THE UNIVERSITY *of* EDINBURGH

Reports and Financial Statements for the year to **31 July 2010**

Scottish Charity Number SC005336

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Principal's Report

For the year ended 31st July 2010

In view of the very challenging circumstances for the HE sector over the last two years – it is once again very pleasing to be able to report that the University has had another very successful year.

We have continued to grow our turnover, up from £592 million to £634 million. This growth, combined with very careful management of costs, has resulted in us producing a surplus of £18.3 million (2.9%). In acting decisively and early in anticipation of public expenditure reductions, the University is well placed to address the onset of funding reductions which, after being delayed in Scotland, are likely to be implemented from the start of the Government's financial year in April 2011.

Students

In 2009-10 we had a record intake of home and EU students in what was a year of record applications to this University. Our international student numbers also increased by 16%, and overall this delivered an increase of £18 million in fee income. This growth was the result of the introduction of a range of new post-graduate taught courses and a strong push on increasing international students on our undergraduate programmes. During the year the University unveiled a £6 million scheme offering more than 110 new PhD scholarships; the Principal's Career Development PhD Scholarships scheme is open to UK, EU and overseas students taking research degrees in any field of study. Close to 60 scholarships are being offered per year for students beginning their study over the next two academic years.

The University is committed to assisting talented school students who may be deterred from studying at Edinburgh due to a lack of necessary financial resources. In the 2009-2010 academic session we awarded 174 new Access Bursaries whilst renewing a further 460 awards. The Accommodation Bursary Scheme assisted 54 students with meeting the cost of living in University accommodation. There are also a range of activities linking with schools. One such, entitled "Expanding Pathways to the Professions", provides advice and guidance to school students in all 46 state schools in Edinburgh and the Lothians who are interested in applying for Medicine, Law, Veterinary Medicine and Architecture.

Teaching

As an internationally excellent University it is important that we reinforce that message in a number of ways. Our teaching, informed by the quality of our research is of high quality. We are improving our performance in the National Student Survey.

Research

As funding for research grants and contracts became more constrained both from public and commercial sources, the awards received by the University during the year reduced by 18%. The underlying reduction was less than this because the 2008-09 figures included a spike in income due to the merger of the Roslin Institute into the University.

During the year a range of exciting research discoveries were announced. Examples include:

- Juan Diaz-Mochon from the School of Chemistry has developed a low cost, fast, DNA test that can analyse DNA in a drop of saliva. This development could significantly reduce the cost of DNA testing to determine whether a person is susceptible to a disease or has a serious condition.
- Scientists from the University's Centre for Immunity, Infection and Evolution have developed a new way to target viruses which could increase the effectiveness of antiviral drugs. Rather than attacking the virus, the method developed alters the conditions which viruses need to survive and multiply. By making the site of infection less hospitable for the virus, the virus becomes less able to mutate and build up resistance to drugs. The process is also able to target more than one virus simultaneously.
- Researchers from the University's Reproductive Developmental Sciences have discovered why women who smoke have a higher risk of developing ectopic pregnancies. They found that female smokers who have had an ectopic pregnancy have raised levels of a protein, called PROKR1, in their Fallopian tubes, which increases the risk of an egg implanting outside the womb. The team believes that cotinine, a chemical in cigarette smoke, triggers a chain reaction that increases PROKR1 in the Fallopian tubes.
- Research conducted at the Roslin Institute has solved a puzzle that has baffled scientists for centuries – why some birds appear to be male on one side of the body and female on the other. The work involved studying rare, naturally occurring, chickens with white (male) plumage on one side and brown (female) plumage on the other, which sheds new light on the sexual development of birds.
- A new research centre to foster deeper understanding between the Muslim world and the West has been opened. The Prince Alwaleed Bin Talal Centre for the Study of Islam in the Contemporary World will study Islamic civilisation and issues relating to Islam in Britain. The new centre, set up with funding from the Alwaleed Bin Talal Foundation, was opened by HRH Prince Alwaleed of Saudi Arabia at a ceremony in Edinburgh.
- The University has opened a new Russian study centre – the first of its kind in Britain. The Princess Dashkova Russian

Principal's Report
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Centre will help Edinburgh to reaffirm itself as a centre for Russian language research and exchange between Russia and the UK. It is the first centre supported by the Russkily Mir Foundation to open at a British University. The Foundation, which is similar to the British Council, promotes Russian culture around the world.

Estates

We continued to open new teaching and research facilities during the year. The Clinical Research Imaging Centre which houses a range of state of the art imaging equipment was opened for use by researchers and NHS patients. We have seen the completion of major elements of the refurbished library. The transformation has been spectacular; the library is now a state of the art space for student study in the 21st century, and it is gratifying to see that renewal of our existing estate is having a similar impact to the building of new facilities.

Over the coming year, a number of major buildings will be completed. At Easter Bush, major developments including a new Veterinary teaching building and a new Roslin Institute research facility will transform our campus. In the spring of 2010 STV screened a series of five hour-long episodes entitled Vet School which followed the work of the vets and students at the Royal (Dick) School of Veterinary Studies. As STV's own programme guide said "the "Dick Vet" is a leading training centre and hospital for the treatment of all kinds of creatures. It's here where anxious owners bring their beloved pets: from cats and dogs, to chameleons, rabbits, snakes and horses".

Knowledge Transfer

The economic impact of the University on Scotland continues to grow. The University created a record 40 new companies during the past academic year, further strengthening its position as Scotland's leading research institution. We continue to build on our world class performance in the area of company spin-out and development, and are encouraged that the BioQuarter at Little France adjacent to our Medical School researchers and the NHS is now being developed to deliver the space to allow research in this area to be developed into drugs and treatments.

International

The University has been pursuing its international strategy with a range of exciting developments. A landmark development initiative, which will aid communities across the world in benefiting from the ecosystems around them, is being led by the University. The Ecosystems Services for Poverty Alleviation (ESPA) programme will encourage people in some of the world's poorest communities to develop more fully the economic potential of their natural environment. The £40 million programme seeks to bring benefit in a variety of ways, including assisting South Asian farmers facing changing monsoon patterns, Chinese villagers whose lands are at risk of being turned to desert, African communities threatened by drought, and South Americans who live on the edges of shrinking rain forests.

Elsewhere, a new University office is being opened in Mumbai to further our engagement with Indian higher education institutions and students. The Confucius Institute goes from strength to strength and is now one of the most successful of its kind anywhere. The University has launched its Global Development Academy, which brings together experts from across the University to tackle issues facing the world. Launched in October, the Academy provides a forum for collaboration between staff in all three Colleges. It will address issues including combating enduring poverty and inequality, promoting the better use of resources, and aiding more effective government in the developing world.

Fundraising

The success of our fundraising activity is a reflection of our reputation and the work of the Development Office. In addition donors recognise that we deliver our promises in the use of their funding by having strong academic and professional management. Despite the effects of the recession, our fundraising continued successfully toward our £350 million Enlightenment Campaign. Good progress continues to be made in fundraising of new student scholarships and bursaries.

In addition, two bequests received in the past year are worthy of particular note:

- £1 million was raised from an anonymous donor to help landscape the Old College quadrangle, fulfilling the vision of architect William Henry Playfair, who completed the landmark building originally designed by Robert Adam. The project will replace the quadrangle's grey gravel surface with honey-coloured sandstone paving stones and create a new lawn.
- The author J K Rowling has donated £10 million to set up the Anne Rowling Regenerative Neurology Clinic. The clinic, named in memory of the author's mother, will place patients at the heart of research to improve outcomes for multiple sclerosis sufferers. It will also provide insight to improve treatments for other neurological conditions such as Alzheimer's disease, Parkinson's disease, Huntington's disease and Motor Neurone Disease. The centre will focus on patient-based studies to help find treatments that could slow progression of such neurological diseases, working towards the eventual aim of stopping and reversing them.

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Mergers

We are currently working to deliver two exciting mergers into the University. The Medical Research Council's Human Genetics Unit and the Edinburgh Cancer Research Centre will come together with the University's Centre for Molecular Medicine to form the Institute of Genetics and Molecular Medicine. The Institute will develop fully integrated, multi- disciplinary research programmes across the whole spectrum of basic, clinical and translational research.

The joining of the University and the Edinburgh College of Art (eca) will, we believe, place the College and the University even more centrally at the heart of creativity, innovation, and cultural and intellectual life in Scotland and beyond. Building on existing links, both institutions can combine their internationally recognised academic excellence to realise the enormous potential at undergraduate, postgraduate and research level, as well as the benefits for the wider community of lifelong learners.

The Task Ahead

At the time of writing, the Coalition Government had published its programme of measures to address the public sector deficit over the next four years. Lord Browne's Report on Securing a Sustainable Future for Higher Education is presently provoking much thought and comment not only in England, but also here in Scotland. As the Scottish Government progresses its draft budget published during November, we continue to make robust arguments for highest quality university provision with all our stakeholders. I am confident that our outstanding international community of students and staff, ably guided by the University Court, will continue to make important contributions to the solution of the major challenges facing the world.

Professor Sir Timothy O'Shea
Principal and Vice-Chancellor

Operating and Financial Review

For the year ended 31st July 2010

Summary of the Year

The University's strong financial performance has continued over the last year, a pleasing result given the backdrop of the global financial crisis over the last two years. We face, however, impending reductions in public expenditure, which we believe will start to impact on Scottish Higher Education from April 2011.

The income and expenditure position is summarised below:

	2010 £m	2009 £m
Income	634.0	591.5
Expenditure	613.9	587.6
Operating Surplus	20.1	3.9
Loss on disposal of fixed assets	(1.0)	(0.1)
Other Items	(0.8)	0.2
Surplus Retained within general reserves	18.3	4.0

The growth in turnover has remained strong at 7.2%, reflecting a healthy growth in all our major income streams other than Investment Income. Presently very low interest rates available on cash deposits have resulted in interest income falling further – by some £10 million in two years, easily the largest impact that the global financial crisis has had so far on the University's Income and Expenditure performance.

The retained surplus for the year, at £18.3 million, reflects University-wide efforts to boost income and manage costs, and provides some flexibility to deal with the very challenging funding climate we now face. Though it appears to be a high surplus, we must bear in mind that, even in normal circumstances, a surplus of just over 3% of turnover should be regarded as necessary to generate the cash to maintain our very extensive estate, and to enable the University to operate on a financially sustainable basis.

