



THE UNIVERSITY *of* EDINBURGH

Reports and
Financial Statements
for the year to
31 July 2012

Scottish Charity Number SC005336

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Principal's Report

For the year ended 31st July 2012

It is pleasing to report that the past year has proved to be yet another very successful one for the University.

August 2011 marked the beginning of the formal merger between the University and Edinburgh College of Art. This was followed in October by the merger with the Medical Research Council's Human Genetics Unit and this, in addition to the merger with the Roslin Institute, enables us to build further on our already high international reputation, and to diversify and strengthen our scientific and cultural contributions to society.

The University has continued with its strong financial performance. A surplus of nearly £42 million was achieved on a turnover which increased from nearly £650 million to over £700 million. We shall continue to manage our portfolio of assets with the aim of ensuring that the University can respond favourably to an increasingly less predictable external environment, whilst keeping a strong focus on delivering excellent and cost effective services to students.

Students

Student numbers have increased across the board since last year and have exceeded 31,000 for the first time.

Following the Scottish Government's decision to remove funding for students studying in Scotland who usually live in the rest of the UK, September 2011 saw the University in the news as it became the first Scottish HEI to set fees for rest-of-UK (RUK) students at £9,000 per year. The new fees regime helps the University to retain its levels of excellence in teaching and research in an increasingly competitive Higher Education market. In conjunction with this, the University has introduced the UK's most generous package of bursaries for RUK-domiciled students on the lowest household incomes, with the aim of ensuring that no student is prevented from attending the University purely on the basis of an inability to afford to study here. More than 50% of the additional tuition fee income goes towards bursaries with the remainder going towards enhancing the student experience. A major new internally funded scheme for access and accommodation bursaries for Scottish domiciled students has also been introduced.

The 2011 QS World Rankings saw the University ranked 20th in the world, 6th in Europe, and 5th in the UK. In addition, the University was ranked 15th in the world for the employability of its graduates. The University remains fully committed to improving its performance in the national student survey. To this end, the University has pledged an investment of £4 million to enhance the student experience and create a new system of personal tutors to maintain and build on the levels of support for students.

The Distance Education Initiative (DEI) is a University-wide project which aims to substantially increase online distance learning at postgraduate level. We are now in the second year of a five-year project and funding of £4.5 million has been approved. There

are now 16 funded DEI School projects which will result in a substantial increase in the online distance learning portfolio available at the University, as well as increased income streams to twelve Schools spread across all three Colleges. In September 2012, seven projects will have launched programmes: six are MSc programmes and one is a Postgraduate Professional Development course. The remaining DEI project teams will be delivering new programmes or courses in 2013 or 2014, or will have investigated new areas to develop online distance learning programmes. Additionally, a comprehensive review of support services provision for online distance learning students is now underway and is making progress to improve the overall student experience.

We are the first UK university to join a ground-breaking initiative, launching six new courses for online students, which will offer a taste of higher education for free. These Massive Open Online Courses will be delivered via the Coursera partnership - a network of leading international universities which offer short undergraduate-level online courses free of charge. Universities associated with Coursera have taught more than 650,000 students from 190 countries. There have been more than 1.5 million course enrolments across 43 courses.

The College of Humanities and Social Science (CHSS) has driven the provision of arrangements that allow international students to undertake a Foundation Year and continue classes in English throughout their undergraduate degrees. They are collaborating with Edinburgh University Students Association to pilot the new "Languages for All" scheme offering foreign language classes free to undergraduate students. This extra language provision by CHSS, for students of all of the Colleges, aims to drive growth in international student recruitment and improve the University's attractiveness to RUK students, Scottish and EU students.

Research

Throughout the past year our researchers have continued to push the boundaries of knowledge in science, engineering, medicine and the humanities.

For example, the School of Geosciences was instrumental in an expedition to explore the sub-glacial lake Ellsworth in Antarctica. It is envisioned that the project will yield new knowledge about the evolution of life on Earth. In medicine, Professor Marc Turner has predicted the arrival of synthetic blood transfusions within the decade. Researchers in the School of Physics and Astronomy helped to map dark matter on the largest scale ever observed, revealing the Universe as an intricate web of dark matter and galaxies spanning more than one billion light years. Research by Dr Evelyn Telfer from the School of Biological Sciences offered the possibility of help for women wanting to preserve their fertility thanks to advances in the method of growing human eggs in the laboratory. Whilst in the School of Clinical Sciences, research by Dr Lee Smith identified a gene that could lead to the development

Principal's Report

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of a male contraceptive pill. Colleagues from CHSS have been speaking to print and broadcast media worldwide to provide expert commentary and insight into the Scottish Government's plans for a referendum in the autumn of 2014 on the issue of independence from the United Kingdom. 2012 has been a landmark year for English Literature at Edinburgh, marking 250 years of the study of the subject as an academic discipline. A series of events and exhibitions have marked a quarter millennium of achievement, as Edinburgh celebrated its history as one of the oldest, if not THE oldest departments of English Literature in the world.

