THE UNIVERSITY *of* EDINBURGH

Reports and Financial Statements for the year to **31 July 2009**

Scottish Charity Number SC005336

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Principal's Report

For the year ended 31st July 2009

Given that we have all been grappling with the major uncertainties affecting the UK and global economies these last fifteen months or so, it is particularly heartening to report that, on a turnover of £592 million, the University has returned a modest surplus of £4 million for the year. This was ahead of the budgeted surplus of £1.9 million, and in the circumstances represents a very satisfactory result.

The outcome of the 2008 Research Assessment Exercise, reported earlier this year, was also very positive. The University was ranked fifth in the UK on a quality and volume measure, resulting in an increase in our research excellence funding of 11% for 2009-10. This is a welcome return on the major investments we have been making in enhancing Edinburgh's research standing since the last such exercise in 2001.

Over the last year, we achieved further success in competitive research grants and contracts, with the total value of awards increasing by 17% to £249 million. Whilst this was the result of strong performance across the University, I am also pleased to note the contribution made by the Roslin Institute in its first full year as part of the University. The commercialisation of research continued strongly with 215 invention disclosures, 89 patent filings, 38 licence deals and 26 company formations.

Despite the recessionary background, we have taken in record numbers of students. For the fourth consecutive year, the University did not need to enter the UCAS clearing scheme for undergraduate admissions. International student numbers grew by 7%, representing a positive start in meeting the University's Strategic Plan goal of increasing international students by 1,000 by 2012. It was particularly pleasing that the growth was partly the result of a broadly based increase in postgraduate students.

These financial and operational successes have been complemented by continued success across a range of academic disciplines. Our track record in pioneering scientific research was highlighted by Emeritus Professor of Physics, Peter Higgs, who returned to his working roots earlier this year to mark the start of an experiment that may prove the existence of a theoretical, but fundamental building block of physical matter. It was while working at the University in the 1960s that Professor Higgs began to formulate the theory of what is now widely known as the Higgs boson particle, a theory which has dominated the world of particle physics for the last 40 years. Professor Higgs gave a press briefing at his former workplace to mark the switch-on of the Large Hadron Collider (LHC), a particle accelerator located at the European Centre for Particle Physics (CERN) in Switzerland. It is hoped that the results from the LHC will finally establish the existence of this elusive particle.

Meanwhile, colleagues from the University's MRC Centre for Regenerative Medicine have paved the way for stem cells made from skin cells to be safely transplanted into humans. The collaborative research with the University of Toronto has overcome one of the main health risks associated with the use of such stem cells. It could also ultimately spell an end to the need for human embryos as a source of stem cells.

Elsewhere in the field of medical research, our work is making very real inroads into the fight against serious diseases. Researchers from the University's Centre for Neuroregeneration and Euan MacDonald Centre for Motor Neurone Disease Research have found that zebra-fish are, under certain conditions, able to produce motor neurone-cells. Such cells control all muscle activity such as speaking, walking and breathing. Researchers are now screening small molecules with a view to finding drugs that could kick-start the process of motor-neurone regeneration in zebra-fish, with a view to translating their findings into treatments for humans.

A £3 million state-of-the art cancer centre for animals has been opened at the University's Royal (Dick) School of Veterinary Studies. The first facility of its kind in Scotland, it will provide the latest therapies to animals and give insight into cancers in humans.

The past year has also seen the launch of a major research resource in the College of Humanities and Social Science. Founded by Professor Tom Devine, the Scottish Centre for Diaspora Studies is the world's first advanced research centre for the study of the nature, origins and global impact of emigration of the Scottish people. The Centre was established through a generous endowment by Mr Alan McFarlane, Managing Director of Walter Scott & Partners Limited, and his wife, Anne.

We continue to build on our commitment to world-class teaching, and are redoubling our efforts to ensure that the student experience at the University of Edinburgh is second to none. To this end, Professor Dai Hounsell has been appointed as the new Vice-Principal for Academic Enhancement. Professor Hounsell will both oversee learning and teaching, and provide support to initiatives by staff across Colleges and Schools in focussing on improving the quality of the student experience at the University. We wholeheartedly supported the new initiative by our Students' Association (EUSA) to recognise teaching talent in the EUSA teaching awards. For the first round of awards, a total 2,704 nominations were received for 621 staff, 191 courses and 60 departments.

Colleagues continue to be innovative in the field of teaching, with increased use of e-learning programmes utilising the latest digital technology being deployed across a number of Schools. Our expertise in developing such programmes is now being recognised internationally. Clinicians and e-learning experts from the University are helping address a shortage of doctors and nurses in Malawi

by assisting that country's universities to develop online teaching resources. Experts at the University of Edinburgh are working with the University of Malawi to develop a medical curriculum and online learning to train increased numbers of students. The online resources will also help address teacher shortages in key specialities such as maternal health, cardiology and neurology, and will provide additional learning support to the teaching given in lectures.

The internationalisation strategy is becoming even more important. Much activity is being delivered by the new Vice-Principal International Professor Steve Hillier, building on the University's global reputation. The overarching priority is to further enhance our global presence by developing our international reputation for quality in learning, research and knowledge transfer.

The University's reputation remains very strong. Whilst we must always guard against complacency, it is nonetheless very gratifying to note that the University of Edinburgh now features in the top twenty in the latest Times Higher Education world university league table, further underlining the progress that the University is making. We are, though, reviewing and refining the University's medium-term plans to deal with the adverse financial environment and serious challenges concerning future public spending. Growing income from private sources and driving efficiency are becoming the key challenges that the University's strong senior management team are now addressing.

I ended this report last year by stressing the huge economic impact of the University on the Scottish Economy. In these times where the public finances will require rebalancing, it is important to re-emphasise the very positive contribution the University continues to make to the Scottish and UK economy. The case for supporting Higher Education has, arguably, never been stronger than it is now, and in the coming difficult times ahead, we will continue to make that case forcefully to all stakeholders.

Professor Sir Timothy O'Shea
Principal and Vice–Chancellor

Operating and Financial Review

For the year ended 31 July 2009

Summary of the Year

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

	2009 £m	2008 £m
Income	591.5	555.3
Expenditure	587.6	549.9
Operating Surplus	3.9	5.4
Exceptional Items	(0.1)	0.5
Other Items	0.2	(0.7)
Surplus retained within general reserves	4.0	5.2

The surplus was a little below that in the previous year at £4 million, though ahead of the budgeted figure of £1.9 million. This was an encouraging result against the background of continuing uncertainty, considering that endowment and investment income fell by £5.3 million and a provision had to be made in the Income and Expenditure account of £2.3 million, to reflect the reduction in the value of general fund investments.

Despite these difficulties, the University continued to grow its turnover by 6.5%. This reflected continuing growth in its teaching, research and commercial activities, as well as the first full year effect of the merger of the Roslin Institute in May 2008. Points of note include:

- Grants from the Scottish Funding Council increased by 3.7%;
- Tuition fee income grew by nearly 12% as a result of further increases in home and international students;
- Research Grants and Contracts increased by 22%, the most notable increase being in Research Council income by 29%, partly due to real growth across the University, to the continuing transition to full economic costing, and to the Roslin Institute, already noted;
- Other income reduced by £6.0 million, though this is more the consequence of a spike in the previous year's income of £20 million, due to the phasing of income in relation to the set up cost of the HECToR high speed computing facility;
- Again, despite a difficult external market, Residence, catering and conferences operations continued to grow, though the profitability of the subsidiary that delivers conferences and other commercial lettings and events fell;
- Income from endowments fell by 22%. The major reason for this was that a lower income target was set by the investment committee as a result of the revised investment strategy. In the event, the actual income for the year was only marginally under the target of £7.3 million; and
- Other interest receivable held up quite strongly, despite the fall in interest rates, as opportunities were taken to put funds on deposit at over 6% for 12 months in the summer of 2008.

On revenue expenditure, there are again various points to note:

- Staff costs grew in the year by 10%. This was the result of pay awards in May and October 2008 totalling 8%, and a further increase in the employer contribution rate for the University of Edinburgh Staff Benefit Scheme (the local support-staff pension scheme); and
- While staffing on competitive research grants and contracts grew by over 100 due to new activity, staffing in other areas which are supported by Funding Council grants, fees and other income, fell by a similar amount as vacant posts were not filled and some staff left after accepting early retirement or voluntary severance.

Cash Flow

The position on cash and short-term investments improved during the year, increasing by £32 million to £175 million. This was the result of the University remaining in recurrent surplus and a continuing pattern of funding for capital buildings and research being received ahead of expenditure. During the year £33 million of the £54 million capital building programme was funded by external grants and the sale of property, protecting the cash and deposits position.

Capital Projects

Total expenditure on building projects amounted to £80 million. This very high level of expenditure – another record level – was the result of:

- the continuation of the phased refurbishment of the library on which £9.4 million of capital was spent;
- the commencement on site of the new Vets School and the campus infrastructure at Easter Bush; and
- the Scottish Centre for Regenerative Medicine at Little France.

