENSION FUNDS (CONTINUED)

Asset and liability reconciliation	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
Reconciliation of Liabilities:		
Liabilities at start of period	251,954	251,952
Service cost	10,438	9,838
Interest cost	14,358	12,614
Employee contributions	1,204	2,509
Experience gains and losses on scheme liabilities	–	–
Actuarial loss/(gain)	19,027	(17,211)
Benefits paid – funded	(7,779)	(7,472)
Benefits paid – unfunded	(57)	(55)
Past service cost	100	(221)
Liabilities at end of period	289,245	251,954
Reconciliation of Assets:		
Assets at start of period	222,954	201,329
Expected return on assets	15,987	13,977
Actuarial (loss)/gain	(36,911)	5,816
Employer contributions	9,456	6,850
Employee contributions	1,204	2,509
Benefits paid - funded	(7,779)	(7,472)
Benefits paid - unfunded	(57)	(55)
Assets at end of period	204,854	222,954

History of experience gains and losses:

	Year to 31 July 2008 £ 000's	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
Difference between the expected and actual return on assets:					
Amount £ 000's	(36,911)	5,180	6,052	23,319	620
Percentage of scheme assets	(18.0)%	2.3%	3.01%	12.7%	0.4%
Experience gains and losses on scheme liabilities:					
Amount £ 000's	(3,719)	(2,686)	(5,611)	199	(373)
Percentage of scheme liabilities	(1.3)%	(1.1)%	(2.2)%	0.1%	(0.2)%
Total Amount recognised in STRGL:					
Amount £ 000's	(55,938)	23,191	(16,191)	3,049	(9,173)
Percentage of scheme liabilities	(19.3)%	9.2%	(6.4)%	1.4%	(1.4)%

32. POST BALANCE SHEET EVENTS

The University held options over five plots land owned by Scottish Enterprise at the Edinburgh Bioquarter, Little France, Edinburgh. This biomedical research park was being developed in partnership with Scottish Enterprise. The University share of the development is included in the land and buildings fixed assets (note 13 of these accounts) at a value of £8,359,000. Commitment in respect of amounts due to Scottish Enterprise relating to the development of the infrastructure of the research park are included in Creditors: Amounts due after more than one year: Other Creditor of £4,500,000. On 6 October 2008, the University and Scottish Enterprise concluded a new development agreement for the land and infrastructure of the BioQuarter. From that date, Alexandria Real Estate Inc became a member of the consortium developing the research park. The University resold some options over land to Scottish Enterprise, reduced its commitment to the cost of infrastructure of the site and took freehold title to one plot. From that date the value of the land and buildings fixed assets held by the University decreases to £4,730,000 of which £1,800,000 is due to Scottish Enterprise as a long term creditor. This has not been adjusted in the financial statements in accordance with FRS 21.

	Group and University	
	2008 £ 000's	2007 £ 000's
33. CAPITAL COMMITMENTS		
Commitments contracted for at 31 July	65,764	75,000

Of the above commitments, £25,330,000 (2007: £38,262,000) will be funded through grants and benefactions.

34. FINANCIAL COMMITMENTS

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

	2008 £ 000's	2007 £ 000's
Land and Buildings		
Expiring within one year	948	–
Expiring within two to five years	20	20
Expiring in over five years	2,291	1,972
	3,259	1,992
Other		
Expiring within one year	11,977	177
Expiring within two to five years	147	5,216
Expiring in over five years	–	–
	12,124	5,393

35. 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 (2007: £715,000).

36. UNIVERSITY COLLECTIONS

The University Court holds a number of valuable collections. These heritage assets are not included in the Balance Sheet on the basis that they cannot be accurately valued. Where items have been purchased during the year these are included in fixed assets.

Notes to the Financial Statements
continued

37. STUDENT SUPPORT FUNDS

	HE Hardship £ 000's	HE Chidcare £ 000's	Year to 31 July 2008 £ 000's	Year to 31 July 2007 £ 000's
Opening funds as at 1 August	86	95	181	409
Allocation of funds recieved	984	210	1,194	1,045
Virement	37	(37)	–	–
Interest earned	33	9	42	38
	1,054	182	1,236	1,083
Opening funds repaid as clawback	-	77	77	142
Disbursed on behal of students	1,042	135	1,177	1,169
	1,042	212	1,254	1,311
Closing funds as at 31 July	98	65	163	181
Repayable as clawback	-	44	44	77
Retained for students	98	21	119	104
	98	65	163	181

38. PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to changes required by the revised Statement of Recommended Practice (SORP): Accounting for Further and Higher Education issued in 2007 which the University has fully adopted in these financial statements.

The following adjustments result from the adoption of the SORP:

- Charitable endowments, donations and bequests received by the University, to which the donor has made no specific restriction, are recognised as income in the year of receipt rather than being recognised when the related expenditure is incurred. The funds now being recognised in the year of receipt include those restricted to a specific College, School, or support group that may be applied to the general support of teaching, research and related activities in those areas. This results in a prior year adjustment increasing the Group surplus for 2007 by £592,000 and reducing income deferred at 31 July 2007 by £9,871,000 for the Group and £7,836,000 for the University.
- The value of the University's General Endowment at 1 August 2007 of £3,955,000, to which no restrictions apply, is now included in Investments within Fixed Assets and the yield is included in other investment income.
- Deferred capital grants received in relation to land are now treated as income in the year of receipt. The prior year adjustment at 1 August 2007 reduces deferred capital grants by £273,000.

The impact of the above adjustments is to increase reserves by £14,099,000 for the Group and £12,065,000 for the University.