One of the biggest news stories of the year was the announcement by scientists at CERN in Switzerland, that they had discovered a new particle consistent with the Higgs boson, the existence of which was first postulated by the University of Edinburgh's Professor Peter Higgs. In the light of the findings, the University is to create the new Higgs Centre to support future research at Edinburgh into theoretical physics.

Estates

An important aspect of both investing in the future and in sustaining our current international competitiveness is our continuing investment in our estate. We were privileged to be able to open new teaching and research facilities during the year.

Major completed developments include the new Noreen and Kenneth Murray Library facility at the King's Buildings providing much improved facilities there. This is the first phase in creating a 'living heart' and focal point, encouraging students to remain longer at King's Buildings during the day. We have also seen the completion of the penultimate phase of the main library redevelopment which will give us a state of the art space for student study in the 21st century. The final phase of the main library redevelopment will be completed around Spring 2013.

September saw the installation of HRH The Princess Royal as the University's eighth Chancellor. During a memorable event in Old College, The Princess Royal also officially opened the newly refurbished quad which was landscaped thanks to a £1m gift from a private donor. The space has been transformed and is now a popular meeting place for staff, students and visitors, adding huge value and public interest to the University and its estate.

The year has also seen the official opening of the £54m Scottish Centre for Regenerative Medicine where University staff will play an instrumental role in carrying out research into conditions such as multiple sclerosis and heart and liver disease.

Consistent with our Estate Strategy 2010-20 and Strategic Plan, major investment has been made in the IT-related infrastructure with essential additional resilience installed to the Easter Bush estate.

In the coming year, the Edinburgh Centre for Carbon Innovation will be completed. It is intended to be a centre for innovation, fostering collaborative working in support of workable solutions for a low carbon future. A test tank facility at King's Building is being developed which will provide a facility for testing off shore renewable energy devices.

Work is progressing on a major redevelopment of a building in the Central George Square area in an effort to co-locate the School of Literatures, Languages, and Cultures from around 17 different sites. Along with delivering important academic benefits, it will also help us achieve reduced carbon dioxide emissions and greater estate efficiency.

Knowledge Transfer

The University's commercialisation and knowledge transfer activities continue to make a very positive impact on the economy. The University created another 35 new companies in the year to July 2012 including a record 31 companies from the student base. The support provided by the student-focussed Launch.ed programme has been recognised as class-leading, and was awarded the Higher Education Innovation Award at the 2011 Education Investor awards.

Staff in Edinburgh Research and Innovation, the University's research and commercialisation company, have also received national awards with Brian Baillie winning the Entrepreneurial Educator of the Year and Sonja Vujovic winning Knowledge Transfer Achiever of the Year.

Our Licensing team concluded 65 agreements to transfer University technology to industry, including many 'small and medium enterprises', and our consultancy activities generated more than £5.1million of new income.

International

The University continues to pursue an active international agenda with a range of new developments.

The University has achieved the highest rating in the skilled worker and student categories under the UK Borders Agency (UKBA) rating system. Maintaining our status within these categories for employing international staff and continuing to enrol international students is of vital strategic importance to the University.

In January 2012, scientists from the University, the Indian Institute of Science (IISc) and the National Centre for Biological Sciences (NCBS) held an Edinburgh Bangalore Life Science Symposium to discuss topics such as autism, stem cells, infectious diseases and memory loss. Held in Bangalore, the event built on connections previously formed between the three institutions.

In May, a team of architects and scientists from the rapidly

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expanding National Centre for Biological Science in Bangalore, visited the Scottish Centre for Regenerative Medicine taking it as a role model Institute enabling them to develop a detailed case study of the campus and buildings.

The special relationship with North American institutions was further consolidated by the formal launch of the International Office's North America Liaison Office. This office will coordinate activities in, and concerning, the United States and Canada. Professors Frank Cogliano and Brendan Corcoran have been designated Deans International (North America). In support of the launch, the University is offering five new undergraduate scholarships: Principal's North America Scholarships which are worth £5,000 per year to students from North America.