It is further pleasing to note the broad spread of activities that has contributed to the continuing growth in income. Examples include:

- Grants from the Scottish Funding Council increased by 7.8%, reflecting a strong increase in quality research funding, as Edinburgh's successful performance in the 2008 Research Assessment Exercise was reflected in the funding to the University.
- Tuition fees grew by nearly 20%, with particularly strong growth in International Student fees. The actual student numbers for the last two years are detailed below:

2009-10	Under-Graduate	Taught Post-Graduate	Research Post-Graduate	Total
Scotland	8,757	2,058	1,526	**12,341**
Rest of the UK	6,200	685	602	**7,487**
EU non UK	1,719	777	625	**3,121**
Outwith EU	2,851	1,458	1,135	**5,444**
	19,527	4,978	3,888	**28,393**
2008-09				
Scotland	8,606	1,999	1,616	**12,221**
Rest of the UK	6,180	610	609	**7,399**
EU non UK	1,482	589	594	**2,665**
Outwith EU	2,527	1,157	983	**4,667**
	18,795	4,355	3,802	**26,952**

- Despite the reduction in research grants and contracts awarded, overall research income from existing awards increased by 6.1%. Increases of 9.4% in Research Council and Charity growth of 9.3% were offset by a reduction in grants from Government bodies.
- Endowment income increased by 5.7% as the revised investment strategy, implemented in the previous year started to bear fruit.
- Other income recovered well from the fall in the previous year caused by the recession, with residences, catering and conference income being the major factor in an overall 3.4% increase.

On the expenditure side of the account, staffing costs have been constrained as part of the University's efforts to keep a tight control on all its costs. Other than in residences, where staffing numbers increased in response to improving business, staff numbers fell during the year against all categories, a consequence of tight senior management control on the filling of posts and a continuing programme of early retirement and voluntary severance.

Operating and Financial Review

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Cash Flow

Despite the very large capital building programme, the impact of the surplus and the increase in accruals and deferred income resulted in cash balances and deposits declining by only £5.2 million over the year. In total, some £74.1 million was spent on the purchase of tangible assets, funded by £21.6 million of external grants and the sale of property during the year. The balance of funding was met by external capital funding received in previous years and by University general cash. We expect that the cash and deposit balances will fall more substantially in the coming year as a number of very large building projects come to a conclusion.

Capital Programme

During the past year, the University produced an updated estates strategy for the period up until 2020. The overall vision is to provide the quality physical and IT-related infrastructure appropriate to the needs of a leading international centre of academic excellence. It will:

- support world class academic activity;
- provide a stimulating working, learning and living environment;
- be developed and operated to meet national and international environmental sustainability and social responsibility objectives;
- continue to move towards the optimum use of space.

In aiming to take forward this vision the University has, over the last year, continued to successfully deliver the very large capital programme for which nearly all the funding was secured prior to the financial crisis of 2008. Major projects underway or concluded during the year were:

- An extension to the Pleasance Sports Centre which was opened this September, costing £4.4 million;
- The completion of the £19 million Clinical Research Imaging Centre at a cost of £7 million during the year;
- The further phased re-development of the Library, costing £8.6 million, charged to both the capital and recurrent accounts;
- A major £17 million refurbishment of the Adam Ferguson Building for the Business School, costing £11.2 million during the year;
- Continuing work on the new £44 million Vets' School building at Easter Bush with spend of £24.2 million;
- The £49.5 million Scottish Centre for Regenerative Medicine at Little France, where a further £19.6 million was spent.

Both the New Vets' School and the Scottish Centre for Regenerative Medicine will be completed by the end of 2010-11 at a total cost of £110 million including the related infrastructure. A new building for the Roslin Institute at Easter Bush, being constructed by a development company, will be completed in 2010-11 and acquired by the University for £18 million.

As well as these very large projects, a number of other smaller refurbishment and extension projects were completed. The residences and conferences estate was expanded by the purchase of student developments totalling 71 rooms, at a cost of £2.6 million.

Overall, some £34 million of spend on the building programme has been charged to recurrent expenditure, reflecting the refurbishment and long-term maintenance elements of the work undertaken.

Investment Performance

The total value of the endowment fund increased during the year from £165 million to £200 million reflecting the strong recovery in financial markets. Not including new investments, the total return on the fund was 24.5%. The performance of the equity and bond portfolio was significantly ahead of the benchmark set by the Investment Committee. This high performance pulled the total return back to close to the benchmark over a five-year period to the 31st July 2010, offsetting the poor performance in recent years. The Investment Committee, though satisfied with this performance following the implementation of a revised investment strategy in 2009, is now carrying out a further review in the context of a changed global economic environment.

Income from endowments, at £7.4 million, represents an increase by 5.4%, comfortably ahead of inflation.

Pensions

The University's staff are eligible to join two defined benefits pensions schemes – the University Superannuation Scheme (USS) for academic and more senior management and support staff, and the Staff Benefits Scheme (SBS) for support staff. At its last valuation in 2008, USS had a funding deficit of £11.7 billion and a 71% funding level. This resulted in an increase in employer contributions from 14% to 16% from October 2009. Following lengthy discussions between USS employers and the University and College Union, the independent chair voted in favour of a package of proposals for reform on which the USS management board is about to consult members. It is proposed that these changes will come into effect from April 2011. They will, we believe, help to deliver a scheme that is financially sustainable and still attractive to staff. The University's share of the USS deficit as a multi-employer scheme is not required to be calculated by

Operating and Financial Review
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individual institutions so is not reported on in these accounts.

The results of the SBS triennial valuation at 31st March 2009 showed a deficit of £95 million and a funding level of 62%. In the light of this concerning position, the University Court asked a group of senior lay members to consider the position and come up with proposals to address the long-term financial sustainability of the scheme. This they did and, following a consultation with members, a revised Career Average Revalued Earnings (CARE) Scheme will be implemented for future service from January 2011.

In addition to those changes, as both schemes' existing rules link pension increases to the inflation measure used by Government, a further cost reduction will accrue from the coalition Government decision to update payment by CPI rather than RPI. This change is reflected in the FRS17 disclosure in these accounts which shows the SBS deficit (together with a small share of the FRS17 deficit in Strathclyde Pension Fund) falling from £101.6 million to £76.8 million over the last year.

Corporate Social Responsibility

The University has continued to move forward strongly in the areas of equality, diversity, sustainability and social responsibility which are strategic themes 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 adopted an overall Social Responsibility and Sustainability strategy during the year. It'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 focus in the last year has been to use the University's research strength to produce a number of courses and course options for the undergraduate programmes.

The University of Edinburgh firmly believes that financial obstacles should not prevent talented students from pursuing their studies at our institution. Since 1996 the Undergraduate Bursary Scheme has offered students the opportunity to undertake their studies regardless of their financial situation.

The University's interaction with the Scottish and UK economy is considerable. It is the largest Scottish-based charity, one of the largest employers within the Lothians, and a major generator of economic activity. For example, during the year 40 companies were formed by staff and students, the highest ever number formed by a Scottish University in one year.

The University has been marked out as a 'one to watch' 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, with further investment planned. A range of activities covering fair trade, healthy living, recycling, green travel and the physical environment is 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 University life".

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

- ensure that employees with disabilities are placed in jobs suited to their aptitudes, abilities and qualifications;
- ensure that disabled employees are considered for promotion according to their aptitudes, abilities and qualifications;
- ensure that disabled people are not disadvantaged when the renewal of fixed-term contracts is being considered; and
- make use of the services and advice offered by the Employment Service wherever appropriate so as to make it possible to recruit a disabled person or retain an existing employee who has become disabled.

Currently 210 of our 8,072 staff have declared that they have a disability.

Planned Mergers

During 2009-10 we commenced negotiations to merge both Edinburgh College of Art (eca) and the Human Genetics Unit (HGU) of the Medical Research Council, based at the Western General Hospital in Edinburgh, into the University. On both mergers there are challenging issues to address. The University

Operating and Financial Review
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is working to ensure that both mergers, as well as delivering academic benefits to the University, will ensure that the two institutions coming into the University will be established on a financially sustainable basis. It is our hope that both institutions will become part of the University by the start of 2011-12 financial year. The eca, in combination with the University, will move us more strongly forward in the areas of visual art and design, while the HGU builds on existing world class research strengths in the College of Medicine and Veterinary Medicine.

Future funding

The higher education sector now faces a period of unprecedented uncertainty. We will know over the coming months the extent of the reduction in public funding to be borne by this University, and during 2011 the sustainable funding approach to be implemented by the Scottish Government. This University will be pressing the case that Scottish graduates and students from within the EU outside the rest of the UK should make a progressive contribution towards the cost of their undergraduate studies. We would wish these contributions to be directly payable to the University of Edinburgh. What must be avoided is a major reduction in the funding of teaching, which reduces the amount spent on each student. This would be bad for our students and make this University less competitive in attracting international students.

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

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

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.

We are planning on the basis that the public funding of Higher Education is certain to reduce in the coming years as the level of public sector debt is tackled. 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 Browne review of higher education in England and the likely consequences for top UK universities based in Scotland. The University is also playing a role in the discussion on a 'Scottish solution' to the future funding of higher education in Scotland.

The workings of the Borders Agency are a concern. While the University should be able to protect its ability to continue to grow its international student numbers by gaining trusted partner status, our ability to continue to recruit the best staff from around the world is in doubt.

Staff salary awards are arrived at through a national pay bargaining procedure. The last pay agreement resulted in a pay award of 0.5%. Due to changes in the scheme design, contributions to the SBS pension scheme remain unchanged. Similar changes for USS should achieve the same result. The major cost pressure of the University is therefore presently well controlled.

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 the new Estates' Strategy backed by actual and planned capital and recurrent spending on buildings.

The University's performance in the National Student Survey is improving, the result of concerted action across the University under the Vice-Principal for Academic Enhancement. This work is being supported by a very successful teaching award provided by the Students' Association, (EUSA). Capital building developments are prioritising the refurbishment of teaching facilities and lecture theatres as well as the major library refurbishment project. The library transformation has received positive approval from student users.

EUCLID, the major student administration system project, has been refocused and is now delivering a functional system for the administration of students.

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

Operating and Financial Review
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assessed as not being likely to crystallise, due to longstanding and effective risk mitigation measures.