The latter two projects will together cost a total of £110 million. These major projects, together with other new projects now being carried out, such as the Adam Ferguson Building and the West Wing of the Old Medical School, all benefited from the more competitive environment in tendering costs. The reduction in the VAT rate during 2009 has further benefited those projects where VAT is payable.

During the year a number of other projects were progressed. A Clinical Research Imaging Centre costing £19 million (including equipment) is nearing completion. The Holyrood Campus has benefited from the refurbishment and remodelling of Charteris

Operating and Financial Review
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Land, at a cost of £9 million. The Residences and Conference estates at Pollock have benefited from a £17 million investment in a refurbished expanded conference centre and new student accommodation of 146 bedspaces.

With advice from external valuers, £33 million of the overall building programme has been charged to revenue expenditure reflecting the long-term maintenance element of the expenditure.

Investment Performance

During the year, the Investment Committee started to implement a revised investment strategy. Though a recovery in stock markets occurred in the latter part of the year, the value of the total endowment funds fell by £20 million to £165 million. The total return performance at -4.3% was considered satisfactory against a background of declining markets. Poor performance on Corporate Bonds, with a high exposure to financials, was offset by a very positive return from a new holding of high-yielding bonds taken out in December 2008. Over the last 5 years, the fund has returned 4.8% per annum.

Income from endowments, at £7 million, reflected a yield of 4.2% on the year-end valuation. Income was less than the previous year as a result of the revised investment strategy and a reduction in dividends from equity holdings.

The University continued to have an element of its general fund reserves invested in a similar way to its endowment funds. The values of these funds at the year end at £15.6 million for the General Reserve Fund and £2.9 million for the General Fund were £2.4 million and £0.4 million, respectively, below the position at the previous year-end. The unrealised loss on the General Reserve Fund was provided for in the Income and Expenditure account. The income generated amounted to a yield of 3.8% on the original investment. At 30 September 2009, the capital valuation of both the endowment and general fund investments had moved up markedly to £185 million and £17.3 million respectively.

Pensions

Both of the main pension schemes for the University's staff are facing major challenges with regard to their long-term financial viability.

USS, the national scheme for more senior staff, raised its employer contribution rate by 2% to 16% from the 1 October 2009 after the 2008 triennial valuation reporting a 71% funding level resulting in a £11.7 billion deficit. In the light of this valuation, the University welcomes the forming of a joint review group consisting of representatives of both employers and the Universities and Colleges Union, tasked with coming forward with changes that will allow the continuation of an attractive pension scheme. The University's share of this scheme is unknown and not included in the University's Balance Sheet.

The position on the University Staff Benefits Scheme is also of great concern to the University. The initial results of the triennial valuation at 31 March 2009 are currently being considered and a group has been set up to review the position going forward.

Corporate Social Responsibility

The University has continued to move forward strongly in the areas of equality, diversity, sustainability and social responsibility which is a strategic theme in the University's Strategic Plan.

In line with the Strategic Plan, an over-arching priority for the University is to equip staff to realise their full potential as direct contributors to our success. We are therefore progressing an ambitious agenda to embed excellent people management skills and practice across the institution. Focus will be placed on leadership development provision, and further support and guidance to embed performance and development reviews for all staff will be prepared. We will seek, in particular, to foster a culture of personal and professional development, to significantly enhance our systems and processes for recruitment and career development (embracing the principles of partnership by working with our recognised trade unions), and will promote health, wellbeing and a positive working environment.

The University's Sustainability and Environmental Advisory Group has a high level role in bringing together students, research and teaching staff and professional services to promote change, to enhance community engagement and to promote sustainability and social responsibility.

The University is committed to assisting talented students who may be deterred from studying at the University due to lack of necessary financial resources. For over a decade now we have offered undergraduate bursaries to help ensure that funding is not a deterrent to studying at the University of Edinburgh. In the 2008-09 academic session we awarded 182 new bursaries and renewed the awards for a further 379 students, as well as making accommodation bursaries available to 90 students. In total we allocated funds of £730,000 for undergraduate bursaries.

The University's interaction with the Scottish and UK economy is considerable. It is the largest Scottish based charity, one of the largest employers in the Lothians and a major generator of economic activity. For example during the year 26 companies were

Operating and Financial Review
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formed by staff and students, the highest ever number formed by a Scottish University.

The University has been marked out as a leader when benchmarked against the "Universities that Count" Environment Index. We have been actively reducing our carbon footprint, and investment in combined heat and power across three of our campuses is now delivering cost savings of over £1 million per annum. A range of activities covering fair trade, healthy living, recycling, green travel and the physical environment are moving forward to support the University's Strategic Plan goals in this area.

Employment of Disabled Persons

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

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

- seek to ensure that employees with disabilities are placed in jobs suited to their aptitudes, abilities and qualifications;
- seek to ensure that disabled employees are considered for promotion according to their aptitudes, abilities and qualifications;
- ensure that disabled people are not disadvantaged when the renewal of fixed-term contracts is being considered; and
- make use of internal services and advice of external agencies such as the Department for Work and Pensions "Jobcentre Plus" wherever appropriate so as to make it possible to recruit a disabled person or retain an existing employee who has become disabled.

Currently 97 of our 8,075 staff have declared that they have a disability.

Creditor Payment Policy

The University has published standard terms and conditions of trade that will apply to payments to suppliers unless other terms and conditions are agreed prior to business taking place. The University's policy is to pay agreed invoices in accordance with the agreed terms of payment. At the year end the amount due to trade creditors was equivalent to 15 days of purchases from suppliers. The amount paid under the Late Payments of Commercial Debts (Interest) Act was nil.

Risks and Uncertainties

The University has a University-wide risk management process, monitored by the Risk Management Committee, which reports to Court. This is detailed in the Corporate Governance Statement.

In this section we describe 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 delivery of our strategy is crucially reliant on growing our income from all sources at least as quickly as our UK and international competition. We have in place a number of University-wide activities and incentives to grow income from students, governments, other funders and customers.

The University is conscious that the General Fund for Higher Education is likely to come under severe pressure in the coming years as the level of public sector debt is reduced. Senior management is also focussing on ensuring that the University is not disadvantaged by divergent funding regimes in the rest of the UK, with particular focus on the review of the level of top-up fees which will occur shortly in England.

Staff salary awards are arrived at through a national pay bargaining procedure. The last pay agreement ran for three years, and resulted in pay awards in the final year well above growth in income. Given the rising costs of the University's defined benefits pension schemes and tightening funding environment, the University is taking mitigating actions to influence negotiations regarding future pay and pensions costs, while maintaining effective relations with local trade unions. This activity is particularly urgent on pensions to enable the University to deliver affordable defined benefits pension schemes to all our staff.

The University has a vast portfolio of building 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 actual and planned capital and recurrent spending on buildings.

The University's continuing disappointing performance in the National Student Survey is being addressed by concerted action across the University under a newly appointed Vice-Principal

for Academic Enhancement. This work is being supported by a very successful teaching award launched this year by EUSA. Capital building developments are prioritising the refurbishment of teaching facilities and lecture theatres as well as the major library refurbishment project, which is receiving positive approval from users, with a view to improving the student experience.

The University took action during the year to refocus EUCLID, the major student system project, which was not meeting its original full objectives nor timetable for implementation. It is believed that the action now taken will deliver a more modest and timely outcome that is nevertheless fit for purpose.

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

Financial Strategy

During the year the University Court agreed a new financial strategy to support the Strategic Plan agreed in the previous financial year. The strategy has a number of overriding themes:

- Long-term viability and matching resources with objectives;
- Maintaining productive capacity to meet current objectives;
- Financial development and investment;
- Evaluating strategic alternatives and managing risks; and
- Integrating financial and other corporate strategies.

Within these themes are set some key financial targets such as delivering consistent recurrent surpluses and maintaining an adequate level of expenditure on building maintenance and refurbishment. It also addresses investment management and liquidity. Overall, the financial strategy sets the financial framework within which major decisions to meet the overall University strategy are made.

Looking Forward

In terms of student numbers, research awards and the 2008 RAE outcome, the University continues to go from strength to strength. The future, however, is less clear as regards public funding coming to the University. The University is making plans to deal with various scenarios of reductions in funding, in effect hoping for the best whilst planning for the worst. What is clear, however, is that the University must continue to grow funding from non-governmental sources and outperform its major competition in delivering high quality teaching and research in order to at least preserve, if not augment, its share of a potentially declining level of public funding.

International activity will continue to be extremely important in building teaching and research activity which reach across the world.

Action will continue to further drive efficiency improvements. Careful management of staff numbers will remain a central theme of management over the medium term.

The estates' team has a major challenge in delivering, on time and on budget, the very large capital building programme over the next two years. Thereafter, planning for subsequent years will focus on projects to improve the efficiency and fitness for purpose of the existing estate.