Dalinda Perez Alvarez Rodriguez has been appointed as Director of the new Office of the Americas. The Office will be based in Sao Paulo at the Centro Brasileiro Britânico and further strengthens the University's strategic network of overseas offices which includes China and India. The new Office will ensure that we are strongly positioned to develop and support our partnerships across academia, business and industry in Latin America. The initial focus will be to support our partnerships in Mexico, Brazil, Chile and Colombia and provide intelligence and support for staff across the University who are seeking to develop collaborations within the region.

The President of Zhejiang University visited in February to discuss a variety of matters including: on-going collaborative research activity; a second symposium in neurobiology & stem cells; biomedical science teaching; staff exchanges/visiting professorships; summer schools; and collaboration in engineering.

In April, we signed an agreement with Peking University London that will establish a National China Research Centre at Edinburgh and a National UK Research Centre at Peking. The creation of these new centres will allow increased academic co-operation in a range of subject areas, including economic, political and cultural fields of study. In addition, it will offer PhD and Masters students the chance to spend time at the partner institution.

The University of Edinburgh and Hanban, sponsor of the global network of Confucius Institutes and Classrooms, renewed their relationship in a signing ceremony that committed both sides to continue to support the Confucius Institute for Scotland. The European Confucius Institutes & Classroom conference was hosted by the University in June 2012. High-profile guests included Scotland's First Minister Alex Salmond and Chinese Ambassador Liu Xiaoming. The event, which examined links between Scotland and China in areas such as education, business, language and culture, brought together key stakeholders from Scotland and Europe with Presidents of leading Chinese universities, including Fudan, Xiamen, Peking, Renmin and Nankai and also senior representatives from Chinese embassies and consulates across

Europe.

A signing Ceremony to designate the University of Edinburgh a Taiwan Academy Contact Point was held in February, attended by Mr. Steven Chu, Director General, Taipei Representative and members of the Taiwanese community in Edinburgh.

The Vice Principal International participated in a Higher Education Mission to Korea in March, organised by British Embassy in Seoul and British Council in Korea. There was a round-table event at the British Embassy, Seoul, attended by the Deputy Prime Minister and South Korean university leaders which provided insight into the potential that exists to increase student mobility between the UK and South Korea. The Vice Principal International also met alumni and current exchange students at the Ambassador's residence in Seoul and visited Seoul National University, Korea Advanced Institute of Science and Technology, Ewha Womans University, Hankuk University of Foreign Studies and Hanyang University.

Alan Mackay, Director International Office, Professor Andrew Scott, Dean International (Europe), and Dr. Lara Ryazanova-Clarke, Academic Director of the Princess Dashkova Russian Centre, visited Russia in March 2012 to identify new opportunities for engagement and to meet with established partners to discuss joint areas of interest. The delegation visited the prestigious National Research University Higher School of Economics, Lomonosov Moscow State University, St Petersburg State University of Finance and Economics, Smolny College and St Petersburg State University. Brief meetings were also held with the Russkiy Mir Foundation, the British Council Russia, Scotland Development International Russia and the British Consulate General St Petersburg, and the General Council Berlin.

The General Council held its Statutory Meeting in Berlin 14-16 June 2012. The General Council overseas meetings are designed to bring University alumni and supporters up to date with activities in Edinburgh, showcase the expertise of our academics, and demonstrate our commitment to all our alumni who live outside the UK.

In June 2012, the University's Centre for African Studies celebrated its 50 year long history of African engagement with a landmark conference - CAS@50: Cutting Edges and Retrospectives. Founded in 1963, the Centre brings together experts in the study of Africa from across the University, Scotland and further afield.

Fundraising

2011-12 saw a strong result for the University of Edinburgh Development Trust (the Trust) which received £11.25 million in income for University priorities, as per its Statement of Financial Activities. The income in 2010-11 was a record year due to the substantial donation from Dr JK Rowling of £12.5 million.

Principal's Report

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Significantly, these results have contributed to the University meeting its campaign target of £350 million. This ambitious target was publically announced in 2006 when the Campaign was launched with £149 million already committed. The last six years have seen the University generate extraordinary support from a variety of sources, public and private, in order to meet this target. An increased target will be announced in Autumn 2012, alongside a report outlining the major impact of the first phase of the campaign in funding projects across the University.

In the 2011-12 financial year, major gifts continued to produce the vast majority of the income for the Trust. In fact, we secured a third more gifts in excess of £50,000 (excluding legacies) than we did in 2010-11.