Financial Strategy

The University Court has agreed a financial strategy to support the Strategic Plan. 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. The University will review this strategy in 2011 in the light of the outcome of the public sector funding review and the decision on the future funding of Higher Education.

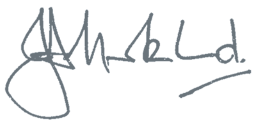
Looking Forward

The University continues to compete successfully as a globally competitive institution. I wrote last year about the uncertainties in terms of public funding and the wider future funding of Higher Education. As I write this report, the scale of the reduction in public funding is starting to emerge but the position on funding even within the new financial year is unclear. The likely changes to Higher Education funding in the rest of the UK following the Browne Report, will have a major impact on Scottish Institutions and this one in particular. To be competitive, we require similar levels of funding for teaching and research from government or graduate contributions, as our main UK competitors in England and Wales.

Despite so much uncertainty in this area, the University will continue to push forward with its overall strategic plan. Increased focus is already being put on those areas of the plan that grow non-public funding, such as international students and commercial and EU research grant funding. Work is also continuing on driving efficiency and very careful management of staff numbers.

Major projects within the estates programme will be completed this year. To bring the projects in on time and on budget remains a challenge. The uncertain financial future means that the capital programme will be much smaller in coming years, but will focus on refurbishment of existing buildings to maintain an estate which meets the needs of an internationally competitive University.

It is encouraging to be able to report that 2010-11 has started strongly for the University. International student numbers are up again, research grant funding is stable and substantial donation funding continues. The key requirement of the University going forward is the need to be very quick to react to the changes now emerging, and the opportunities they may bring. The fact that so much has already been done makes me confident that, whatever the changes and financial challenges lying ahead, the University will continue to move forward through the tests and trials of the coming years.



John Markland
Convener of Finance and General Purposes Committee

Corporate Governance Statement

For the year ended 31st July 2010

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 Combined Code on Corporate Governance issued in 2008, 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 2010**.

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.

Up until and including 2009-10 the Court has normally met five times per year, but it has decided to meet six times per year in the future. 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 and revised in March 2009. It notes that compliance with this Guidance is not a formal requirement of the Scottish Further and Higher Education Funding Council. The Court believes that in all significant respects its operations are compliant with this Guidance. During 2009-10 the Court conducted a further review of its own effectiveness in keeping with the relevant part of the Guidance. As a consequence the Court has adopted a revised statement of its responsibilities and of its view of its effectiveness in fulfilling those 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.ed.ac.uk/schools-departments/governance-strategic-planning/governance/university-governance/overview. Actions arising from this review either have already been implemented or will be implemented in the 2010-2011 academic year.

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 2009-10 was adopted by the University Court at its June 2008 meeting: it covers the period 2008-2012. The strategic planning process is led by the Principal with support from the Vice Principal (Planning, Resources and Research Policy) 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 Committee and an Audit Committee. Each of these Committees is formally constituted with terms of reference and includes lay members of the Court, and conducts business both through regular meetings and by correspondence or through electronic communication when appropriate. 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.

The **Finance and General Purposes Committee** oversees the University's financial affairs on behalf of the Court. This includes

Corporate Governance Statement
continued

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, other investments and deposit balances. New terms of reference for the Committee were formally adopted by Court on 24 May 2010. Court on the recommendation of the Nominations Committee appoints the Convener of the Committee who is an external or lay member. The Committee reports to Court via the Finance and General Purposes Committee and normally meets twice a year.

The **Nominations Committee** considers nominations for co-opted vacancies for membership of Court and its Standing Committees 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.

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 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 and meets at least twice a year.

The **Estates Committee** oversees the preparation, periodic review and implementation of the University's Estates' Strategy and its links to corporate and other business plans. New terms of reference for the Committee were formally adopted by Court on 19 October 2009. 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 Support Groups. The Committee has introduced the 'gateway' methodology for the approval and management of major projects. It is chaired by the Vice Principal (Planning, Resources and Research Policy) and normally meets at least four times a year.

Corporate Governance Statement
continued

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 eight 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 to promote research.

The General Council

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

The University's System of Internal Control

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

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

The University operates processes for the identification, evaluation and management of significant risks. The risk management framework established in the University includes a Risk Management Committee as a formal Court sub-committee which oversees implementation of the Risk Management Policy adopted in 2002 and reviewed and renewed in 2007-08. The University Risk Register focuses primarily on risks related to the attainment of the University's strategic objectives and identifies responsibility for the overall management of each risk. The most recent update was revised during 2009-10 and was adopted by Court on 21June 2010: 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 29 September 2010 and expressed itself satisfied with the outcome.

By its 20 December 2010 meeting, the Court had received the Audit Committee and Risk Management Committee reports for the year ended 31 July 2010; it also had taken account of relevant events since 31 July 2010. 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 2010.

In reaching this view, the Court's confirmation of the effectiveness of the system of internal control has also been informed by the following:

a. the Internal Audit Service's annual report to the Audit Committee on the adequacy and effectiveness of systems of internal control including governance and risk management, together with recommendations for improvement, along with the Principal's expression of satisfaction with the performance of the Internal Audit service in his capacity as Accountable Officer;

b. the Risk Management Committee's Annual Report to the Audit Committee regarding its operation;

c. comments made by the External Auditors in their Highlights Memorandum 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

Corporate Governance Statement
continued

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 2009-10 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. Professional fund managers are employed by that Committee on behalf of the University Court. Investment income is applied for the specific 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 21 June 2010 the Court adopted a revised **Statement of Primary Responsibilities**, as set out below.

The Court's primary responsibilities are:

I. Strategic Direction

1. To determine the mission and vision of the University and its major priorities as expressed in strategic plans, long term academic and business plans.
2. To ensure that the mission and strategic vision of the University takes proper account of the interests of stakeholders, including students, staff, alumni, the wider community and funding bodies.
3. To approve financial, estates, and human resources strategies in support of institutional objectives and priorities.
4. To ensure strategies are in place to enhance the student experience.
5. 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 be benchmarked against other comparable Universities.
6. To promote and safeguard the reputation and values of the University.

II. Governance: responsibilities in relation to Management and Senate

1. To appoint the Principal as chief executive, including the terms and conditions of such an appointment, and to put in place suitable arrangements for monitoring his/her performance.
2. To delegate authority to the Principal {as chief executive} for the academic, corporate, financial, estate and HR Management of the University subject to reserving such matters to itself as the Court thinks appropriate.
3. To establish and keep under regular review the policies, procedures and limits within which such management functions shall be undertaken by and under the authority of the Principal.
4. 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.
5. To review decisions made by the Senate as prescribed in statute.
6. To ensure that the Senate has processes in place for monitoring and reporting the quality of education provision and to monitor quality enhancement arrangements.

III. Governance: Exercise of Controls

1. 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 and regularly reviewed schedules of delegated authority.
2. 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 estates.
3. To ensure that appropriate arrangements are in place for the management of health, safety and security in respect of students, staff and other persons affected by the University's operations.
4. To ensure that appropriate arrangements are in place for promoting equality of opportunity in respect of students, staff and other persons making use of University services or facilities.

IV. Governance: Corporate responsibilities

1. 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.
2. To be the employing authority for all staff in the University and to ensure that obligations thereto are met including with regard to the welfare, development and reward of employees.
3. To put in place appropriate arrangements for determining and regular review of the performance, remuneration and conditions of service of senior staff.
4. To make provision for the general welfare of students, in consultation with the Senate and EUSA.
5. To act as trustee for, or 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.
6. To make appropriate arrangements compliant with relevant legislation for the trusteeship of any pensions' scheme established by the Court for University employees and to employ the employer-nominated trustees.
7. 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.
8. To ensure that the University acts ethically, responsibly and with respect for society at large and the sustainability of the environment.

Responsibilities of the Court
continued

V. Effectiveness and transparency

1. 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.
2. To ensure that procedures are in place in the University for handling internal grievances, conflicts of interest and public interest disclosure.
3. To put in place arrangements for the appointment of co-opted members of the Court so as to maintain a broad balance of expertise, recruiting through an extrernal advertisement process and taking account of the principles of equal opportunity.
4. To establish processes to monitor and evaluate the performance and effectiveness of the Court itself and that of its committees.

The aforementioned primary responsibilities include those pertaining to financial matters.

Statement of Responsibilities Relating to the Reports and Financial Statements

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 (2007) and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the Court of the University of Edinburgh, the University Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Court has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed; and
- financial statements are prepared on the going concern basis.

The Court has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and hence to take reasonable steps to prevent and detect fraud; and
- secure the economical, efficient and effective management of the University's resources and expenditure.

John Markland
Vice-Convener

Membership of Court and Committees

Court Membership

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

The Rector (Convener), Mr I Macwhirter
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 (until 31 December 2009)
Professor J Ansell (from 1 January 2010)

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
Mr G M Murray
Professor S Monro
Ms A Richards
Ms G M Stewart
Mr D Workman

Non-Teaching Staff Assessor

Mr D Brook

Student Members

Mr T Graham (until 13 June 2010)
Mr E Beswick (until 13 June 2010)
Ms L Rawlings (from 14 June 2010)
Ms S Wise (from 14 June 2010)

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 A McMahon
Mr M D Cornish, University Secretary (until 30 September 2010)
Dr K Waldron, University Secretary (from 1 October 2010)
Mr J Gorringe, Director of Finance
Mr T Graham, President of the Students' Association (until 13 June 2010)
Ms L Rawlings, President of the Students' Association (from 14 June 2010)
Professor J Barbour
Mr D A Connell
Professor D J Finnegan (until 31 August 2010)
Dr M Aliotta (from 1 September 2010)
Professor S Monro
Mr G M Murray

Audit Committee

Convener: Ms G M Stewart

Mr D Bentley
Professor S Monro (until 31 August 2010)
Mr P Budd (from 1 September 2010)
Ms A Richards
Mr M Sinclair
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 2010 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. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the University Court of the University of Edinburgh, as a body, in accordance with the Universities (Scotland) Acts 1899-1966. 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 audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University Court and Auditors

The responsibilities of the University Court for preparing the Operating and Financial Review and the financial statements in accordance with the Accounts Direction issued by the Scottish Funding Council, the Statement of Recommended Practice: Accounting for Further and Higher Education (2007), applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities Relating to the Reports and Financial Statements on page 16.

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, in all material respects, 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 Further and Higher Education (Scotland) Acts 1992 and 2005 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.