The University has started the 2009-10 year in very strong fashion, with record student numbers and continuing strong research grant awards success. The level of growth in income over the last 5 years, at 60%, is not likely to be sustained. We are, however, extremely well placed to manage in these much more challenging times. I believe the University is acting very sensibly in taking action early, anticipating the more challenging financial pressures to come and showing itself to be nimble in seeking new income. Much credit for the University's success is due to the outstanding quality of the staff. I pay tribute to all their contributions. There are many reasons to believe that the University can maintain its forward momentum during the difficult financial climate we now live in.

John Markland
Convener, Finance and General Purposes Committee

Corporate Governance Statement

31 July 2009

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 2009.

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 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.planning.ed.ac.uk/Governance/university_governance/documents/courteffectiveness2006.pdf. Actions arising from this review have been implemented. A further effectiveness review will be conducted in 2010.

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 2008-09 was adopted by the University Court at its June 2008 meeting: it covers the period 2008-12. The strategic planning process is led by the Principal with support from the Vice-Principal (Planning and Resources) and the Director of Planning.

The Court's Committee Structure

The Court has established several committees, including a Finance and General Purposes Committee, 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 allocation of budgets to Colleges and Support Services, and Trustees who administer the University's endowment funds.

Corporate Governance Statement
continued

The **Finance and General Purposes Committee** oversees the University's financial affairs on behalf of the Court. This includes the design of the planning and budgeting process, approval of the resulting plan and budget in the context of the University's overall strategy, and ensuring adequate monitoring thereafter. It is chaired by the Vice-Convener of the Court and includes a majority of lay members. It normally meets six times a year.

The **Investment Committee** of the Court has responsibility for overseeing of the University's endowment funds and deposit balances. It reports to Court via the Finance and General Purposes Committee. It meets at least twice a year.

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

The **Remuneration Committee** advises the Principal with regard to his responsibilities for setting professorial and equivalent academic and academic-related salaries. The lay members also consider the salary of the Principal and advise the Court as appropriate. It is chaired by the Vice-Convener of the Court, has a majority of lay members and 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 policies and 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 Reports 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 Scottish 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 previously agreed budgets (e.g. Maintenance Programmes, Small Capital Projects) across Colleges and

Corporate Governance Statement
continued

Support Groups. The Group has introduced the 'gateway' methodology to the approval and management of major projects. It is chaired by the Vice-Principal (Planning and Resources) and reports to the Central Management Group and onwards to the 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 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 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 2008-09 and was adopted by Court on 22 June 2009: 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 organisations. The Audit Committee considered the Internal Audit report on this matter at its meeting on 1 October 2009 and expressed itself satisfied with the outcome.

By its 14 December 2009 meeting, the Court had received the Audit Committee and Risk Management Committee reports for the year ended 31 July 2009; it also had taken account of relevant events since 31 July 2009. 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 2009.

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,

Corporate Governance Statement
continued

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 2008-09 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 endowments are administered as the University of Edinburgh Endowment Fund, overseen by the Investment Committee, other than one endowment which is held as a separate Trust with its own Trustees (The University of Edinburgh No. 3 Trust). This Trust is now dormant and will be dissolved in 2010. 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 purposes of the relevant endowments . All of those purposes are charitable for the purposes of the 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 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.a) 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

b) 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:

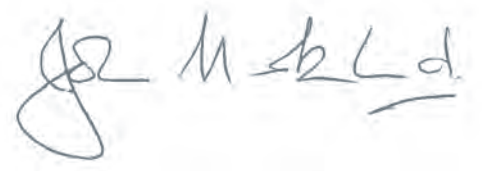
The Court is responsible for keeping proper accounting records, which disclose, with reasonable accuracy, the financial position of the University at any time and enable it to ensure that the financial statements are prepared in accordance with the Universities (Scotland) Acts 1858-1966, the Statement 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), M Ballard (until 28 February 2009)
The Rector (Convener), Mr I MacWhirter (from 1 March 2009)
The Principal and Vice-Chancellor, Professor Sir Timothy O'Shea
The Chancellor's Assessor, Lord Cameron of Lochbroom

General Council Assessors

Mr D A Connell
Professor A M Smyth
Mrs M Tait

Senatus Academicus Assessors

Professor L Yellowlees
Professor D J Finnegan
Dr M Aliotta
Professor P Munn

City of Edinburgh Council Assessor

Rt Hon G Grubb, Lord Provost

Co–opted Members

Dr J A Markland (Vice-Convener)
Professor J Barbour
Mr P Budd (from 1 January 2009)
Mr I Darling (until 31 December 2008)
Mr G M Murray
Professor S Monro
Ms A Richards
Ms G M Stewart
Mr D Workman

Non–Teaching Staff Assessor

Ms J Glover (until 31 August 2009)
Mr D Brook (from 1 September 2009)

Student Members

Mr A Ramsay (until 14 June 2009)
Mr G Bromley (until 14 June 2009)
Mr T Graham (from 15 June 2009)
Mr E Beswick (from 15 June 2009)

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 and Vice-Chancellor, Professor Sir Timothy O'Shea
Vice-Principal, Professor S Chapman (until 31 August 2009)
Vice-Principal, Professor A McMahon (from 1 September 2009)
Mr M D Cornish, University Secretary
Mr J Gorringe, Director of Finance
Mr A Ramsay, President of the Students' Association (until 14 June 2009)
Mr T Graham, President of the Students' Association (from 15 June 2009)
Professor J Barbour
Mr D A Connell
Professor D J Finnegan
Professor S Monro (from 1 September 2009)
Mr G M Murray
Mrs M Tait (until 31 August 2009)

Audit Committee

Convener: Ms G M Stewart

Mr D Bentley
Mr F Hitchman (until 31 December 2008)
Professor S Monro
Ms A Richards
Mr M Sinclair (from 23 February 2009)
Professor A M Smyth

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 2009 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 auditors' 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 opinions 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, the Accounts Direction issued by the Scottish Funding Council, 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. 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 Principal's Report, Operating and Financial Review, the Corporate Governance Statement and Membership of Court and Committees consider the implications for our report if we become aware of any apparent mis-statements 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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 2009 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;
- 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 2009 have been applied for the purposes for which they were received; and

Independent Auditors' Report to the Members of the University Court of The University of Edinburgh

continued

- in all material respects, income during the year ended 31 July 2009 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.

M J Rowley
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

17 December 2009

Group Income and Expenditure Account

for the year ended 31 July 2009

	Note	2009 £ 000's	2008 £ 000's
INCOME			
Funding council grants	2	183,524	176,905
Tuition fees and education contracts	3	91,932	82,343
Research grants and contracts	4	174,648	143,322
Other income	5	127,041	133,014
Endowment and investment income	6	14,388	19,735
TOTAL INCOME		591,533	555,319
EXPENDITURE			
Staff costs	7	328,287	297,135
Other operating expenses	9	231,160	227,618
Depreciation	13	21,957	21,119
Interest payable	10	6,232	4,012
TOTAL EXPENDITURE		587,636	549,884
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		3,897	5,435
(Loss)/gains on disposal of fixed assets	13	(77)	471
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION		3,820	5,906
Taxation	11	(3)	(26)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAXATION AND BEFORE MINORITY INTEREST		3,817	5,880
Minority interest		7	(4)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		3,824	5,876
Deficit/(surplus) transferred from/(to) accumulated income in endowment funds		142	(674)
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES	12	3,966	5,202

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

Group Statement of Historical Cost Surpluses and Deficits

for the year ended 31 July 2009

	Note	2009 £ 000's	2008 £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		3,897	5,435
(Loss)/Gain on disposal of fixed assets in the year	13	(77)	471
Realisation of revaluation gains of previous years	24	–	930
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	24	6,900	5,800
HISTORICAL COST SURPLUS BEFORE TAXATION		10,720	12,636
HISTORICAL COST SURPLUS AFTER, TAXATION, MINORITY INTEREST AND TRANSFERS FROM/TO SPECIFIC ENDOWMENT FUNDS		10,866	11,932

Group Statement of Total Recognised Gains and Losses

for the year ended 31 July 2009

	Note	2009 £ 000's	2008 £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		3,824	5,876
Depreciation on fixed asset investments	14	(407)	(607)
Depreciation on endowment asset investments	15	(20,328)	(33,199)
Charges on endowment asset investments	15	(279)	(303)
Unrealised surplus on revaluation of tangible fixed assets	13	–	125,462
Impairment of tangible fixed assets	23	(777)	–
Consolidate share of Scottish Universities Environmental Research Centre joint activity	24	824	–
New endowments	22	2,301	5,849
Endowments transferred to deferred capital grants		(1,844)	–
Actuarial loss in respect of pension schemes	31	(18,756)	(55,938)
TOTAL (LOSSES)/GAINS RECOGNISED IN THE YEAR		(35,442)	47,140
Reconciliation:			
Opening reserves and endowments at 1 August		871,792	824,652
Total recognised (losses)/gains for the year		(35,442)	47,140
Closing reserves and endowments at 31 July		836,350	871,792