Some of the major gifts from donors that did not wish to remain anonymous included:

- Coca-Cola Foundation made two final instalments totalling over £300,000 towards its long term commitment to provide scholarships. Their support over a ten year period has fully funded over 25 students.
- Deutsche Post DHL made an exceptional commitment to the ECCI by making a donation of £1 million, which was their first donation to the University.
- The Shirley Foundation generously granted £350,000 of a £1 million pledge to the Patrick Wild Centre for research into autism and epilepsy.
- The Alwaleed Bin Talal Foundation made its final instalment of £2 million towards its £8m commitment for the Centre for Islamic Study in the Contemporary World.
- Dr. Handa Haruhisha provided a further instalment of £200,000 to support the Handa Chair in Japanese Chinese Relations.
- The Marchig Animal Welfare Trust continued its funding of the Royal (Dick) School of Veterinary Medicine with a further donation of £200,000.
- Piggy Bank Kids also continued their long term relationship with the University with a donation of £200,000 in continued support for the Jennifer Brown Laboratories.
- Continuing support from Wolfson Microelectronics was demonstrated by a donation of £75,000 to the Wolfson Postgraduate Fund.

Following a major internal review conducted in 2011, the Development and Alumni team has been expanded with several new posts and the replacement of vacancies including a new Director of Development & Alumni Engagement.

Summary

It is extremely pleasing to see that the University has maintained its strong performance despite a very challenging external climate. We have seen student numbers increase, continued improvements to our estate, a lot of research activity, a strengthening of our international co-operations, and the successful completion of our Campaign target. None of this would have been possible without the commitment and ingenuity of our staff, students and supporters, and the steady guidance of the University Court. I am very grateful to the entire University Community for their valuable contributions in making this such a successful year.



Professor Sir Timothy O'Shea

Principal and Vice-Chancellor

Operating and Financial Review

Scope of the Financial Statements

The Financial Statements comprise the results of the activities carried out by the University as a legal entity, consolidated with the results of subsidiaries which cover an additional wide range of activity. These subsidiaries are involved in conference facilities, combined heat and power and publishing operations which for commercial, legal and taxation issues are channelled through limited companies. The subsidiaries transfer the whole of their taxable profits to the University by gift aid. During the year the University merged with the Edinburgh College of Art (ECA) and the Human Genetics Unit (HGU) from the Medical Research Council and these institutions have been consolidated into the University's Financial Statements.

Summary of Results for the Year

The University has delivered a very strong financial performance over the last financial year. This has been the result of strategic decisions taken in 2008, to push harder to diversify our income away from public funding and drive efficiency in all we do, against a background of planned reductions in UK Government spending following the global financial crisis. Funding Council Grant income is now 27% of total income, down from 29% on the previous year. The total surplus as a percentage of income was 5.85%.

The income and expenditure position is summarised below

	2012	2011
	£m	£m
Income	700.8	649.2
Expenditure	659.9	605.5
Operating Surplus	40.9	43.7
Gain/(Loss) on disposal of fixed assets	0.2	(0.1)
Other items	0.5	(1.4)
Surplus Retained within general reserves	41.6	42.2

Income

Income was up nearly 8% to just over £700 million. With the exception of funding council grants, all areas of income increased by comparison with the 2010/11 figures.

Research grants and contract income increased by 6.7%, academic fees and support grants by 14%, other operating income by 12.96% and endowment and other interest receivable by 25%

Our strong performance in maintaining our growth in income from students has continued. Total student numbers are up 8.0%

on last year and tuition fees have grown by over 14%, following strong growth in international student numbers.

Student Numbers	Under-Graduate	Taught Post-Graduate	Research Post-Graduate	Total
2011-12				
Scotland	8,484	1,922	1,634	12,040
Rest of the UK (incl. Channel Islands and Isle of Man)	6,103	981	746	7,830
EU non UK	2,044	958	755	3,757
Outwith EU	3,876	2,419	1,401	7,696
	20,507	6,280	4,536	31,323

2010-11

Scotland	8,304	2,021	1,610	11,935
Rest of the UK	5,891	843	704	7,438
EU non UK	1,718	861	666	3,245
Outwith EU	3,193	1,913	1,254	6,360
	19,106	5,638	4,234	28,978

Despite the volatility in fee regime changes in the UK, total fees from UK and EU sources are up slightly on last year reflecting the introduction of higher fees to rest of UK students, underpinned by our generous bursary scheme. Other course fees also increased by 14% driven largely by support grants for research training.