In addition, we report to you if, in our opinion, 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 other information contained within the Principals Report, the Corporate Governance Statement and Membership of Court and Committees and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 judgments made by the University Court in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and parent University's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and parent University's affairs as at 31 July 2010 and of the Group's surplus of income over expenditure for the year then ended;

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2007);

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

- 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 2010 have been applied for the purposes for which they were received; and

- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the Universities (Scotland) Acts 1899-1966 and the Further and Higher Education (Scotland) Acts 1992 and 2005 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

21 December 2010

Group Income and Expenditure Account

For the year ended 31 July 2010

	Note	2010 £ 000's	2009 £ 000's
INCOME			
Funding council grants	2	197,778	183,524
Tuition fees and education contracts	3	109,940	91,932
Research grants and contracts	4	185,279	174,648
Other income	5	131,391	127,041
Endowment and investment income	6	9,591	14,388
Total Income		633,979	591,533
EXPENDITURE			
Staff costs	7	339,749	328,287
Other operating expenses	9	243,008	231,160
Depreciation	13	24,333	21,957
Interest payable	10	6,745	6,232
Total Expenditure		613,835	587,636
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		20,144	3,897
Loss on disposal of fixed assets	13	(997)	(77)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION		19,147	3,820
Taxation	11	(3)	(3)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAXATION AND BEFORE MINORITY INTEREST		19,144	3,817
Minority interest		(8)	7
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		19,136	3,824
(Surplus)/deficit transferred (to)/from accumulated income in endowment funds		(820)	142
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES	12	18,316	3,966

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 2010

	Note	2010 £ 000's	2009 £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		20,144	3,897
Loss on disposal of fixed assets in the year	13	(997)	(77)
Realisation of revaluation gains of previous years	24	897	-
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	24	6,700	6,900
HISTORICAL COST SURPLUS BEFORE TAXATION		26,744	10,720
HISTORICAL COST SURPLUS AFTER TAXATION, MINORITY INTEREST AND TRANSFERS FROM/TO SPECIFIC ENDOWMENT FUNDS		25,913	10,866

Group Statement of Total Recognised Gains and Losses

For the year ended 31 July 2010

	Note	2010 £ 000's	2009 £ 000's
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		19,136	3,824
Appreciation/(Depreciation) on fixed asset investments	14	578	(407)
Appreciation/(Depreciation) on endowment asset investments	15	32,187	(20,328)
Charges on endowment asset investments	15	(313)	(279)
Unrealised surplus on revaluation of tangible fixed assets	13	34,066	-
Impairment of tangible fixed assets	23	-	(777)
Consolidated share of Scottish Universities Environmental Research Centre joint activity	24	(131)	824
New endowments	22	3,481	2,301
Endowments transferred to deferred capital grants	22	(573)	(1,844)
Actuarial gain in respect of pension schemes arising from a change to the inflation assumption	31	20,162	-
Actuarial gain/(loss) in respect of pension schemes	31	14,072	(18,756)
TOTAL GAIN/(LOSS) RECOGNISED DURING THE CURRENT YEAR		122,665	(35,442)
Reconciliation:			
Opening reserves and endowments at 1 August		836,350	871,792
Total recognised gains/(losses) for the year		122,665	(35,442)
Closing reserves and endowments at 31 July		959,015	836,350

BALANCE SHEETS

as at 31 July 2010

		Group		University	
		2010	2009	2010	2009
	Note	£ 000's	£ 000's	£ 000's	£ 000's
FIXED ASSETS					
Tangible assets	13	1,117,298	1,036,898	1,111,662	1,028,932
Investments	14	22,175	18,725	22,608	20,299
		1,139,473	1,055,623	1,134,270	1,049,231
ENDOWMENT ASSETS	15	200,348	164,746	200,348	164,746
CURRENT ASSETS					
Stocks and stores in hand		1,972	2,128	1,557	1,596
Debtors	16	85,274	82,667	82,720	80,066
Investments: bank deposits	30	154,942	162,463	148,180	154,208
Cash at bank and in hand	30	14,772	12,460	7,818	4,236
		256,960	259,718	240,275	240,106
CREDITORS: Amounts falling due within one year	17	(219,408)	(219,689)	(206,113)	(203,919)
NET CURRENT ASSETS		37,552	40,029	34,162	36,187
TOTAL ASSETS LESS CURRENT LIABILITIES		1,377,373	1,260,398	1,368,780	1,250,164
CREDITORS: Amounts falling due after more than one year	18	(55,169)	(56,363)	(55,169)	(56,363)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(8,077)	(7,782)	(8,077)	(7,782)
TOTAL NET ASSETS EXCLUDING PENSIONS LIABILITIES		1,314,127	1,196,253	1,305,534	1,186,019
PENSION LIABILITIES	31	(76,833)	(106,321)	(76,833)	(106,321)
TOTAL NET ASSETS INCLUDING PENSION LIABILITIES		1,237,294	1,089,932	1,228,701	1,079,698

BALANCE SHEETS

as at 31 July 2010

		Group		University	
Represented by:		2010	2009	2010	2009
	Note	£ 000's	£ 000's	£ 000's	£ 000's
DEFERRED CAPITAL GRANTS	21	278,263	253,572	274,949	248,138
ENDOWMENTS					
Expendable	22	137,000	114,502	137,000	114,502
Permanent	22	63,348	50,244	63,348	50,244
		200,348	164,746	200,348	164,746
RESERVES					
Revaluation Reserve	23	569,621	542,574	569,621	542,574
General Reserve excluding pension reserve	24	265,879	235,351	260,616	230,561
Pension Reserve	31	(76,833)	(106,321)	(76,833)	(106,321)
General Reserve including pension reserve		189,046	129,030	183,783	124,240
Total Reserves		758,667	671,604	753,404	666,814
MINORITY INTERESTS		16	10	-	-
TOTAL FUNDS		1,237,294	1,089,932	1,228,701	1,079,698

The financial statements on pages 20 to 55 were adopted by Court on 20 December 2010 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 2010

	Note	2010 £ 000's	2009 £ 000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	42,425	42,332
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	26	6,069	12,349
TAXATION	11	(3)	(3)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	27	(54,089)	(21,602)
SHARE OF SUERC (JOINT ACTIVITY) – CASH AT 1 AUGUST		-	721
MANAGEMENT OF LIQUID RESOURCES	28	7,521	(44,651)
FINANCING	29	(1,172)	(1,149)
INCREASE/(DECREASE) IN CASH IN THE PERIOD	30	751	(12,003)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)			
Increase/(Decrease) in cash in the period		751	(12,003)
Cash (outflow)/inflow from (increase)/decrease in liquid resources	28	(7,521)	44,651
Change in net debt resulting from cashflows	29	1,172	1,149
Movement in net funds for the period	30	(5,598)	33,797
Net funds at start of year	30	119,548	85,751
Net funds at close of year	30	113,950	119,548

Notes to the Financial Statements

For the year ended 31 July 2010

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

i. Accounting Convention

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

ii. Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University and all subsidiary undertakings including quasi-subsidiaries for the financial year to 31 July. Intra-group transactions are eliminated on consolidation. A list of the subsidiary undertakings is included in note 14.

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

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 of receipt.

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

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

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

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

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 & 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

Notes to the Financial Statements
continued

are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

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

vi. Land and Buildings

Messrs Gerard Eve, an independent firm of Chartered Surveyors, valued University land and buildings as at 1 August 2009. The majority of buildings were valued on the depreciated replacement cost basis. Certain other buildings, mainly residential accommodation, retail properties and land were valued on existing use or open market value bases. The University complies with the requirements of FRS 15: Tangible Fixed Assets, through a review of the above valuations within the required five-year cycle specified by the reporting standard.

Additions since 1 August 2009, including buildings under construction are shown at cost. Depreciation on buildings has been provided on a straight-line basis using an assessment of the expected useful life of each building as assessed by the University's qualified valuers. No depreciation is provided on land. The range of 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.

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 retranslated at the rate of exchange ruling at the Balance Sheet date. All differences are taken to the Income and Expenditure Account.

xvi. Taxation Status

The University 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 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. Pensions

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:

Notes to the Financial Statements
continued

- 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.

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

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

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

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

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

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

	2010 £ 000's	2009 £ 000's
2. FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	80,883	82,023
Research	79,897	72,755
Specific grants		
Information systems	4,662	4,981
Infrastructure grants for research, teaching and learning	14,163	10,369
Other including research pooling	15,521	10,762
Deferred capital grants released in year		
Buildings (note 21)	2,113	2,065
Equipment (note 21)	539	569
	197,778	183,524

	2010 £ 000's	2009 £ 000's
3. TUITION FEES AND EDUCATION CONTRACTS		
UK and EU higher education students	48,044	42,600
Full-time students charged overseas fees	55,580	43,123
Research training support grants	2,117	1,761
Short course and other fees and support grants	4,199	4,448
	109,940	91,932

	2010 £ 000's	2009 £ 000's
4. RESEARCH GRANTS AND CONTRACTS		
Research councils	82,341	75,248
UK based charities	44,480	40,677
UK central government bodies, local and health authorities	21,345	23,585
UK industry, commerce and public corporations	10,286	10,607
EU government bodies	17,511	15,669
EU other	1,152	870
Other overseas	4,227	4,207
Other sources	3,937	3,785
	185,279	174,648

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 £2,039,000 (2009 - £2,721,000) has been deferred (see note 21) to match purchases of items of equipment costing in excess of £25,000 which have been capitalised. The above income includes Deferred Capital Grants released during the year of £2,522,000 (see note 21) (2009 - £3,046,000).