Balance Sheet
as at 31 July 2009

	Note	Group 2009 £ 000's	Group 2008 £ 000's	University 2009 £ 000's	University 2008 £ 000's
FIXED ASSETS					
Tangible assets	13	1,036,898	1,006,241	1,028,932	1,000,579
Investments	14	18,725	21,467	20,299	24,808
		1,055,623	1,027,708	1,049,231	1,025,387
ENDOWMENT ASSETS	15	164,746	185,038	164,746	185,038
CURRENT ASSETS					
Stocks and stores in hand		2,128	2,313	1,596	1,619
Debtors	16	82,667	79,937	80,066	76,545
Assets held for resale	35	–	715	–	715
Investments: Bank deposits	30	162,463	117,812	154,208	110,051
Cash at bank and in hand	30	12,460	24,569	4,236	14,609
		259,718	225,346	240,106	203,539
CREDITORS: Amounts falling due within one year	17	(219,689)	(172,472)	(203,919)	(155,752)
NET CURRENT ASSETS		40,029	52,874	36,187	47,787
TOTAL ASSETS LESS CURRENT LIABILITIES		1,260,398	1,265,620	1,250,164	1,258,212
CREDITORS: Amounts falling due after more than one year	18	(56,363)	(61,524)	(56,363)	(61,524)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(7,782)	(7,095)	(7,782)	(7,095)
TOTAL NET ASSETS EXCLUDING PENSIONS LIABILITIES		1,196,253	1,197,001	1,186,019	1,189,593
PENSION LIABILITIES	31	(106,321)	(84,391)	(106,321)	(84,391)
TOTAL NET ASSETS INCLUDING PENSION LIABILITIES		1,089,932	1,112,610	1,079,698	1,105,202

Balance Sheet
as at 31 July 2009 (continued)

		Group		University	
Represented by:	Note	2009 £ 000's	2008 £ 000's	2009 £ 000's	2008 £ 000's
DEFERRED CAPITAL GRANTS	21	253,572	240,801	248,138	238,245
ENDOWMENTS					
Expendable	22	114,502	130,401	114,502	130,401
Permanent	22	50,244	54,637	50,244	54,637
		164,746	185,038	164,746	185,038
RESERVES					
Revaluation Reserve	23	542,574	550,658	542,574	550,658
General reserves excluding pension reserve	24	235,351	220,487	230,561	215,652
Pension reserve	31	(106,321)	(84,391)	(106,321)	(84,391)
General reserve including pension reserve		129,030	136,096	124,240	131,261
Total Reserves		671,604	686,754	666,814	681,919
MINORITY INTERESTS		10	17	–	–
TOTAL FUNDS		1,089,932	1,112,610	1,079,698	1,105,202

The financial statements on pages 18 to 51 were adopted by Court on 14 December 2009 and were signed on its behalf by:

Professor Sir Timothy O'Shea
Principal

Dr J A Markland
Member of the University Court

J P Gorringe
Director of Finance

Group Cash Flow Statement

for the year ended 31 July 2009

	Note	2009 £'000's	2008 £'000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	42,332	18,555
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	26	12,349	13,686
TAXATION	11	(3)	(26)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	27	(21,602)	(5,288)
SHARE OF SUERC (JOINT ACTIVITY) – CASH AT 1 AUGUST		721	–
MANAGEMENT OF LIQUID RESOURCES	28	(44,651)	(17,238)
FINANCING	29	(1,149)	(1,133)
(DECREASE)/INCREASE IN CASH IN THE PERIOD	30	(12,003)	8,556
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
(Decrease)/Increase in cash in the period		(12,003)	8,556
Cash outflow from increase in liquid resources	28	44,651	17,238
Change in net debt resulting from cashflows	29	1,149	1,133
Movement in net funds for the period	30	33,797	26,927
Net funds at start of year	30	85,751	58,824
NET FUNDS AT CLOSE OF YEAR	30	119,548	85,751

Notes to the Financial Statements
for the year ended 31 July 2009

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies selected follow the principles laid out in FRS18: Accounting Policies 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) 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 and joint undertakings is included in note 14.

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

iii) Recognition of Income

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 postgraduate 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 in which they are receivable.

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 endowments is credited to Income and Expenditure on a receivable basis. Any unspent income is retained as accumulated income and disclosed in the Balance Sheet.

All income from short-term deposits and 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 fund-raising 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.

Changes to the market value of endowment investments are reported in the Statement of Total Recognised Gains and Losses and as increases or decreases to endowment assets and funds.

iv) Research and Development Expenditure

Income from Research Grants and Contracts is included to the extent that related expenditure is incurred during the year. Research and development costs incurred by the University on its own behalf are written off in the year incurred with the exception of any equipment or software that is capitalised in line with the University's accounting policy.

v) 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.

Notes to the Financial Statements
continued

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

vi) Land and Buildings

Buildings are valued on the following bases:

- The majority of buildings are valued on the depreciated replacement cost basis;
- Certain buildings, mainly residential accommodation, retail properties and land are valued on existing use or open market value bases;
- Valuations are carried out in compliance with the RICS valuation standards (the "Red Book"); and
- Where buildings under construction are not included in valuations they are stated at cost.

The University complies with the requirements of FRS 15: Tangible Fixed Assets, through a review of valuations within the required five-year cycle specified by the reporting standard.

Additions since 1 August 2007 are shown at cost. Depreciation on completed buildings is 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 lives 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: Impairment of fixed assets and goodwill. 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.

vii) Repairs and maintenance

The above expected useful lives reflect the University 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 Account in the year it is incurred.

viii) 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 with the exception of certain new furniture. All other equipment, the purchase or external development costs of major new applications software and the initial complement of furniture acquired as part of the initial fit out of a newly constructed building, is capitalised. All University capitalised equipment is stated at cost and depreciated over a four-year period from the year in which the equipment, software or building 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.

Notes to the Financial Statements
continued

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.

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xi) Investments

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

- University of Edinburgh Endowment Fund which holds endowment and general fund investments; and
- 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 of 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 store of value. They include cash term deposits and bank notice accounts held as part of the University'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 re-translated 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 is an exempt charity within the meaning of the Trustee Investment and Charities (Scotland) Act 2005 and, as such, is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act 1988. The University is recognised as a charity by HM Customs & Revenue and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (Charity No. SC005336). Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

The University's subsidiary companies, except those with charitable status, are not exempt from taxation. The charge for taxation is based on the taxable profit or loss for the year after charging the cost of any Gift Aid payment payable to the University. The charge for taxation also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Charitable subsidiaries are exempt from taxation under the same legislation as the University.

xvii) Retirement Benefits

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); and
- Strathclyde Pension Fund (SPF).

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

Notes to the Financial Statements
continued

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

The expected cost of providing staff pensions to employees contributing to EUSBS and SPF schemes is recognised in the Income and Expenditure Account, on a systematic basis over the expected average remaining lives of members of the funds, in accordance with FRS 17: Retirement Benefits. The cost of retirement benefits is recognised 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 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 Scheme (FSSU), a defined contribution pension scheme which is not contracted out of the State Earnings-Related Pension Scheme. Contributions are charged in the Income and Expenditure Account as they become payable in accordance with the rules of the scheme.

A small number of subsidiary company employees are members of other defined contribution schemes. Contributions are charged in the Income and Expenditure Account in the year in which they become payable.

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.

Notes to the Financial Statements
continued

	2009 £ 000's	2008 £ 000's
2. FUNDING COUNCIL GRANTS		
Recurrent grant:		
Teaching	82,023	81,215
Research	72,755	68,689
Specific grants:		
Information systems	4,981	4,151
Infrastructure grants for research, teaching and learning	10,369	10,406
Other including research pooling	10,762	10,040
Deferred capital grants released in year:		
Buildings (note 21)	2,065	1,700
Equipment (note 21)	569	704
	183,524	176,905
3. TUITION FEES AND EDUCATION CONTRACTS		
UK and EU higher education students	42,600	37,812
Full-time students charged overseas fees	43,123	38,286
Research training support grants	1,761	2,043
Short course and other fees and support grants	4,448	4,202
	91,932	82,343
4. RESEARCH GRANTS AND CONTRACTS		
Research councils	75,248	58,381
UK based charities	40,677	34,903
UK central government bodies, local and health authorities	23,585	19,234
UK industry, commerce and public corporations	10,607	9,510
EU government bodies	15,669	14,066
EU other	870	253
Other overseas	4,207	3,090
Other sources	3,785	3,885
	174,648	143,322

The figures for research income include 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 £2,721,000 (2008 - £3,245,000) 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 £3,046,000 (see note 21) (2008 - £3,442,000).