	Note	Reported in 2007 £ 000's	Restatement Adjustment £ 000's	Restated Amount £ 000's
Group surplus				
Other Income	5	104,486	592	105,078
General endowment income	6	145	(145)	–
Other investment income	6	25	145	170
Increase in surplus arising from restatement			592	

38. PRIOR YEAR ADJUSTMENT (Continued)

	Note	Reported in 2007 £ 000's	Restatement Adjustment £ 000's	Restated Amount £ 000's
Group Balance sheet				
Fixed assets - investments	14	19,854	3,955	23,809
Endowment assets - investments	15	215,972	(3,955)	212,017
Creditors: amounts falling due within one year				
Accruals and deferred income	17	106,670	(9,871)	96,799
Deferred capital grants	21	224,103	(273)	223,830
Endowment funds - general*	22	3,955	(3,955)	–
Decrease in endowment assets, creditors and deferred capital grants			(14,099)	
Increase in revaluation reserves arising from restatement*	23	429,886	2,647	432,533
Increase in general reserves arising from restatement	24	197,650	11,452	209,102
Increase in total reserves arising from restatement	24		14,099	
University Balance sheet	Note	£'000	£'000	£'000
Fixed assets - investments	14	23,943	3,955	27,898
Endowment assets - investments	15	215,972	(3,955)	212,017
Creditors: amounts falling due within one year				
Accruals and deferred income	17	93,516	(7,836)	85,680
Deferred capital grants	21	221,090	(273)	220,817
Endowment funds - general*	22	3,955	(3,955)	–
Decrease in endowment assets, creditors and deferred capital grants			(12,064)	
Increase in revaluation reserves arising from restatement	23	429,886	2,647	432,533
Increase in general reserves arising from restatement	24	194,300	9,417	203,717
Increase in total reserves arising from restatement			12,064	

*The value of the University's General Endowment at 1 August 2007 at cost of £1,308,000 has been transferred to general reserves with unrealised revaluation of £2,647,000 being transferred to revaluation reserve.

39. THE ROSLIN INSTITUTE AND THE UNIVERSITY OF EDINBURGH

On 1 May 2008 the University acquired the business, some fixed assets and the working capital assets associated with the research activities of the Roslin Institute (Edinburgh) Ltd. a charity and company limited by guarantee and primarily funded by the Biotechnology and Biological Sciences Research Council (BBSRC).

The transfer of the Roslin Institute research activities is treated as an acquisition in these accounts for no consideration. The figures included in these financial statements are based on the completion accounts of Roslin Institute (Edinburgh) at 30 April 2008 prepared in accordance with the business transfer agreement between the University, BBSRC and the Roslin Institute under which the acquisition was made. Under that business transfer agreement the University also acquired freehold title to certain farm land and buildings adjacent to the University's existing Bush Estate previously owned by BBSRC. The land and building assets are included in these accounts at a value of £1,080,000. In addition to the land and buildings, the University also acquired a net working capital liability, equipment and stocks associated with the research activities. Goodwill arising on the acquisition was written off to the Income and Expenditure account in the year.

Notes to the Financial Statements
continued

40. RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of Court (being drawn from local public and private organisations), it is inevitable that transactions will take place with organisations in which a member of Court may have an interest. All transactions involving organisations in which a member of Court may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

The University makes certain payments on behalf of, and is re-imbursed for certain costs by, the Edinburgh University Students' Association (EUSA). The University does not exercise day to day control over the affairs of EUSA.

In line with the Committee of University Chairmen guidance, all members of Court are required to complete a register of interests to record any areas of potential conflict with the interests of the University. A register of interests is maintained for members of Court (the University's governing body) and senior management, and no related party transactions of a material nature were reported during the year.

Professor Sir John Savill, Vice Principal and Head of College of Medicine and Veterinary Medicine, University of Edinburgh Medical School, is a non-executive director of NHS Lothian.

Professor J Barbour, a co-opted member of Court is chief executive of NHS Lothian.

Professor Adrian Bird, Buchanan Professor of Genetics, The Wellcome Trust Centre for Cell Biology, at the University is a Governor of the Wellcome Trust and became Deputy Chairman in April 2007.

All the transactions with related parties are conducted on normal commercial terms, or on the basis of a simple recharge of direct costs incurred.

Five Year Financial Summary

GROUP INCOME & EXPENDITURE ACCOUNT*
FOR THE YEAR TO 31 JULY

	2008 £ 000's	2007 £ 000's	2006 £ 000's	2005 £ 000's	2004 £ 000's
Total Income	555,319	479,501	435,569	402,707	369,091
Surplus on continuing operations**	5,405	8,127	6,885	10,852	2,421
Gains on disposal of properties	471	8,476	3,283	440	665
Transfers to specific endowment reserves	(674)	(1,131)	(1,958)	(736)	(717)
Surplus retained within general reserves	5,202	15,472	8,210	10,556	2,369

** After tax and minority interest

GROUP BALANCE SHEET*
AS AT 31 JULY

	2008 £ million	2007 £ million	2006 £ million	2005 £ million	2004 £ million
Fixed assets	1,028	875	832	817	737
Endowment asset investments	185	212	201	183	156
Net current assets	53	61	57	56	49
Non-current liabilities and provisions	(69)	(70)	(71)	(69)	(73)
Pension liability	(84)	(29)	(51)	(34)	(37)
TOTAL NET ASSETS	1,113	1,049	968	953	832
Represented by funding:					
Deferred capital grants	241	224	205	200	169
Endowments	185	212	201	183	156
Total reserves	687	613	562	570	507
TOTAL FUNDS	1,113	1,049	968	953	832

Staff numbers (expressed as full time equivalents) as at 31 July	7,368	6,862	6,675	6,283	6,143

* 2007 has been restated to reflect the impact of SORP 07

Cover shows the new Informatics Forum building in Charles Street.