Notes to the Financial Statements

continued

	2010 £ 000's	2009 £ 000's
5. OTHER INCOME		
Residences, catering and conferences	39,594	34,691
Specific grants, donations and other designated income:		
Academic and related activities	31,331	30,399
Academic services and support activities	8,947	10,924
General Income :		
Academic and related activities	23,738	24,927
Income generating, academic services & support activities	23,758	23,187
Released from deferred capital grants		
Buildings (note 21)	1,832	1,758
Equipment (note 21)	2,191	1,155
	131,391	127,041
6. ENDOWMENT AND INVESTMENT INCOME		
Income from expendable endowments	5,105	4,914
Income from permanent endowments	2,281	2,072
Other investment income	719	973
Other interest receivable	1,486	6,429
	9,591	14,388

	2010 Number	2009 Number
7. STAFF		
Staff numbers (expressed as full time equivalents as at 31st July) were as follows :		
Academic and related support	3,252	3,268
Research grants and contracts	1,913	1,912
Library, computer and other academic support services	509	529
Administration and central services	519	523
Premises	622	624
Other including income generating operations	91	97
Residences and catering operations	435	411
	7,341	7,364
Staff numbers (expressed as an employee count) were as follows :		
Staff on open ended contracts	6,090	6,122
Staff on fixed term contracts	1,982	1,953
	8,072	8,075
Percentage of employees on fixed term contracts	24.5%	24.2%

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

	2010 £ 000's	2009 £ 000's
7. STAFF (Continued)		
Analysis of the cost of the above staff by activity:		
Academic and related support	175,591	170,120
Research grants and contracts	85,624	82,959
Library, computer and other academic support services	21,149	20,909
Administration and central services	25,365	23,806
Premises	15,453	15,046
Other including income generating operations	4,757	4,135
Residences and catering operations	9,925	9,484
Unfunded pensions	668	1,353
Pension costs less employer contributions payable (note 31)	1,217	475
	339,749	328,287

	2010 £ 000's	2009 £ 000's
Analysis of the above staff cost by type:		
Salaries and wages	258,934	253,881
Social security costs	20,799	20,621
Other pension costs (note 31)	54,627	49,506
Severance costs	4,721	2,926
Unfunded pensions	668	1,353
	339,749	328,287

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 this is reflected in the remuneration levels detailed below. In return the University employer's contribution is increased.

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

	2010 Number	2009 Number
£70,000 - £79,999	87	101
£80,000 - £89,999	68	54
£90,000 - £99,999	37	45
£100,000 - £109,999	21	24
£110,000 - £119,999	19	13
£120,000 - £129,999	18	12
£130,000 - £139,999	11	10
£140,000 - £149,999	8	10
£150,000 - £159,999	15	14
£160,000 - £169,999	8	7
£170,000 - £179,999	8	10
£180,000 - £189,999	3	7
£190,000 - £199,999	9	3
£200,000 - £209,999	3	2
£210,000 - £219,999	1	-
£220,000 - £229,999	2	1
£240,000 - £249,999	-	1
£270,000 - £279,999	1	-
	319	314

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

Notes to the Financial Statements
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Emoluments of the Principal	2010 £ 000's	2009 £ 000's
Remuneration	229	222
Benefits in kind	2	1
	231	223
Pension contributions	54	63
	285	286

Regular pension contributions for the Principal, paid to the USS at the same rate as for other academic staff amounted to £53,886 (2009 - £48,243 excluding an additional contribution of £15,000 payable during that year).

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

	2010 £ 000's	2009 £ 000's
Payments to USS for enhanced pension benefits	93	266
Other payments in respect of loss of office	317	104
	410	370

The severance pay was in accordance with the Remuneration Committee policy

	2010 £ 000's	2009 £ 000's
9. ANALYSIS OF OTHER OPERATING EXPENSES BY ACTIVITY		
Academic and related expenditure	57,782	50,799
Research grants and contracts	63,809	57,160
Library, computer and other academic support services	12,121	14,877
Administration and central services	14,754	16,021
Premises - Refurbishment and maintenance	43,457	43,144
- Utility costs	12,425	16,045
- Other premises costs	8,760	6,907
Other including income generating operations	9,652	8,582
Residences and catering operations	20,248	17,625
	243,008	231,160
Other operating expenses include:		
Operating lease rentals	2,122	4,500
Fees charged by external auditors:		
Audit of these financial statements	58	56
Audit of financial statements of subsidiaries pursuant to legislation	36	33
Taxation services	36	46
Non-audit services	67	76

Notes to the Financial Statements
continued

	2010 £ 000's	2009 £ 000's
10. INTEREST PAYABLE		
Bank and other loans	2,967	3,293
Finance leases	249	240
Net charge on pension scheme assets and liabilities (note 31)	3,529	2,699
	6,745	6,232
11. TAXATION		
UK corporation tax charge on subsidiaries' profits	3	3
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	14,576	1,838
Surplus generated by subsidiary undertakings	3,740	2,128
Total	18,316	3,966

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 2009	1,027,462	23,883	78,399	1,129,744
Additions at cost	20,363	42,819	12,260	75,442
Revaluation	5,683	-	-	5,683
Transfers	4,500	(4,500)	-	-
Disposals	(4,268)	-	(8,952)	(13,220)
As at 31 July 2010	1,053,740	62,202	81,707	1,197,649
Depreciation				
As at 1 August 2009	33,642	-	59,204	92,846
Written back on revaluation	(28,383)	-	-	(28,383)
Impairment	1,930	-	-	1,930
Charge for the year	14,544	-	9,789	24,333
Disposals	(1,493)	-	(8,882)	(10,375)
As at 31 July 2010	20,240	-	60,111	80,351
Net book value				
As at 31 July 2010	1,033,500	62,202	21,596	1,117,298
As at 31 July 2009	993,820	23,883	19,195	1,036,898

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.

Notes to the Financial Statements

continued

Under the requirement of FRS15 Tangible Fixed Assets, a revaluation of Land and Buildings was performed by Messrs Gerald Eve, Chartered Surveyors, as at 1 August 2009 and has been reflected in these accounts. Valuations were established on the following bases:

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

Losses on disposals of land and building fixed assets amounted to £997,000 (2009 – Loss £77,000).

Land and Buildings with a net book value of £140,391,000 (2009 - £123,038,000) 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 Scottish Funding Council, to surrender the proceeds.

13. TANGIBLE ASSETS (Continued)

University Cost or valuation	Land and Buildings £ 000’s	Buildings under Construction £ 000’s	Equipment £ 000’s	Total £ 000’s
As at 1 August 2009	1,023,182	23,883	66,441	1,113,506
Additions at cost	20,136	42,819	12,018	74,973
Revaluation	5,683	-	-	5,683
Transfers	4,500	(4,500)	-	-
Disposals	(2,893)	-	(8,882)	(11,775)
As at 31 July 2010	1,050,608	62,202	69,577	1,182,387
Depreciation				
As at 1 August 2009	32,228	-	52,346	84,574
Written back on revaluation	(28,383)	-	-	(28,383)
Impairment	1,930	-	-	1,930
Charge for the year	14,367	-	8,612	22,979
Disposals	(1,493)	-	(8,882)	(10,375)
As at 31 July 2010	18,649	-	52,076	70,725
Net book value				
As at 31 July 2010	1,031,959	62,202	17,501	1,111,662
As at 31 July 2009	990,954	23,883	14,095	1,028,932

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 has been granted over a property 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 £2,468,644 (2009 - £2,361,184) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £30,272 (2009 - £30,272).

Net book value historical cost equivalent

	Group		University	
	2010 £ 000’s	2009 £ 000’s	2010 £ 000’s	2009 £ 000’s
Land and Buildings and Buildings under Construction	584,883	518,132	583,343	515,266
Equipment	21,596	19,195	17,501	14,095
	606,479	537,327	600,844	529,361

Notes to the Financial Statements
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The group depreciation charge has been matched by:

	2010 £ 000's	2009 £ 000's
Deferred capital grants released (note 21)	9,197	8,593
Revaluation reserve transferred to general reserves (note 23)	7,250	6,900
Earnings in subsidiaries	1,354	1,153
General income	6,532	5,311
	24,333	21,957

	Group		University	
	2010 £ 000's	2009 £ 000's	2010 £ 000's	2009 £ 000's
14. INVESTMENTS WITHIN FIXED ASSETS				
Movements in the year				
University General Reserve Fund				
Balance at 1 August	15,583	17,935	15,583	17,935
Net appreciation/(depreciation)	3,006	(2,352)	3,006	(2,352)
Balance at 31 July	18,589	15,583	18,589	15,583
University General Fund				
Balance at 1 August	2,927	3,334	2,927	3,334
Net appreciation/(depreciation)	578	(407)	578	(407)
Balance at 31 July	3,505	2,927	3,505	2,927
Other Investments				
Balance at 1 August	81	198	1,789	3,539
Loans Repaid	-	-	(1,350)	(1,750)
Loan provisions released	-	-	75	-
Net appreciation	-	17	-	-
Balance at 31 July	81	215	514	1,789
Total Investments within Fixed Assets	22,175	18,725	22,608	20,299
Represented by:				
Investment in subsidiary companies at cost	-	-	358	358
Loans to subsidiary companies	-	-	75	1,350
Fixed interest stocks	11,937	5,682	11,937	5,682
Equities	10,070	12,620	9,936	12,486
Bank deposits held at fund managers	58	342	58	342
Working capital	29	-	163	-
Other investments	81	81	81	81
Total investments within fixed assets	22,175	18,725	22,608	20,299
Investments at cost	20,499	19,446	20,932	21,020

Notes to the Financial Statements
continued

14. INVESTMENTS WITHIN FIXED ASSETS (continued)

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.

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

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

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

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

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

UoE HPCX Limited
The University owns 100 per cent of the share capital of UoE HPCX Limited consisting of 1 ordinary 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 ground of materiality.

SSTRIC Limited
The University Court is 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.