Our recurrent teaching grant from the Scottish Funding Council fell by over 3% compared to the prior year, but this was more than offset by an over 24% increase in tuition fees to £85 million from countries outside the EU territory.

Investment and Endowment income grew strongly, up 25% as a result of improvements in interest received.

Over a fifth of the University's income is derived from other sources, of which 28% comes from Residences, Catering and Conferences.

Expenditure

Overall, University expenditure has increased by 9% to £659.9 million in the year. Over the last four years staff costs have continued to decline as a proportion of total expenditure and are now 53.75%. Expenditure on depreciation is up 25% on last year, reflecting the activity on the capital programme in bringing new buildings into use by the University.

Operating and Financial Review

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Other operating expenses have increased to £268.8 million, and are 40.74% of total spend. This represents an increase of 10.22% on the previous year and this is largely due to increase spend on research grants and contracts.

Balance Sheet

Fixed assets in the year totalled £1,379 million, up £32 million on 2011. As at July 2012, net current assets were £178.7 million, up £92.6 million on the previous year. The liquidity ratio increased by 40% as a result of the high value of short-term investments held and is now 1.74.

Research Grants Performance

Research Grants income grew strongly, up as a result of the mergers of Human Genetics Unit and Edinburgh College of Art into the University and good performance by existing research areas. The quality of research at the University is reflected in the strong performance in winning research grants and contracts with income up £12 million (6.7%) year on year. Income from UK Research Council increased by over 12% and represents almost half of all research grants and contract income with another third accounted for by UK-based charities (up 1.5%) and EU government bodies (up 13.2%). Also encouraging was the fact that the improved cost recovery through full economic costing being accepted by many of our major funders is enabling increased investment in equipment and buildings renewal.

Cash Flow

The net cash inflow from operating activities dropped to £44 million from £86 million last year. The development of strong and consistent cash generation is a key building block in our ability to reinvest in our extensive estate. Planned improvements and additions to infrastructure are crucial to the delivery of our strategic plans and with reduced public support the University will need to maintain the high level of cash generation of the past 2 years.

In January, the University drew down £50 million of long-term loan finance from the European Investment Bank. This debt has been structured to deliver long-term finance without the need for regular refinancing at a fixed rate that locks in a low margin to 25 year gilt yields, which have been and remain at historically low level. Accessing funds from the European Investment Bank also kept the transaction costs low.

Bank and cash investments held at the year end were over £321 million and these are managed in accordance with the University's Treasury Management Policy. Of this, nearly £100 million relates to restricted fund balances. The remaining cash balances will be largely taken up by the planned Estates programme, £62 million

of which is contractually committed and over £100 million of additional projects have already been identified.

Capital Programme

The overall vision and aim for the estate 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; and
- continue to move towards the optimum use of space.

Despite the global economic crisis, the University has delivered a significant programme. Major projects underway or concluded during the year were:

- The penultimate phase of the main library redevelopment was completed. Re-development (estimated total cost of full redevelopment: circa £58 million), at a cost of £4.6 million during the year. Final phase is currently on site.
- The circa £9 million new King's Building's Library completed.
- Essential IT infrastructure resilience work completed at a cost of circa £0.96 million.
- The £10 million Edinburgh Centre for Carbon Innovation commenced on site and is programmed for completion in 2013.
- The circa £25 million redevelopment of 50 George Square for the School of Literatures, Languages and Cultures commenced on site and is programmed for completion in 2014.
- A circa £12 million extension to the Advanced Computer Facility commenced on-site and is programmed for completion in 2013.
- Works commenced on the circa £3 million Anne Rowling Regenerative Neurology Clinic which is programmed for completion later in 2012.
- Works continue on the Edinburgh College of Art estate, post merger.

Design works continued or commenced for the redevelopment of :

- McEwan Hall (£27 million);
- St Cecilia's Hall (circa £7 million);
- Appleton Tower cladding (circa £27 million);
- David Hume Tower basement (£8 million);
- Biological Sciences Estate (circa £37 million);
- Avian Facilities as part of the Roslin Institute (circa £14

Operating and Financial Review

continued

million);

- Systems Medicine at the Western General Hospital (circa £10 million) and
- Development of new University Day Nursery at King's Buildings (circa £3 million).

Estate Maintenance

As well as these very large projects, a number of other smaller refurbishment and extension projects were completed at a cost of £5 million.