Notes to the Financial Statements
continued

	2009 £ 000's	2008 £ 000's
5. OTHER INCOME		
Residences, catering and conferences	34,691	33,532
Specific grants, donations and other designated income:		
Academic and related activities	30,399	32,087
Academic services and support activities	10,924	31,271
General Income :		
Academic and related activities	24,927	16,060
Income generating, academic services and support activities	23,187	17,613
Released from deferred capital grants:		
Buildings (note 21)	1,758	1,500
Equipment (note 21)	1,155	951
	127,041	133,014

6. ENDOWMENT AND INVESTMENT INCOME		
Income from expendable endowments	4,914	6,558
Income from permanent endowments	2,072	2,366
Other investment income	973	850
Other interest receivable	6,429	8,332
Net return on pension scheme assets (note 31)	–	1,629
	14,388	19,735

	2009 Number	2008 Number
7. STAFF		
Staff numbers (expressed as full time equivalents as at 31 July) were as follows:		
Academic and related support	3,268	3,358
Research grants and contracts	1,912	1,808
Library, computer and other academic support services	529	529
Administration and central services	523	537
Premises	624	636
Other including income generating operations	97	88
Residences and catering operations	411	412
	7,364	7,368
Staff numbers (expressed as an employee count) were as follows:		
Staff on open ended contracts	6,122	6,092
Staff on fixed term contracts	1,953	1,979
	8,075	8,071
Percentage of employees on fixed term contracts	24.2%	24.5%

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

Notes to the Financial Statements
continued

	2009 £ 000's	2008 £ 000's
7. STAFF (continued)		
Analysis of the cost of the above staff by activity:		
Academic and related support	170,120	157,331
Research grants and contracts	82,959	70,028
Library, computer and other academic support services	20,909	19,216
Administration and central services	23,806	21,483
Premises	15,046	14,127
Other including income generating operations	4,135	3,884
Residences and catering operations	9,484	9,328
Unfunded pensions	1,353	656
Pension costs less employer contributions payable (note 31)	475	1,082
	328,287	297,135

Certain prior year comparatives have been re-categorised in order that they are directly comparable with the amount shown in respect of the current financial year. The total staff cost reported at 31 July 2008 remains the same.

	2009 £ 000's	2008 £ 000's
Analysis of the above staff cost by type:		
Salaries and wages	253,881	234,665
Social security costs	20,621	19,112
Other pension costs (note 31)	49,506	39,332
Severance costs and unfunded pensions	4,279	4,026
	328,287	297,135

8. SENIOR POST HOLDERS

The following note details the remuneration levels, excluding employer's pension contributions, of higher paid staff. The remuneration includes payment made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment which are excluded from the University's Income and Expenditure Account. With effect from 1 January 2008 the University introduced a pension salary sacrifice arrangement for members of the USS and SBS schemes. Staff participating in the scheme elect to give up a portion of their contractual gross salary equal to their employees' pension contribution and in return the University employer's contribution is increased.

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

	2009 Number	2008 Number
£70,000 - £79,999	101	82
£80,000 - £89,999	54	54
£90,000 - £99,999	45	26
£100,000 - £109,999	24	24
£110,000 - £119,999	13	17
£120,000 - £129,999	12	6
£130,000 - £139,999	10	11
£140,000 - £149,999	10	10
£150,000 - £159,999	14	10
£160,000 - £169,999	7	9
£170,000 - £179,999	10	5
£180,000 - £189,999	7	6
£190,000 - £199,999	3	4
£200,000 - £209,999	2	2
£210,000 - £219,999	–	1
£220,000 - £229,999	1	2
£240,000 - £249,999	1	–
	314	269

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

Notes to the Financial Statements
continued

8. SENIOR POST HOLDERS (continued)

Emoluments of the Principal	2009 £ 000's	2008 £ 000's
Salary	222	228
Benefits in kind	1	1
	223	229
Pension contributions	63	39
	286	268

Regular pension contributions for the Principal, paid to the USS at the same rate as for other academic staff amounted to £48,243 (2008 - £39,318). An additional contribution of £15,000 was paid during the year.

Compensation for loss of office

Payments in compensation for loss of office exceeding £100,000 were payable to three members of staff during the year. Compensation arrangements applied to one senior member of staff earning in excess of £70,000.

Payments to USS for enhanced pension benefits	266	402
Other payments in respect of loss of office	104	20
	370	422

These payments were in accordance with the Remuneration Committee policy.

9. ANALYSIS OF OPERATING EXPENSES BY ACTIVITY

Academic and related expenditure	50,799	47,319
Research grants and contracts	57,160	46,750
Library, computer and other academic support services	14,877	34,261
Administration and central services	16,021	14,937
Premises – Refurbishment and maintenance	43,144	33,692
– Utility costs	16,045	10,270
– Other premises costs	6,907	7,008
Other including income generating operations	8,582	16,751
Residences and catering operations	17,625	16,630
	231,160	227,618

Other operating expenses include:		
Operating lease rentals	4,500	21,294
Fees charged by external auditors:		
Audit of these financial statements	56	55
Audit of financial statements of subsidiaries pursuant to legislation	33	32
Taxation Services	46	36
Non-audit Services	76	42

10. INTEREST PAYABLE

Bank and other loans	3,293	3,752
Finance leases	240	260
Net charge on pension scheme liabilities (note 31)	2,699	–
	6,232	4,012

Notes to the Financial Statements
continued

	2009 £ 000's	2008 £ 000's
11. TAXATION		
UK corporation tax charge on subsidiaries' profits	3	26
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	1,838	1,832
Surplus generated by subsidiary undertakings	2,128	3,370
Total	3,966	5,202

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 2008	988,820	16,614	71,289	1,076,723
Additions at cost	26,415	16,575	9,285	52,275
Acquisition of SSTRIC Ltd.	4,168	–	1,418	5,586
Reclassification from assets for resale	715	–	–	715
Reclassification	9,306	(9,306)	–	–
Disposals	(1,962)	–	(3,593)	(5,555)
As at 31 July 2009	1,027,462	23,883	78,399	1,129,744
Depreciation				
As at 1 August 2008	16,401	–	54,081	70,482
Acquisition of SSTRIC Ltd	1,358	–	887	2,245
Impairment	1,755	–	–	1,755
Charge for the year	14,128	–	7,829	21,957
Disposals	–	–	(3,593)	(3,593)
As at 31 July 2009	33,642	–	59,204	92,846
Net book value				
As at 31 July 2009	993,820	23,883	19,195	1,036,898
As at 31 July 2008	972,419	16,614	17,208	1,006,241

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. They are currently in the process of valuing land and buildings as at 1 August 2009.

Losses on disposals of land and building fixed assets amounted to £77,000 (2008 – Gains £471,000).

Land and buildings with a net book value of £123,038,000 (2008 - £118,111,000) 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 2008	988,820	16,614	60,753	1,066,187
Additions at cost	26,303	16,575	9,281	52,159
Reclassification from assets for resale	715	–	–	715
Reclassification	9,306	(9,306)	–	–
Disposals	(1,962)	–	(3,593)	(5,555)
As at 31 July 2009	1,023,182	23,883	66,441	1,113,506
Depreciation				
As at 1 August 2008	16,401	–	49,207	65,608
Impairment	1,755	–	–	1,755
Charge for the year	14,072	–	6,732	20,804
Disposals	–	–	(3,593)	(3,593)
As at 31 July 2009	32,228	–	52,346	84,574
Net book value				
As at 31 July 2009	990,954	23,883	14,095	1,028,932
As at 31 July 2008	972,419	16,614	11,546	1,000,579

There is a standard security over various properties belonging to the University which has been granted as part of loan arrangements. A further standard security was granted over a property during the year as part of a pension funding guarantee arrangement in favour of the University of Edinburgh Staff Benefit Scheme.

The net book value of tangible fixed assets includes an amount of £2,361,184 (2008 - £2,499,833) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £30,272 (2008 - £30,272).

Net book value historical cost equivalent

	Group		University	
	2009 £ 000's	2008 £ 000's	2009 £ 000's	2008 £ 000's
Land and buildings	518,132	482,500	515,266	482,500
Equipment	19,195	17,208	14,095	11,546
	537,327	499,708	529,361	494,046

The group depreciation charge has been matched by:

	Group	
	2009 £ 000's	2008 £ 000's
Deferred capital grants released (note 21)	8,593	8,297
Revaluation reserve transferred to general reserves (note 23)	6,900	5,800
Earnings in subsidiaries	1,153	1,046
General income	5,311	4,819
	21,957	19,962

Notes to the Financial Statements
continued

	Group		University	
	2009 £ 000's	2008 £ 000's	2009 £ 000's	2008 £ 000's
14. INVESTMENTS WITHIN FIXED ASSETS				
Movement in the year				
University General Reserve Fund				
Balance at 1 August	17,935	19,639	17,935	19,639
Additions	–	1,370	–	1,370
Net depreciation	(2,352)	(3,074)	(2,352)	(3,074)
Balance at 31 July	15,583	17,935	15,583	17,935
University General Fund				
Balance at 1 August	3,334	3,955	3,334	3,955
Additions	–	(14)	–	(14)
Net depreciation	(407)	(607)	(407)	(607)
Balance at 31 July	2,927	3,334	2,927	3,334
Other Investments				
Balance at 1 August	198	215	3,539	4,304
Loans repaid	–	–	(1,750)	(1,300)
Loan provisions released	–	–	–	539
Net appreciation /(depreciation)	17	(17)	–	(4)
Balance at 31 July	215	198	1,789	3,539
Total investments within fixed assets	18,725	21,467	20,299	24,808

	Group		University	
	2009 £ 000's	2008 £ 000's	2009 £ 000's	2008 £ 000's
Represented by:				
Investment in subsidiary companies at cost	–	–	358	358
Loans to subsidiary companies	–	–	1,350	3,100
Fixed interest stocks	5,682	6,355	–	6,354
Equities	12,620	13,694	18,510	13,581
Bank deposits held at fund managers	342	1,337	–	1,334
Other investments	81	81	81	81
Total investments within fixed assets	18,725	21,467	20,299	24,808
Investments at cost	19,446	24,868	21,020	28,326

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

14. INVESTMENTS WITHIN FIXED ASSETS (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 fund-raiser 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 each. 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 share of £1. The company's principal activity is the provision of high performance computing services.