Notes to the Financial Statements

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	Group and University	
	2010	2009
	£ 000's	£ 000's
15. ENDOWMENT ASSETS		
As at 1 August	164,746	185,038
New endowments investment (note 27)	6,205	3,886
Disposal of investments	(1,105)	(3,443)
Increase/(decrease) in market value of investments (note 22)	32,187	(20,328)
Charges on investments	(313)	(279)
(Decrease)/Increase in cash balances held by the University	(1,561)	106
Increase/(decrease) in working capital	185	(234)
Increase in cash balances held by fund manager	4	-
As at 31 July	200,348	164,746
Represented by :		
Fixed interest stocks	49,256	48,533
Equities – property	7,941	-
Equities – other	133,536	110,381
Bank deposits held at fund managers	8,009	2,843
Cash balance held by the University (note 30)	90	1,651
Working capital	1,516	1,338
Total endowment assets	200,348	164,746
Endowment Assets – at cost	158,536	156,707

	Group		University	
	2010 £ 000's	2009 £ 000's	2010 £ 000's	2009 £ 000's
16. DEBTORS				
Amounts falling due within one year				
Debtors	78,890	77,009	72,996	71,685
Amounts owing from subsidiary companies	-	-	3,870	3,699
Prepayments and accrued income	6,384	5,658	5,854	4,682
	85,274	82,667	82,720	80,066

Notes to the Financial Statements
continued

	Group		University	
	2010 £ 000's	2009 £ 000's	2010 £ 000's	2009 £ 000's
17. CREDITORS				
Amounts falling due within one year				
Unsecured loans (note 19)	1,125	1,110	1,125	1,110
Finance lease (note 19)	72	65	72	65
Creditors	23,905	26,636	21,777	23,746
Social security and other taxation payable	7,507	7,451	7,474	7,442
Accruals and deferred income	186,799	184,427	175,665	171,556
	219,408	219,689	206,113	203,919

	Group and University	
	2010 £ 000's	2009 £ 000's
18. CREDITORS		
Amounts falling due after more than one year		
Bank loans (note 19)	52,777	53,899
Obligations under finance leases (note 19)	1,880	1,952
Other creditors	512	512
	55,169	56,363
19. BORROWINGS		
Bank loans		
Bank loans are repayable as follows:		
In one year or less	1,125	1,110
Between two and five years	4,478	4,524
In five years or more	48,299	49,375
	53,902	55,009
Less: falling due within one year (note 17)	1,125	1,110
Total bank loans (note 18)	52,777	53,899

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) £12,450,000 at an annual interest rate of 0.23% above Bank of England base rate, repayable between 2011 and 2025.

	Group and University	
	2010 £ 000's	2009 £ 000's
Finance leases		
Obligations under finance leases fall due as follows:		
In one year	72	65
Between two and five years	492	423
After five years	1,388	1,529
	1,952	2,017

Notes to the Financial Statements
continued

	Group and University	
	2010 £ 000's	2009 £ 000's
20. PROVISIONS FOR LIABILITIES AND CHARGES		
Unfunded pensions		
As at 1 August	7,782	7,095
Utilised in year	(612)	(604)
Transfer from Income and Expenditure Account	907	1,291
As at 31 July	8,077	7,782

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 and benefactions £ 000's	Research Income £ 000's	Total £ 000's
As at 1 August 2009				
Buildings	123,038	120,270	-	243,308
Equipment	914	5,261	4,089	10,264
	123,952	125,531	4,089	253,572
Cash receivable				
Buildings	19,466	8,224	-	27,690
Equipment	919	2,667	2,039	5,625
	20,385	10,891	2,039	33,315
Transfer from endowment funds				
Buildings	-	573	-	573
Released to Income and Expenditure Account				
Buildings	2,113	1,832	-	3,945
Equipment	539	2,191	2,522	5,252
	2,652	4,023	2,522	9,197
As at 31 July 2010				
Buildings	140,391	127,235	-	267,626
Equipment	1,294	5,737	3,606	10,637
	141,685	132,972	3,606	278,263

Notes to the Financial Statements
continued

University	Funding Council £ 000's	Other grants and benefactions £ 000's	Research Income £ 000's	Total £ 000's
As at 1 August 2009				
Buildings	123,038	117,404	-	240,442
Equipment	914	2,693	4,089	7,696
	123,952	120,097	4,089	248,138
Cash receivable				
Buildings	19,466	9,511	-	28,977
Equipment	919	2,789	2,039	5,747
	20,385	12,300	2,039	34,724
Transfer from endowment funds				
Buildings	-	573	-	573
Released to Income and Expenditure Account				
Buildings	2,113	1,694	-	3,807
Equipment	539	1,618	2,522	4,679
	2,652	3,312	2,522	8,486
As at 31 July 2010				
Buildings	140,391	125,794	-	266,185
Equipment	1,294	3,864	3,606	8,764
	141,685	129,658	3,606	274,949

	Group and University			
	Restricted Permanent £ 000's	Restricted Expendable £ 000's	2010 Total £ 000's	2009 Total £ 000's
22. ENDOWMENT FUNDS				
Capital	44,018	100,173	144,191	163,635
Accumulated income	6,226	14,329	20,555	21,403
At 1 August	50,244	114,502	164,746	185,038
New endowments	2,849	632	3,481	2,301
Appreciation of endowment investments	9,884	22,303	32,187	(20,328)
Investment charge on capital	(97)	(216)	(313)	(279)
Investment income for the year (note 6)	2,281	5,105	7,386	6,986
Expenditure for the year	(1,795)	(4,771)	(6,566)	(7,128)
Transferred to Deferred Capital Grants	(18)	(555)	(573)	(1,844)
As at 31 July 2010	63,348	137,000	200,348	164,746
Represented by:				
Capital	55,377	119,806	175,183	144,191
Accumulated income	7,971	17,194	25,165	20,555
	63,348	137,000	200,348	164,746

Notes to the Financial Statements
continued

	Group and University	
	Total 2010 £ 000's	Total 2009 £ 000's
23. REVALUATION RESERVE		
As at 1 August	542,574	550,658
Revaluation of tangible assets during the year	34,066	-
Increase/(diminution) in investment during the year	578	(407)
Transfer to general reserve - depreciation on revalued assets (note 24)	(6,700)	(6,900)
Disposals in the year (note 24)	(897)	-
Impairment in the year	-	(777)
As at 31 July	569,621	542,574

	Group	Group	University	University
	2010 £ 000's	2009 £ 000's	2010 £ 000's	2009 £ 000's
24.MOVEMENT ON RESERVES				
GENERAL RESERVE INCLUDING PENSION LIABILITY				
At 1 August	129,030	136,096	124,240	131,261
Consolidate share of SUERC joint activity at 1 August	(131)	824	-	824
Surplus attributable to the year	18,316	3,966	17,712	4,011
Depreciation on revalued assets (note 23)	6,700	6,900	6,700	6,900
Realisation of revaluation gains of previous years	897	-	897	-
Pension actuarial gain/(loss)	34,234	(18,756)	34,234	(18,756)
Balance at 31 July	189,046	129,030	183,783	124,240
Represented by:				
INCOME AND EXPENDITURE ACCOUNT				
At 1 August	235,351	220,487	230,561	215,652
Consolidate share of SUERC Joint activity at 1 August	(131)	824	-	824
Surplus attributable to the year	18,316	3,966	17,712	4,011
Transfer from pension reserve	4,746	3,174	4,746	3,174
Transfer from revaluation reserve	7,597	6,900	7,597	6,900
Balance at 31 July	265,879	235,351	260,616	230,561

	Group and University	
	2010 £ 000's	2009 £ 000's
PENSION RESERVE		
At 1 August	(106,321)	(84,391)
Current service cost	(14,057)	(12,740)
Past service cost	-	(480)
Employer contributions	12,784	12,688
Contributions in respect of unfunded benefits	56	57
Net finance cost to assets (note 10)	(3,529)	(2,699)
Transfer from Income and Expenditure Account	(4,746)	(3,174)
Actuarial gain/(loss) (note 31)	34,234	(18,756)
At 31 July	(76,833)	(106,321)

Notes to the Financial Statements
continued

	2010 £ 000's	2009 £ 000's
25 .RECONCILIATION OF CONSOLIDATED SURPLUS BEFORE TAX		
TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Surplus before tax and minority interest	19,147	3,820
Pension service cost in excess of contributions payable (note 31)	1,217	475
Depreciation (note 13)	24,333	21,957
Impairment of fixed assets (note 13)	1,930	1,755
(Increase)/diminution of fixed asset investment: General Reserve Fund (note 14)	(3,006)	2,352
Deferred capital grants released to income (note 21)	(9,197)	(8,593)
Loss on disposal of fixed assets	997	77
Bank, other loan & finance lease interest payable (note 10)	3,216	3,533
Net interest on pension scheme assets (note 10)	3,529	2,699
Decrease in stocks	156	185
Increase in debtors	(2,185)	(2,149)
Increase in accruals and deferred income	14,498	34,842
Decrease in creditors	(2,881)	(4,920)
Increase in provisions (note 20)	295	687
Endowment income (note 22)	(7,386)	(6,986)
Other investment income (note 6)	(719)	(973)
Interest receivable (note 6)	(1,519)	(6,429)
NET CASH INFLOW FROM OPERATING ACTIVITIES	42,425	42,332
26. RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Endowment funds dividends and interest received	7,208	7,217
Other investment income	719	973
Interest received	1,361	7,693
Interest paid	(2,970)	(3,294)
Finance lease interest paid	(249)	(240)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	6,069	12,349
27.CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchases of tangible assets	(74,059)	(54,830)
Proceeds from sale of fixed assets	381	1,885
Deferred capital grants received - funding councils and research equipment	11,913	26,110
Deferred capital grants received - other capital benefactions	9,295	3,375
Purchase of endowment investment assets (note 15)	(6,205)	(3,886)
Disposal of endowment investment assets (note 15)	1,105	3,443
New endowments received (note 22)	3,481	2,301
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(54,089)	(21,602)
28. MANAGEMENT OF LIQUID RESOURCES		
Decrease/(Increase) in deposits	7,521	(44,651)
NET CASH INFLOW/(OUTFLOW) FROM THE MANAGEMENT OF LIQUID RESOURCES	7,521	(44,651)

Notes to the Financial Statements
continued

	2010 £ 000's	2009 £ 000's
29. FINANCING		
Loan repayments	(1,107)	(1,091)
Capital repayment of finance lease obligations	(65)	(58)
NET CASH OUTFLOW FROM FINANCING	(1,172)	(1,149)

30. ANALYSIS OF NET FUNDS

	As at 1 August 2009 £ 000's	Cashflows £ 000's	Other Changes £ 000's	As at 31 July 2010 £ 000's
Cash in hand and at bank	12,460	2,312	-	14,772
Endowment assets:				
Cash balance held by University (note 15)	1,651	(1,561)	-	90
Total cash in hand and at bank	14,111	751	-	14,862
Debt due within 1 year	(1,110)	1,110	(1,125)	(1,125)
Debt due after 1 year	(53,899)	(3)	1,125	(52,777)
Finance leases	(2,017)	65	-	(1,952)
Current asset investments:				
Bank deposits	162,463	(7,521)	-	154,942
TOTAL FUNDS	119,548	(5,598)	-	113,950

31.PENSION FUNDS

UNIVERSITY PENSION SCHEMES

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

Total pension costs for the year for the University of Edinburgh were as follows:

		Year to 31 July 2010 £ 000's	Year to 31 July 2009 £ 000's
USS –	Contributions paid	39,996	35,911
EUSBS –	Charge to Income and Expenditure Account	13,661	12,397
STSS –	Contributions paid	271	319
SPF –	Charge to Income and Expenditure Account	396	463
FSSU –	Charge to Income and Expenditure Account	1	6
Other –	Charge to Income and Expenditure Account	302	410
		54,627	49,506

Notes to the Financial Statements
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	Year to 31 July 2010 £ 000's	Year to 31 July 2009 £ 000's
Outstanding contributions to pension schemes at the Balance Sheet date were as follows:		
The Universities Superannuation Scheme	-	3,219
Scottish Teachers Superannuation Scheme (STSS)	10	-
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	209	198
Payment to retired members in respect of the FSSU Supplementation scheme	16	17

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
- employers contribution percentage rates quoted in the above notes represent only the employer's contribution rates specified by the scheme trustees and exclude employees' contribution percentage rates.