Overall, some £26 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 by £2 million to £238 million. This was mainly due to the addition of £6.7m worth of new endowments, of which £4 million was the result of the ECA merger, offsetting a £4 million drop in the market value of investments which was much in line with the market they are invested in.

Pensions

The University's staff are eligible to join two defined benefits pensions schemes – the University Superannuation Scheme (USS) and the Staff Benefits Scheme (SBS). As reported in previous years' financial statements, the University believed that it had taken appropriate action both with its in-house support scheme SBS and in being involved in the reform of USS that would enhance the long-term sustainability of its pension schemes. Both schemes have moved away from a final-salary provision to career average or career revalued schemes to reduce the cost of future service. This along with increased contributions to tackle past-service deficits should have improved the funding position of both schemes. However, the dramatic fall in gilt yields over the last year has worsened the funding position of both schemes due to its adverse influence on long-term liability valuation.

The triennial valuation of the SBS scheme as at 31st March 2012 is reporting a deficit of £57.7 million down by £37.2 million from the last valuation. The main reasons for the improvement in the funding level since the last valuation are :

- higher than expected asset performance;
- changes to the indexation of pensions in payment and deferment from RPI to CPI;
- lower than expected salary increases; and
- contribution exceeding the future benefit costs.

The Trustees and the University are now working together to revise the recovery plan to allow for an acceptable and affordable recovery plan that is acceptable to the pension regulator.

The USS deficit as at its last triennial valuation at 31 March 2011 was approximately £2.9 billion but is now estimated at £9.8 billion. A 10-year recovery plan has been finalised.

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 228 of our 11,000 plus staff have declared that they have a disability.

Creditor Payment Policy

The University has published standard terms and conditions of trade that will apply to payments to suppliers unless other terms and conditions are agreed prior to business taking place. The University's policy is to pay agreed invoices in accordance with the agreed terms of payment. At the year end the amount due to trade creditors was equivalent to 15 days of purchases from suppliers. The amount paid under the Late Payments of Commercial Debts (Interest) Act was £1,593.

Mergers

During 2011/2012, the integration of both the Edinburgh College of Art (ECA) within the College of Humanities and Social Sciences and Medical Research Council's (MRC) Human Genetics Unit to form the Institute of Genetics and Molecular Medicine (IGMM) with College of Medicine and Veterinary Medicine have proceeded smoothly. Their governance structure, financial control and administration are fully integrated into the University. Initial academic performance has been strong with positive

Operating and Financial Review

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feedback from students of ECA to being part of the University of Edinburgh and improved research grant performance in both areas. Improved facilities for IGMM are being delivered by a new development with funding supplied by the MRC and the University. For ECA, work has commenced to maintain the existing facilities to suitable standard partly funded by Scottish Funding Council and the University. Work is now going on to identify a longer-term programme for the transformation of the ECA estate to meet the needs of the school.

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. The Risk Management Committee 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.

The challenging economic environment, with a lack of growth in the UK economy, and little evidence that problems in the Eurozone are being fundamentally addressed is a continuing threat to what in normal times could be considered a benign funding environment. The funding policy for Scottish and UK students is favourable to the University in that the Scottish Government is committed to maintaining the unit of resource for Scottish domiciled students.

The University has the flexibility to modestly increase rest of UK students and international student growth, particularly from China remains strong.

On research, the mergers of recent years linked to our efficiency in delivering research support have resulted in growth in activity and improved financial sustainability.

The University has in place the funds to continue to deliver a substantial, sustainable capital programme.

Financial Strategy

The University Court has agreed a financial strategy to support the Strategic Plan. The strategy has a number of overriding themes:

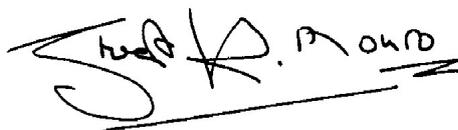
- Long-term viability and matching resources with objectives;
- Maintaining productive capacity to meet current objectives;
- Financial development and investment;

- 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 during 2012/13 as part of its preparation of the new 2012-2016 strategic plan.

Looking Forward

The University has maintained a highly trusted status with the UKBA. The University has in place process to ensure that this will remain the case and our ability to recruit the best staff and students from around the world is maintained.