Associated undertakings include the following:

Edinburgh Technology Transfer Centre Limited

The University Court is a member of Edinburgh Technology Transfer Centre Limited. The company, registered in Scotland and limited by guarantees of £1 from each of two members, is consolidated in these financial statements.

Roslin Cells Limited

Following the acquisition of Roslin Institute 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 grounds of materiality.

SSTRIC Limited

Following the resignation of the other member, the University has become the sole member of SSTRIC Limited, a company limited by guarantee.

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	
	2009 £ 000's	2008 £ 000's
15. ENDOWMENT ASSETS		
As at 1 August	185,038	212,017
New endowments investment (note 27)	3,886	7,993
Existing endowments disbursed (note 27)	(3,443)	(2,047)
Decrease in market value of investments (note 22)	(20,328)	(33,199)
Charges on investments	(279)	(303)
Increase in cash balances held by the University	106	380
(Decrease)/Increase in working capital	(234)	197
As at 31 July	164,746	185,038

Notes to the Financial Statements
continued

15. ENDOWMENT ASSETS (continued)

The remaining investments of the Norman Salvesen Emphysema Research Fund formerly held in the No.3 Trust were liquidated and the funds applied during the year. The separate charity, Scottish Charity No. SC011510, is now dormant.

	Group and University	
	2009 £ 000's	2008 £ 000's
Represented by:		
Fixed interest stocks	48,533	54,468
Equities	110,381	114,636
Bank deposits held at fund managers	2,843	12,817
Cash balance held by the University (note 30)	1,651	1,545
Working capital	1,338	1,572
Total endowment assets	164,746	185,038
Endowment Assets – at cost	156,707	189,666

Certain prior year comparatives have been re-categorised in order that they are directly comparable with the amount shown in respect of the current financial year.

	Group		University	
	2009 £ 000's	2008 £ 000's	2009 £ 000's	2008 £ 000's
16. DEBTORS				
Amounts falling due within one year:				
Debtors	77,009	71,554	71,685	63,887
Amounts owing from subsidiary companies	–	–	3,699	4,552
Prepayments	5,658	8,383	4,682	8,106
	82,667	79,937	80,066	76,545

	Group		University	
	2009 £ 000's	2008 £ 000's	2009 £ 000's	2008 £ 000's
17. CREDITORS:				
Amounts falling due within one year:				
Unsecured loans (note 19)	1,110	1,092	1,110	1,092
Finance lease (note 19)	65	59	65	59
Creditors	26,636	32,286	23,746	28,425
Social security and other taxation payable	7,451	6,721	7,442	6,700
Accruals and deferred income	184,427	132,314	171,556	119,476
	219,689	172,472	203,919	155,752

Notes to the Financial Statements
continued

	Group and University	
	2009 £ 000's	2008 £ 000's
18. CREDITORS:		
Amounts falling due after more than one year:		
Bank loans (note 19)	53,899	55,008
Obligations under finance leases (note 19)	1,952	2,016
Other creditors	512	4,500
	56,363	61,524
19. BORROWINGS		
Bank loans		
Bank loans are repayable as follows:		
In one year or less	1,110	1,092
Between two and five years	4,524	4,524
In five years or more	49,375	50,484
	55,009	56,100
Less: falling due within one year (note 17)	1,110	1,092
Total bank loans (note 18)	53,899	55,008

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

The University's long term credit facilities are 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; and

c) £16,600,000 at an annual interest rate 0.23% above Bank of England base rate, with a balance of £13,280,000 repayable between 2009 and 2025.

	Group and University	
	2009 £ 000's	2008 £ 000's
Finance leases		
Obligations under finance leases fall due as follows:		
In one year	65	59
Between two and five years	423	359
After five years	1,529	1,657
	2,017	2,075

Notes to the Financial Statements
continued

	Group and University	
	2009 £ 000's	2008 £ 000's
20. PROVISIONS FOR LIABILITIES AND CHARGES		
Unfunded pensions		
As at 1 August	7,095	7,095
Utilised in year	(604)	(599)
Transfer from Income and Expenditure Account	1,291	599
As at 31 July	7,782	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 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
Cash receivable				
Buildings	6,992	7,942	–	14,934
Equipment	440	1,425	2,721	4,586
	7,432	9,367	2,721	19,520
Transfer from endowment funds				
Buildings	–	765	–	765
Equipment	–	1,079	–	1,079
	–	1,844	–	1,844
Released to income and expenditure account				
Buildings	2,065	1,758	–	3,823
Equipment	569	1,155	3,046	4,770
	2,634	2,913	3,046	8,593
As at 31 July 2009				
Buildings	123,038	120,270	–	243,308
Equipment	914	5,261	4,089	10,264
	123,952	125,531	4,089	253,572

Notes to the Financial Statements
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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 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
Cash receivable				
Buildings	6,992	5,076	–	12,068
Equipment	440	895	2,721	4,056
	7,432	5,971	2,721	16,124
Transfer from endowment funds				
Buildings	–	765	–	765
Equipment	–	1,079	–	1,079
	–	1,844	–	1,844
Released to income and expenditure account				
Buildings	2,065	1,758	–	3,823
Equipment	569	637	3,046	4,252
	2,634	2,395	3,046	8,075
As at 31 July 2009				
Buildings	123,038	117,404	–	240,442
Equipment	914	2,693	4,089	7,696
	123,952	120,097	4,089	248,138

22. ENDOWMENT FUNDS

	Group and University			
	Restricted Permanent £ 000's	Restricted Expendable £ 000's	Total 2009 £ 000's	Total 2008 £ 000's
Capital	47,826	115,809	163,635	188,296
Accumulated income	6,811	14,592	21,403	23,721
At 1 August	54,637	130,401	185,038	212,017
New endowments	1,612	689	2,301	5,849
Depreciation of endowment investments	(5,962)	(14,366)	(20,328)	(33,199)
Investment charge on capital	(83)	(196)	(279)	(303)
Investment income for the year (note 6)	2,072	4,914	6,986	8,924
Expenditure for the year	(2,032)	(5,096)	(7,128)	(8,250)
Transferred to Deferred Capital Grants	–	(1,844)	(1,844)	–
As at 31 July	50,244	114,502	164,746	185,038
Represented by:				
Capital	44,018	100,173	144,191	163,635
Accumulated income	6,226	14,329	20,555	21,403
	50,244	114,502	164,746	185,038

Certain prior year comparatives have been re-categorised in order that they are directly comparable with the amount shown in respect of the current financial year.

Notes to the Financial Statements
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	Group and University	
	Total 2009 £ 000's	Total 2008 £ 000's
23. REVALUATION RESERVE		
As at 1 August	550,658	432,533
Revaluation of tangible assets during the year	–	125,462
Diminution in investment during the year	(407)	(607)
Transfer to general reserve-depreciation on revalued assets (note 24)	(6,900)	(5,800)
Disposals in the year (note 24)	–	(930)
Impairment in the year	(777)	–
As at 31 July	542,574	550,658

	Group	Group	University	University
	2009 £ 000's	2008 £ 000's	2009 £ 000's	2008 £ 000's
24. MOVEMENT ON RESERVES				
GENERAL RESERVE INCLUDING PENSION RESERVE				
At 1 August	136,096	180,102	131,261	174,717
Consolidate share of SUERC Joint activity at 1 August	824	–	824	–
Surplus attributable to the year	3,966	5,202	4,011	5,752
Depreciation on revalued assets (note 23)	6,900	5,800	6,900	5,800
Realisation of revaluation gains of previous years (note 23)	–	930	–	930
Pension actuarial loss	(18,756)	(55,938)	(18,756)	(55,938)
Balance at 31 July	129,030	136,096	124,240	131,261
Represented by:				
INCOME AND EXPENDITURE ACCOUNT				
At 1 August	220,487	209,102	215,652	203,717
Consolidate share of SUERC joint activity at 1 August	824	–	824	–
Surplus attributable to the year	3,966	5,202	4,011	5,752
Transfer from/(to) pension reserve	3,174	(547)	3,174	(547)
Transfer from revaluation reserve	6,900	6,730	6,900	6,730
Balance at 31 July	235,351	220,487	230,561	215,652