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.

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 board. 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 scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

The latest triennial 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

Notes to the Financial Statements
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have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

The triennial 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 Consumer Price Indices (CPI) which corresponds broadly to 2.75% for Retail Price Index (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 was 107% funded; on a buy-out basis (ie 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 a 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 outperformance 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 scheme-wide 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, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 91% (a deficit of £3,065 million). This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the two years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn

Notes to the Financial Statements
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impacts on the salary and pension increase assumptions).

On the FRS17 basis, using a AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy-out basis at that date was approximately 57%. 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	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 major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically 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 needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, 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 although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. 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 as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

At 31 March 2010, USS had over 135,000 active members. As at 31 July 2010 the institution had 4,600 active members participating in the scheme.

The contribution rate payable by the institution increased from 14% to 16% of pensionable salaries 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 triennial actuarial valuation of the scheme was carried out as at 31 March 2009. This was the second valuation under the new scheme-specific funding regime introduced by the Pensions Act 2004,

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which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

The 2009 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. To calculate the technical provisions, it was assumed that the valuation rate of interest would be 5.85%, salary increases would be 4.0% per annum and pensions would increase by 3.0% per annum. Standard mortality tables were used as follows:

Male and Female members' mortality: 110% of SAPS tables with medium cohort projections and a 1% underpin to future improvements projected by birth year.

Use of these mortality tables reasonably reflects the actual EUSBS 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 £155.2 million and the value of the scheme's technical provisions was £250.1 million indicating a deficit of £94.9 million (2006 - £22.5m). The assets therefore were sufficient to cover 62% (2006 - 90%) 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. Under the Pension Protection Fund regulations the Scheme was 52% (2006 - 82%) funded; on a buy-out basis the assets would have been approximately 36% (2006 - 59%) of the amount necessary to secure all the SBS benefits with an insurance company.

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 20.3% of pensionable salaries and the trustees, on the advice of the actuary, maintained the institution contribution rate to 20.3% of pensionable salaries from 1 Aug 2009. Since 31 March 2009 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had improved to 78% (a deficit of £61.8 million). This estimate is based on the funding level at 31 March 2009, 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).

The following FRS17 results are also based on full actuarial calculations using the data provided by the Scheme's administrators for the 2009 actuarial valuation. The actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 July 2010 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 2010	At 31 July 2009	At 31 July 2008
Rate of increase in salaries	4.25%	4.50%	4.90%
Rate of increase in pensions in payment (see Note)	2.75%	3.50%	3.90%
Discount rate	5.60%	6.00%	6.50%
Inflation assumption (see Note)	2.75%	3.50%	3.90%

Note: The assumption in respect of the rate of increase in pensions and the inflation asssumption at 31 July 2010 are based on CPI. Prior year assumptions were based on RPI.

Notes to the Financial Statements

continued

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

	At 31 July 2010	At 31 July 2009
Retiring today		
Males	20.3	20.3
Females	22.9	22.9
Retiring in 20 years		
Males	22.2	22.2
Females	24.8	24.8

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:

	Long term rate of return	Value at 31 July 2010 £ million	Long term rate of return	Value at 31 July 2009 £ million	Long term rate of return	Value at 31 July 2008 £ million
Equities	8.00%	127.0	8.40%	107.2	8.80%	116.1
Bonds	4.26%	62.3	5.16%	55.0	5.70%	56.5
Property	7.00%	6.8	6.35%	6.1	6.85%	9.0
Private equity	7.00%	10.9	6.35%	6.0	6.85%	4.2
Other – mainly cash	0.50%	1.2	4.50%	2.5	4.90%	1.7
Total market value of assets		208.2		176.8		187.5
Present value of scheme liabilities		(282.2)		(278.4)		(267.0)
Deficit in the scheme		(74.0)		(101.6)		(79.5)

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 Financial Reporting Standard 17: Retirement Benefits (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 18.9% to 20.3% of pensionable salary 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 is 14.9% of pensionable salary.

Notes to the Financial Statements
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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 2010 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 2010	At 31 July 2009	At 31 July 2008
Rate of increase of salaries	4.3%	4.5%	4.9%
Rate of increase in pensions in payment (see Note)	2.8%	3.5%	3.9%
Discount rate	5.6%	6.0%	6.5%
Inflation assumption (see Note)	2.8%	3.5%	3.9%

Note: The assumption in respect of the rate of increase in pensions and the inflation asssumption at 31 July 2010 are based on CPI. Prior years assumptions were based on RPI.

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

	At 31 July 2010 £000's	At 31 July 2009 £000's
Current Pensioners		
Males	20.3	20.3
Females	22.9	22.9
Future Pensioners		
Males	22.2	22.2
Females	24.8	24.8

The assets in the total fund at year end amounted to £9,847 million (2009 : £8,405 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 2010 £ million	Long term rate of return	Value at 31 July 2009 £ million	Long term rate of return	Value at 31 July 2008 £ million
Equities	8.00%	13,264	8.40%	11,709	8.80%	12,457
Bonds	4.50%	2,476	5.20%	2,311	5.70%	2,602
Property	7.00%	1,238	6.40%	1,078	6.85%	1,547
Other – mainly cash	0.50%	707	4.50%	308	4.90%	748
Total market value of assets		17,685		15,406		17,354
Present value of scheme liabilities						
- Funded		(19,785)		(19,766)		(21,393)
- Unfunded		(737)		(761)		(852)
Deficit in the scheme		(2,837)		(5,121)		(4,891)

Notes to the Financial Statements
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On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.180% (2009: 0.183%).

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 is 21.1% of pensionable salary. In addition further contributions of £168,000 and £176,000 will be made for the years ending 31 March 2011 and 2012 respectively.

The Federated Superannuation Scheme for Universities (FSSU).

This defined contribution scheme is closed to new members and there are no active members. The University has 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 2010 £ 000's	Year to 31 July 2009 £ 000's
Current service cost	14,057	12,740
Past service cost	-	480
Total operating charge	14,057	13,220
Less contributions paid	12,840	12,745
Pensions costs less contributions payable (note 7)	1,217	475

Analysis of the amount debited to other finance cost

Expected return on pension scheme assets	14,090	15,840
Interest on pension scheme liabilities	(17,619)	(18,539)
Net cost to pension scheme assets (note 10)	(3,529)	(2,699)

Analysis of the amount recognised in the statement of recognised gains and losses (STRGL)

Difference between expected and actual return on scheme assets	18,579	(30,940)
Experience (losses)/gains arising on scheme liabilities	(4,422)	10,530
Changes in bases of assumptions from RPI to CPI	20,162	-
Other changes in assumptions underlying the present value of the scheme liabilities	(85)	1,654
Actuarial gain/(loss) recognised in the STRGL	34,234	(18,756)

Notes to the Financial Statements
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Movement in deficit during year

	Year to 31 July 2010 £ 000's	Year to 31 July 2009 £ 000's
Deficit in schemes at 1 August	106,321	84,391
Movement in year:		
Employer service cost (net of employee contributions)	14,057	12,740
Employer contributions	(12,840)	(12,745)
Past service cost	-	480
Net interest	3,529	2,699
Actuarial (gain)/loss	(34,234)	18,756
Deficit in schemes at 31 July	76,833	106,321

Asset and Liability Reconciliation

	Year to 31 July 2010 £ 000's	Year to 31 July 2009 £ 000's
Reconciliation of Liabilities		
Liabilities at start of period	298,527	289,245
Service cost	14,057	12,740
Interest cost	17,619	18,539
Employee contributions	212	211
Actuarial gain	(15,655)	(12,184)
Benefits paid – funded	(11,985)	(10,447)
Benefits paid – unfunded	(53)	(57)
Past service cost	-	480
Liabilities at end of period	302,722	298,527
Reconciliation of Assets		
Assets at start of period	192,206	204,854
Expected return on assets	14,090	15,840
Actuarial gain/(loss)	18,579	(30,940)
Employer contributions	12,840	12,745
Employee contributions	212	211
Benefits paid - funded	(11,985)	(10,447)
Benefits paid - unfunded	(53)	(57)
Assets at end of period	225,889	192,206

Notes to the Financial Statements
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History of experience gains and losses:

	Year to 31 July 2010	Year to 31 July 2009	Year to 31 July 2008	Year to 31 July 2007	Year to 31 July 2006
Difference between the expected and actual return on assets:					
Amount £000's	18,579	(30,940)	(36,911)	5,180	6,052
Percentage of scheme assets	8.1%	(16.1)%	(18.0)%	2.3%	3.01%
Experience (losses) and gain on scheme liabilities:					
Amount £000's	(4,422)	10,530	(3,719)	(2,686)	(5,611)
Percentage of scheme liabilities	(1.4%)	3.5%	(1.3)%	(1.1)%	(2.2)%
Total amount recognised in STRGL:					
Amount £000's	34,234	(18,756)	(55,938)	23,191	(16,191)
Percentage of scheme liabilities	11.3%	(6.3)%	(19.3)%	9.2%	(6.4)%

32. CAPITAL COMMITMENTS

	Group and University	
	2010 £000's	2009 £000's
Commitments contracted for at 31 July	61,413	147,497

Of the above commitments, £40,191,000 (2009: £73,605,000) will be funded through grants and benefactions.

A commitment is included above for £15,460,000 in respect of an option to purchase a new Roslin Institute building being constructed at Easter Bush, Edinburgh. Construction of the building is being undertaken by a development company financed by grants and loans from the Biotechnology and Biological Research Council. In the event that the University exercises its option to purchase the building, £13,010,000 of the purchase price will be funded through grants from other sources.