Professor Stuart Monro

Convener of Finance and General Purposes Committee

Corporate Governance Statement

For the year ended 31st July 2012

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 UK Corporate Governance Code, June 2010, in so far as it applies to the higher education sector, and has taken due regard of 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 Reports and 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 2012.**

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. The Rector is elected by staff and students of the University. It has a majority of lay members (14), including assessors appointed by the Chancellor and the City of Edinburgh Council and elected by the General Council. There are also assessors elected by members of Senate and by non-teaching/academic staff from amongst their number and two fully matriculated student members nominated by the Students' Representative Council. The Principal is an ex-officio member and acts as the Chief Executive Officer of the University. He is directly accountable to the 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 (SFC) 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. Co-opted members of the Court and external members of the Court Committees are appointed through a robust, transparent open advertisement and interview process based on a skills matrix approach managed by the Nominations Committee. The Rector also appoints an Assessor who attends meetings of the Court and receives all papers but is not a member of the Court.

The Court met seven times during 2011-12 and considered any urgent matters which required Court approval between meetings by correspondence or through electronic means. Members were also kept informed by electronic means of any significant issues affecting the University. The Court 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 current interests of members of the Court are published on the University's web site at: <http://www.ed.ac.uk/schools-departments/governance-strategic-planning/governance/university-court/overview>.

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 Funding Council. The Court believes that in all significant respects its operations are compliant with this Guidance. An induction event is held annually to introduce new members of the Court to the University and their roles and responsibilities as Court members; a mentoring scheme is also operated. The Court approved a revised statement of its responsibilities in June 2010 which it believes to be of a high standard. The statement and information on other governance arrangements within the University are available as part of the University's Freedom of Information publication scheme on <http://www.ed.ac.uk/schools-departments/governance-strategic-planning/governance/university-governance/overview>.

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 2011-12 was adopted by the University Court at its June 2008 meeting: it covers the period 2008-12. The process to develop a new strategic plan was initiated at a Court seminar in September 2011 and a new strategic plan covering 2012-2016 was approved at the Court meeting on 2 July 2012. The strategic planning process is led by the Principal with support from the Senior Vice-Principal (with responsibility for Planning, Resources and Research Policy) and the Director of Planning.

The Court considered the Scottish Minister's Report on the Review of Higher Education Governance in Scotland and agreed

Corporate Governance Statement

continued

a position statement at its meeting on 14 May 2012. The Court agreed that certain of the recommendations within the Report not requiring changes to the legal framework in which it operates should be taken forward to improve its arrangements and waits with interest further developments.

The Court's Committee Structure

The Court has established several Committees, including the following key Committees: Audit Committee, Estates Committee, Finance and General Purposes Committee, Health and Safety Committee, Investment Committee, Knowledge Strategy Committee, Nominations Committee, Remuneration Committee, Risk Management Committee and Staff Committee. Each of these Committees is formally constituted with terms of reference including membership approved by the Court, and conducts their business both through regular meetings and by correspondence or through electronic communication when appropriate. There is also a Central Management Group whose membership includes all the major budget holders in the University and all Vice-Principals who advise the Principal on senior management decisions, particularly on the allocation of budgets to Colleges and Support Groups.

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; it also provides the Court with an annual opinion on arrangements in place to promote economy, efficiency and effectiveness. In addition, the Committee receives regular reports from the Internal and External Auditors which include recommendations for improvements in internal control and management's responses and implementation plans. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The emphasis is on obtaining the relevant degree of assurance and not merely reports of exceptions. It also has explicit responsibility for advising on the effectiveness of the University's risk management arrangements. The Committee also monitors adherence to regulatory requirements and mandatory audit requirements of the Scottish Funding Council. 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 Principal is invited to attend a meeting of the Audit Committee, normally the meeting at which the Reports and Financial Statements are being considered. The Committee also holds at least annual separate meetings with Internal and External Auditors without senior University officers in attendance for independent discussions. The Court receives the minutes of each Audit Committee meeting and an annual report of its proceedings.

The **Estates Committee** oversees the preparation, periodic review and implementation of the University's Estate Strategy and its links to corporate and other business plans. It oversees the University's property portfolio transactions (acquisitions and disposals), matters relating to estate developments and considers reports on progress through the Gateway process. It considers and advises on significant matters 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 Central Management Group, the Finance and General Purposes Committee and the Court receive a report on matters considered following each meeting of the Committee. It is chaired by the Vice-Principal with responsibility for Planning, Resources and Research Policy and its membership includes two lay members of the Court. It normally meets four times a year.

The **Finance and General Purposes Committee** oversees the University's financial affairs on behalf of the Court and advises on business of particular importance or complexity. This includes the design of the planning and budgeting process, approval of the resulting plan and budget in the context of the University's overall strategy, and ensuring adequate monitoring thereafter. The Court receives a report on matters considered following each meeting of the Committee. It is chaired by the Vice-Convenor of the Court, includes a majority of lay members of the Court and also includes a student representative. It normally meets six times a year.