Notes to the Financial Statements
continued

24. MOVEMENT ON GENERAL RESERVES (continued)

	Group	
	2009 £ 000's	2008 £ 000's
PENSION RESERVE		
At 1 August	(84,391)	(29,000)
Current service cost	(12,740)	(10,438)
Past service cost	(480)	(100)
Employer contributions	12,688	9,399
Contributions in respect of unfunded benefits	57	57
Net finance cost to assets (note 10)	(2,699)	–
Net return on assets (note 6)	–	1,629
Transfer (to)/from Income and Expenditure Account	(3,174)	547
Actuarial loss (note 31)	(18,756)	(55,938)
Pension Reserve (Liability) at 31 July	(106,321)	(84,391)

	2009 £ 000's	2008 £ 000's
25. RECONCILIATION OF CONSOLIDATED SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Surplus before tax and minority interest	3,820	5,906
Pension service cost in excess of contributions payable (note 31)	475	1,082
Depreciation (note 13)	21,957	19,962
Impairment of fixed assets (note 13)	1,755	1,157
Diminution of fixed asset investment: General Reserve Fund (note 14)	2,352	3,074
Depreciation of fixed asset investments: other (note 14)	–	17
Deferred capital grants released to income (note 21)	(8,593)	(8,297)
Loss/(Gain) on disposal of fixed assets	77	(471)
Bank, other loan & finance lease interest payable (note 10)	3,533	4,012
Net interest on pension scheme assets (note 10)	2,699	–
Decrease/(increase) in stocks	185	(164)
Increase in debtors	(2,149)	(16,263)
Increase in accruals and deferred income	34,842	18,098
(Decrease)/increase in creditors	(4,920)	10,177
Increase in provisions (note 20)	687	–
Endowment income (note 22)	(6,986)	(8,924)
Other investment income (note 6)	(973)	(850)
Interest receivable (note 6)	(6,429)	(8,332)
Net interest on pension scheme assets (note 6)	–	(1,629)
NET CASH INFLOW FROM OPERATING ACTIVITIES	42,332	18,555
26. RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Endowment funds dividends and interest received	7,217	8,727
Other investment income	973	852
Interest received	7,693	8,121
Interest paid	(3,294)	(3,751)
Finance lease interest paid	(240)	(263)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	12,349	13,686

Notes to the Financial Statements
continued

	Group	
	2009 £ 000's	2008 £ 000's
27. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchases of tangible assets	(54,830)	(50,983)
Proceeds from sale of fixed assets	1,885	1,349
Deferred capital grants received - funding councils and research equipment	26,110	27,908
Deferred capital grants received - other capital benefactions	3,375	17,905
Purchase of fixed asset investment (note 14)	–	(1,370)
Purchase of endowment investment assets (note 15)	(3,886)	(7,993)
Disposal of endowment investment assets (note 15)	3,443	2,047
New endowments received (note 22)	2,301	5,849
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(21,602)	(5,288)
28. MANAGEMENT OF LIQUID RESOURCES		
Increase in deposits	(44,651)	(17,238)
NET CASH OUTFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	(44,651)	(17,238)
29. FINANCING		
Loan repayments	(1,091)	(1,081)
Capital repayment of finance lease obligations	(58)	(52)
NET CASH OUTFLOW FROM FINANCING	(1,149)	(1,133)

30. ANALYSIS OF NET (DEBT)/FUNDS

	As at 1 August 2008 £ 000's	Cashflows £ 000's	Other Changes £ 000's	As at 31 July 2009 £ 000's
Cash in hand and at bank	24,569	(12,109)	–	12,460
Endowment assets:				
Cash balance held by University (note 15)	1,545	106	–	1,651
Total cash in hand and at bank	26,114	(12,003)	–	14,111
Debt due within 1 year	(1,092)	1,092	(1,110)	(1,110)
Debt due after 1 year	(55,008)	(1)	1,110	(53,899)
Finance leases	(2,075)	58	–	(2,017)
Current assets:				
Bank deposits	117,812	44,651	–	162,463
TOTAL FUNDS	85,751	33,797	–	119,548

Notes to the Financial Statements
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31. PENSION FUNDS

UNIVERSITY PENSION SCHEMES

The University participates in three active Pension schemes; the Universities Superannuation Scheme (USS) the Strathclyde Pension Fund (SPF) 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 for the University of Edinburgh were as follows:

		Year to 31 July 2009 £ 000's	Year to 31 July 2008 £ 000's
USS –	Contributions paid	35,911	28,088
EUSBS –	Charge to Income and Expenditure Account	12,397	10,200
STSS –	Contributions paid	319	374
SPF –	Charge to Income and Expenditure Account	463	281
FSSU –	Charge to Income and Expenditure Account	6	10
Other –	Charge to Income and Expenditure Account	410	379
		49,506	39,332

	Year to 31 July 2009 £ 000's	Year to 31 July 2008 £ 000's
Outstanding contributions to pension schemes at the Balance Sheet date were as follows:		
The Universities Superannuation Scheme	3,219	3,002
The Federated Superannuation Scheme for Universities	–	9
The pension cost excludes:		
Payments made to USS on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded from the University's Income and Expenditure Account	198	196
Payment to retired members in respect of the FSSU Supplementation scheme	17	16

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 note and pension contributions to the USS and EUSBS schemes disclosed in this Pensions note in compliance with Financial Reporting Standard 17: Retirement Benefits (FRS17) include both the employee and employer elements of the pension contributions; and
- employer's 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.

Notes to the Financial Statements
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31. PENSION FUNDS (continued)

The Universities Superannuation Scheme (USS)

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. As at 31 March 2009, USS has over 130,000 active members and the institution has 4,400 active members participating in the scheme.

The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17: Retirement benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male members' mortality PA92 MC YoB tables - rated down 1 year
Female members' mortality PA92 MC YoB tables - no age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65 22.8 (24.8) years
Males (females) currently aged 45 24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme

Notes to the Financial Statements
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was 107% funded; on a buy-out basis (i.e. assuming the scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using an AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset out-performance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using an AA bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 46%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of Interest	Increase/decrease by 0.50%	Increase/decrease by £2.2 billion
Rate of pension increases	Increase/decrease by 0.50%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.50%	Increase/decrease by £0.7 billion
Rate of mortality	Rate of mortality more prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return

Notes to the Financial Statements
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than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more. The next formal triennial actuarial valuation is due at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The contribution rate payable by the institution was 14% of pensionable salaries. An increase to 16% of pensionable salaries has taken place from 1 October 2009.

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 2009 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 each year end were as follows:

	At 31 July 2009	At 31 July 2008	At 31 July 2007
Rate of increase in salaries	4.50%	4.90%	4.10%
Rate of increase in pensions in payment	3.50%	3.90%	3.10%
Discount rate	6.00%	6.50%	5.80%
Inflation assumption	3.50%	3.90%	3.10%

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 2009	31 July 2008
Retiring today		
Males	20.3	20.5
Females	22.9	22.8
Retiring in 20 years		
Males	22.2	22.4
Females	24.8	24.7

The total assets and liabilities in the scheme measured in accordance with the requirements of FRS17 and the expected rate of return were as follows:

Notes to the Financial Statements
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	Long term rate of return	Value at 31 July 2009 £ million	Long term rate of return	Value at 31 July 2008 £ million	Long term rate of return	Value at 31 July 2007 £ million
Equities	8.40%	107.2	8.80%	116.1	8.00%	134.8
Bonds	5.16%	55.0	5.70%	56.5	5.10%	55.7
Property	6.35%	6.1	6.85%	9.0	6.55%	11.0
Private equity	6.35%	6.0	6.85%	4.2	4.10%	1.8
Other – mainly cash	4.50%	2.5	4.90%	1.7	4.10%	0.7
Total market value of assets		176.8		187.5		204.0
Present value of scheme liabilities		(278.4)		(267.0)		(233.0)
Deficit in the scheme		(101.6)		(79.5)		(29.0)

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 FRS17 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 on 1 August 2008 from 17.5% to 18.9% of pensionable salary. A further increase to 20.3% has taken place from 1 August 2009.

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 FRS17, 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 review	31 March 2005
Actuarial method	SCAPE*
Gross rate of return	6.5 per cent per annum
Rate of return in excess of salary increases	2.0 per cent per annum
Rate of return in excess of price increases	3.5 per cent per annum
Notional value of assets	£18,474 million
Value of liabilities	£19,310 million
Notional deficit	£836 million

*Superannuation Contributions Adjusted for Past Experience

Based on the review which was issued in June 2008, the Scottish Public Pensions Agency recommended an increase in the employer's contribution rate. The contributions rate payable by the University increased from 13.5% to 14.9% of pensionable salary on 1 April 2009.

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 2008 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 2008; 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 2009 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.