33. FINANCIAL COMMITMENTS

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

	2010 £ 000's	2009 £ 000's
Land and Buildings		
Expiring within one year	65	95
Expiring within two to five years	723	512
Expiring in over five years	1,501	1,964
	2,289	2,571
Other		
Expiring within one year	169	175
Expiring within two to five years	54	134
	223	309
Total Financial Commitments	2,512	2,880

Notes to the Financial Statements
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34. HERITAGE ASSETS

Since its foundation in 1583 the University of Edinburgh has acquired extensive collections of heritage assets to support its teaching, research and public engagement. These assets comprise printed, manuscript and photographic material, as well as objects, such as paintings, sculpture, and natural history, geology and anatomy specimens. Often the strengths of the collections relate to the University's own specialist areas of excellence, but their breadth means they appeal to a wide range of users from publishers to genealogists. In total these collections extend to around 50 kilometres of materials from a rare book to a potted specimen in the natural history collection. Many of the these items are deemed of national importance while others, such as the historic musical instrument collection (EUCHMI) and some of the Islamic manuscripts are regarded as world-class research and heritage resources. For these reasons, the heritage assets held in University Collections at Edinburgh make a telling contribution to scholarly endeavour, teaching and learning, the promotion of innovation and the dissemination of knowledge for the public benefit.

The Main Collections are as follows:

Library Special Collections of Rare Books, Manuscripts and Archives

The Special Collections comprise some 35 kilometres of material including about 400,000 rare books. Among the collections are numerous treasures, including fine medieval Western and Islamic manuscripts, Shakespeare quartos and early Scottish books. There are over 300 discrete collections formed by notable individuals, including the libraries of Adam Smith, Hugh MacDiarmid, William Drummond and the founder of the Library, Clement Litill. Major archival collections include the David Laing collection of early British manuscripts, and extensive collections of literary, scientific, medical and architectural papers. The University Archives maintains the official records of the University and the activities of its staff and students going back to the 16th century.

New College Library is one of the world's largest repositories of early and special books on theology and religious studies, including a collection of incunabula, Scottish manuscripts and a vast accumulation of pamphlets. Part of the collection is on long-term deposit from the Church of Scotland. In total there are over 250,000 volumes in the New College Collection.

Edinburgh University Collection of Historic Musical Instruments (EUCHMI)

Containing some 2,000 stringed, wind and percussion instruments, the John Donaldson Collection includes many items of international importance. As well as being used for teaching and research, parts of the Collection are on public display and may be seen in the Reid Concert Hall Museum of Instruments. The Collections' galleries, built in 1859 and still with their original showcases, are believed to comprise the earliest surviving purpose-built musical museum in the world.

The Raymond Russell Collection of Early Keyboard Instruments is one of the most important collections of its kind, and attracts musicians, instrument makers, organologists, as well as students and non-professional visitors from all over the world. It consists of over 50 instruments dating from the end of the 16th Century through to the beginning of the 19th Century. Instrument types include the harpsichord, spinet, virginal, clavichord, organ and piano. All are authentic examples from the historical period, many of which retain important and interesting original features. The Collection is on display at St Cecilia's Hall Museum of Instruments, the oldest surviving purpose-built concert hall in Scotland.

Both Collections have Full Accreditation status with MLA, The Council for Museums, Archives and Libraries and both Collections are Recognised Collections of National Significance to Scotland

The Fine Art Collections

The University holds around 1,400 works of art in its collections. The Fine Art Collections are notable for their emphasis on Dutch and Flemish art of the 17th and 18th centuries, Scottish portraits, and modern Scottish art. Both abstract and figurative traditions are well represented. Many important artists are represented such as, Sir Henry Raeburn, Joan Eardley, Anne Redpath, Elizabeth Blackadder, FCB Cadell, SJ Peploe, William MacTaggart, Paule Furneaux, Barbara Rae, John Bellany, Eduardo Paolozzi and international artists such as Ruisdael, Ten Oever, Giambologna, Adriaen de Vries, Picasso, Bonnard, and Max Ernst.

The Fine Art Collections Acquisition Policy is based upon these strengths, and has as one of its main aims the further enhancement of its

Notes to the Financial Statements
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20th century Scottish collections, and the establishment of a 21st century collection. There is also scope for developing the contemporary element of the Portrait and Bust Collection.

The collections are managed by the Museums Support Team, and can be seen on display throughout the University, enhancing public, private and student spaces. Many of the most important portraits and portrait busts are on view in the public spaces of Old College and the Chancellor's Building, Little France. The Talbot Rice Gallery is the University's public gallery where a changing exhibition programme is presented including from time to time exhibitions drawn from the University collections.

The University's collecting area will be defined not in terms of geographical boundary, but by association with the University and its related institutions including its past and present staff and students.

This Collection has Full Accreditation status with MLA: The Council for Museums, Archives and Libraries

Cockburn Museum of Geology

Originally defined in 1873 as "a museum for the teaching of geology" the Collections are made up of objects which reflect the entire geological spectrum. Over 130,000 specimens including rocks, minerals, ores, fossils, historical documents, manuscripts and samples (e.g. the Hall collection of early experimental material), maps (geological and topographic), photographs and computer data. These are housed in glass-enclosed presentation cases above sets of locked cabinets that house drawers that contain much of the collected material. Economic ores and other rock specimens are also housed in the Grant Institute basement, whilst a range of all the material is housed in storage space in other areas of the former Geology & Geophysics department.

The collection is derived from global sources, with an emphasis on Scotland and the British Isles but not to the extent of excluding material from elsewhere. Mantle nodule material, for example, mainly comes from South Africa, Siberia and Brazil. The collection covers the time period 1790-present in terms of the historical documents and maps, but covers the whole time period of Earth history in the case of the geological specimens (billions of years).

This Collection has Full Accreditation status with MLA, The Council for Museums, Archives and Libraries

Natural History Collections

Still housed in those areas of the Ashworth Laboratories originally created for them by Sir Robert Lorimer, the Collections contain several thousands of zoological specimens. Their national importance is that they remain one of the few University Natural History Collections which are still largely intact with respect to the invertebrate material and much vertebrate skeletal material. The Collections still form an integral part of the teaching of biological sciences in the University, as well as being open to view by the general public.

This Collection has Full Registration status with the MLA, Council for Museums, Libraries & Archives

Museum Heritage Collection

In January 2004, University Collections Advisory Committee recognised the need to conduct an audit of the University's museum collections not in the formal sense of its museums and collections, but the numerous cultural items in offices, meeting rooms, corridors and laboratories across the University. The resulting Audit is a database of the distributed collection of the University. This collection comprises around 1,200 items.

School of Scottish Studies Collections

The collections of the School of Scottish Studies include a tape archive of over ten thousand hours of recordings, a photographic archive with over ten thousand prints and several thousand slides, a video collection, a research library and manuscript materials and paintings by Scottish artists or of Scottish subjects.

Notes to the Financial Statements

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35. STUDENT SUPPORT FUNDS

	2009-10 HE Childcare £000's	2009-10 HE D'nary full time £000's	2009-10 HE D'nary part time £000's	2009-10 Total £000's	2008-09 Total £000's
Balance b/fwd	11	-	-	11	163
Allocation received in year	207	1,002	10	1,219	1,241
Expenditure	(101)	(1,017)	(10)	(1,128)	(1,366)
Repaid as clawback	-	-	-	-	(44)
Institution contribution to funds	-	-	-	-	17
Retirements	(97)	97	-	-	-
Balance carried forward	20	82	-	102	11
Retained by institution for students	20	82	-	102	11

36. 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 Student 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 and senior management, and no related party transactions of a material nature were reported during the year.

Professor Sir Timothy O'Shea, Principal and Vice-Chancellor is Chair of the Board of the Joint Information Systems Committee, Chairman of Scottish Institute for Enterprise Limited, sits on the Council of the Hanban/Confucius Institute Headquarters and was a member of the Board of Scottish Enterprise (until 3 December 2010).

Professor Sir John Savill, Vice Principal and Head of the College of Medicine and Veterinary Medicine, was a Non-Executive Stakeholder Member of NHS Lothian Board (until 30 September 2010), Chief Scientist and head of the Chief Scientist Office, part of the Scottish Government Health Directorate (until 30 September 2010) and a Council member of the Medical Research Council (until 30 September 2010). In addition to his role as Vice-Principal and Head of the College of Medicine and Veterinary Medicine, Professor Savill is Chief Executive of the Medical Research Council (from 1 October 2010).

Professor John Iredale, Professor of Medicine and Dean of Clinical Medicine for the College of Medicine and Veterinary Medicine is a Non-Executive Stakeholder Member of NHS Lothian Board (from 1 October 2010).

Professor James 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 was a Governor and Deputy Chairman of the Wellcome Trust (until 30 September 2010). Professor Bird is a Trustee and Chairman of the Council Research Strategy Committee of Cancer Research UK (from 1 November 2010).

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	2010 £ 000's	2009 £ 000's	2008 £ 000's	2007 £ 000's	2006 £ 000's
Total Income	633,979	591,533	555,319	479,501	435,569
Surplus on continuing operations*	20,133	3,901	5,405	8,127	6,885
(Loss)/gains on disposal of assets	(997)	(77)	471	8,476	3,283
Transfers (to)/from endowment reserves	(820)	142	(674)	(1,131)	(1,958)
Surplus retained within general reserves	18,316	3,966	5,202	15,472	8,210

* After tax and minority interest

GROUP BALANCE SHEET FOR THE YEAR TO 31 JULY	2010 £million	2009 £million	2008 £million	2007 £million	2006 £million
Fixed assets	1,139	1,055	1,028	875	832
Endowment assets	200	165	185	212	201
Net current assets	38	40	53	61	57
Non-current liabilities and provisions	(63)	(64)	(69)	(70)	(71)
Pension liability	(77)	(106)	(84)	(29)	(51)
TOTAL NET ASSETS	1,237	1,090	1,113	1,049	968
Represented by funding:					
Deferred capital grants	278	254	241	224	205
Endowments	200	165	185	212	201
Total reserves	759	671	687	613	562
TOTAL FUNDS	1,237	1,090	1,113	1,049	968
Staff numbers (expressed as full time equivalents) as at 31 July	7,341	7,364	7,368	6,862	6,675

Front cover shows Old College.