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The major assumptions used by the actuary at 31 July 2009 were as follows:

	At 31 July 2009	At 31 July 2008	At 31 July 2007
Rate of increase of salaries	4.5%	4.9%	4.1%
Rate of increase in pensions in payment	3.5%	3.9%	3.1%
Discount rate	6.0%	6.5%	5.8%
Inflation assumption	3.5%	3.9%	3.1%

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 2009	31 July 2008
Current Pensioners		
Males	20.3	20.5
Females	22.9	22.8
Future pensioners		
Males	22.2	22.4
Females	24.8	24.7

The assets in the total fund at year end amounted to £8,405 million (2008 - £9,135 million). The fair value of the University's asset share and liabilities in the scheme were measured in accordance with the requirements of FRS17 and the expected rates of return were as follows:

	Long term rate of return	Value at 31 July 2009 £ 000's	Long term rate of return	Value at 31 July 2008 £ 000's	Long term rate of return	Value at 31 July 2007 £ 000's
Equities	8.40%	11,709	8.80%	12,457	8.00%	13,804
Bonds	5.20%	2,311	5.70%	2,602	5.10%	2,500
Property	6.40%	1,078	6.85%	1,547	6.60%	1,905
Other – mainly cash	4.50%	308	4.90%	748	4.10%	745
Total market value of assets		15,406		17,354		18,954
Present value of scheme liabilities						
– Funded		(19,766)		(21,393)		(17,448)
– Unfunded		(761)		(852)		(784)
(Deficit)/Surplus in the scheme – net pension liability/(asset)		(5,121)		(4,891)		722

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.183% (2008: 0.190%).

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 FRS17 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 from 18.6% to 21.1% of pensionable salary from 1 April 2009. In addition further contributions of £160,000, £168,000 and £176,000 will be made for the years ending 31 March 2010, 2011 and 2012 respectively.

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31. PENSION FUNDS (continued)

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.

FRS17 Disclosures

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 2009 £ 000's	Year to 31 July 2008 £ 000's
Current service cost	12,740	10,438
Past service cost	480	100
Total operating charge	13,220	10,538
Less contributions paid	12,745	9,456
Pensions costs less contributions payable (note 7)	475	1,082

Analysis of the amount debited to other finance cost

	Year to 31 July 2009 £ 000's	Year to 31 July 2008 £ 000's
Expected return on pension scheme assets	15,840	15,987
Interest on pension scheme liabilities	(18,539)	(14,358)
Net (cost to)/return on pension scheme assets (note 10 and note 6)	(2,699)	1,629

In the year to 31 July 2008 there was a net return on pension scheme assets of £1,629,000 (note 6).

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

	Year to 31 July 2009 £ 000's	Year to 31 July 2008 £ 000's
Difference between expected and actual return on scheme assets	(30,940)	(36,911)
Experience gains and (losses) arising on scheme liabilities	10,530	(3,719)
Changes in assumptions underlying the present value of the scheme liabilities	1,654	(15,308)
Actuarial loss recognised in the STRGL	(18,756)	(55,938)

Notes to the Financial Statements
continued

31. PENSION FUNDS (continued)

Movement in the deficit during year

	Year to 31 July 2009 £ 000's	Year to 31 July 2008 £ 000's
Deficit in schemes at 1 August	84,391	29,000
Movement in year:		
Employer service cost (net of employee contributions)	12,740	10,438
Employer contributions	(12,745)	(9,456)
Past service cost	480	100
Net interest/(return) on assets	2,699	(1,629)
Actuarial loss	18,756	55,938
Deficit in schemes at 31 July	106,321	84,391

Asset and liability reconciliation	Year to 31 July 2009 £ 000's	Year to 31 July 2008 £ 000's
Reconciliation of liabilities:		
Liabilities at start of period	289,245	251,954
Service cost	12,740	10,438
Interest cost	18,539	14,358
Employee contributions	211	1,204
Actuarial (gain)/loss	(12,184)	19,027
Benefits paid – funded	(10,447)	(7,779)
Benefits paid – unfunded	(57)	(57)
Past service cost	480	100
Liabilities at end of period	298,527	289,245
Reconciliation of assets:		
Assets at start of period	204,854	222,954
Expected return on assets	15,840	15,987
Actuarial loss	(30,940)	(36,911)
Employer contributions	12,745	9,456
Employee contributions	211	1,204
Benefits paid - funded	(10,447)	(7,779)
Benefits paid - unfunded	(57)	(57)
Assets at end of period	192,206	204,854

Notes to the Financial Statements
continued

History of experience gains and losses:

	Year to 31 July 2009 £ 000's	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
Difference between the expected and actual return on assets:					
Amount £ 000's	(30,940)	(36,911)	5,180	6,052	23,319
Percentage of scheme assets	(16.1)%	(18.0)%	2.3%	3.01%	12.7%
Experience gains and losses on scheme liabilities:					
Amount £ 000's	10,530	(3,719)	(2,686)	(5,611)	199
Percentage of scheme liabilities	3.5%	(1.3)%	(1.1)%	(2.2)%	0.1%
Total amount recognised in STRGL:					
Amount £ 000's	(18,756)	(55,938)	23,191	(16,191)	3,049
Percentage of scheme liabilities	(6.3)%	(19.3)%	9.2%	(6.4)%	1.4%

32. POST BALANCE SHEET EVENTS

On 24 September 2009, the Scottish Funding Council, awarded the University additional funding of £3,651,000 towards expenditure incurred in the operation of the Edinburgh Medical School. This is a non-adjusting event and is not reflected in the 2009 Financial Statements.

33. CAPITAL COMMITMENTS

	Group and University	
	2009 £ 000's	2008 £ 000's
Commitments contracted for at 31 July	147,497	65,764

Of the above commitments, £73,605,000 (2008: £25,330,000) will be funded through grants and benefactions.

The following significant commitments formed part of the University's capital programme as at 31 July 2009:

Scottish Centre for Regenerative Medicine	42,608
New Royal (Dick) School of Veterinary Studies	31,860
Easter Bush Research Centre	13,000
Adam Ferguson Building refurbishment and extension	12,433
Old Medical School – West Wing refurbishment	11,467
Clinical Research Imaging Centre	10,480
Main Library refurbishment	7,259

34. FINANCIAL COMMITMENTS

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

	2009 £ 000's	2008 £ 000's
Land and Buildings		
Expiring within one year	95	948
Expiring within two to five years	512	20
Expiring in over five years	1,964	2,291
	2,571	3,259
Other		
Expiring within one year	175	11,977
Expiring within two to five years	134	147
	309	12,124
Total Financial Commitments	2,880	15,383

Notes to the Financial Statements
continued

35. ASSET HELD FOR RESALE

Properties no longer in use and earmarked for future disposal have been reclassified as assets for resale 2009: £NIL (2008: £715,000).

36. UNIVERSITY COLLECTIONS

The University Court holds a number of valuable collections. These heritage assets are not included in the Balance Sheet. Where items have been purchased during the year these are included in fixed assets. Where items have been donated however, they are not disclosed as fixed asset additions. Court do not believe the value of donations to collection is material.

37. STUDENT SUPPORT FUNDS

	2008-09 HE Childcare £ 000's	2008-09 HE Discretionary full-time £ 000's	2008-09 HE Discretionary part-time £ 000's	2008-09 Total £ 000's	2007-08 Total £ 000's
Balance brought forward	65	98	–	163	181
Allocation received in year	206	1,023	12	1,241	1,194
Expenditure	(96)	(1,258)	(12)	(1,366)	(1,177)
Repaid as clawback	(44)	–	–	(44)	(77)
Institution contribution to funds	3	14	–	17	42
Virements	(123)	123	–	–	–
Balance carried forward	11	–	–	11	163
Repayable as clawback	–	–	–	–	44
Retained by institution for students	11	–	–	11	119

38. 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 stakeholder member 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

	2009 £ 000's	2008 £ 000's	2007 £ 000's	2006 £ 000's	2005 £ 000's
Total Income	591,533	555,319	479,501	435,569	402,707
Surplus on continuing operations*	3,901	5,405	8,127	6,885	10,852
(Loss)/Gain on disposal of assets	(77)	471	8,476	3,283	440
Transfers from/(to) endowment reserves	142	(674)	(1,131)	(1,958)	(736)
Surplus retained within general reserves	3,966	5,202	15,472	8,210	10,556

* After tax and minority interest

GROUP BALANCE SHEET
as at 31 July

	2009 £ million	2008 £ million	2007 £ million	2006 £ million	2005 £ million
Fixed assets	1,055	1,028	875	832	817
Endowment assets	165	185	212	201	183
Net current assets	40	53	61	57	56
Non-current liabilities and provisions	(64)	(69)	(70)	(71)	(69)
Pension liability	(106)	(84)	(29)	(51)	(34)
TOTAL NET ASSETS	1,090	1,113	1,049	968	953
Represented by funding:					
Deferred capital grants	254	241	224	205	200
Endowments	165	185	212	201	183
Total reserves	671	687	613	562	570
TOTAL FUNDS	1,090	1,113	1,049	968	953
Staff numbers (expressed as full time equivalents) as at 31 July	7,364	7,368	6,862	6,675	6,283

Cover shows the refurbished Main Library in George Square.