The **Health and Safety Committee** formulates policy and monitors performance in all areas of occupational safety and health and provides guidance to the University's Health and Safety Services department (which also includes Occupational Health, Occupational Hygiene, Fire Safety and Radiation Protection functions) and advises the Court in regard to compliance with its statutory responsibilities in this area. It reports to the Court via the Central Management Group and the Finance and General Purposes Committee following each Committee meeting. It is chaired by the Vice-Principal and Director of Corporate Services and meets at least twice a year.

The **Investment Committee** considers implications of the University's investments in particular the development of an investment strategy to meet agreed investment objectives with regard to ethical and socially responsible issues and to review and monitor both long and short term investments. It has responsibility for overseeing the University's Endowment Funds and ensuring that funds held in trust are operated within the relevant legislation and specific terms of each trust, other investment funds and deposit balances. It reports to the Court via the Finance and General Purposes Committee as appropriate. It is chaired by an external member and meets at least twice a year.

Corporate Governance Statement

continued

The **Knowledge Strategy Committee** oversees the University's knowledge management activities in the areas of Library, Information Technology, e-Learning, Management Information and e-Administration and considers and advises on any other Court business in respect of knowledge management activities. The Central Management Group and the Court receive reports as appropriate on matters considered by the Committee. It is chaired by the Vice-Principal with responsibility for Knowledge Management and its membership includes two lay members of the Court and a student representative. It meets at least once a year.

The **Nominations Committee** considers nominations for co-opted membership of the Court, nominations for membership of the Court Committees and for the Court's nominations on the Curators of Patronage. The arrangements to take forward the open advertisement and interview process for co-opted members of the Court and external members of the Court Committees are managed by the Nominations Committee. It makes recommendations for consideration and approval to the Court and reports on any other matter considered following each Committee meeting. It is chaired by the Vice-Convener of the Court, has a majority of lay members of the Court and normally meets three times a year.

The **Remuneration Committee** oversees the total remuneration of the Principal and those senior staff reporting directly to the Principal, the reward policy for Professorial and equivalent staff and the policy statement on severance payments in respect of all staff. While a member of the Committee, the Principal withdraws from the Committee when matters related to his remuneration are being considered. It reports as appropriate and at least annually to the Court on its activities. It is chaired by the Vice-Convener of the Court, has a majority of lay members of the Court and obtains additional professional advice from an external advisor and meets at least once a year.

The **Risk Management Committee** supports and advises the Central Management Group, the Audit Committee and the 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. The Central Management Group, the Finance and General Purposes Committee, the Audit Committee and the Court receive reports as appropriate and in particular the annual assurance statement and the outcome of the review of the University's Risk Register. It is chaired by the Vice-Principal and Director of Corporate Services and its membership includes a lay member of the Court. It normally meets four times 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 reports to the Court via the Central Management Group and the Finance and General Purposes Committee following each Committee meeting. The Committee is chaired by the Vice-Principal with responsibility for Equality and Diversity, and its membership includes two members of the Court. It normally meets three times a year.

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 reports through the Finance and General Purposes Committee to the Court. The Central Management Group is chaired by the Principal and it normally meets eight times a 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 mainly of graduates and includes eligible academic staff and a more limited number from other related categories. It has a statutory right to comment on matters which affect the well-being and prosperity of the University and to be consulted on proposed new Ordinances and Resolutions. Members of the General Council also elect the Chancellor of the University: the Chancellor confers the University's degrees and is Chairperson of the General Council.

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 current Delegated Authorisation Schedule was approved by the Court

Corporate Governance Statement

continued

in June 2010 and continues to be reviewed and appropriately amended to ensure it remains fit for purpose. 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 Committee which oversees implementation of the Risk Management Strategy and Policy Statement. In July 2012, the Court considered and re-approved the University's Risk Policy Statement. 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 Register is reviewed annually by the Risk Management Committee and considered by the Central Management Group, the Audit Committee, and the Finance and General Purposes Committee prior to consideration and approval by the Court; the most recent update was adopted by the Court on 2 July 2012 and aligns to the University Strategic Plan 2008-12 which was the Strategic Plan then in place.

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, internal controls and governance, having regard to best practice as recommended by professional institutes and other relevant organisations. The Audit Committee considered the Internal Audit opinion on risk management, control and governance at its meeting on 27 September 2012 and expressed itself satisfied with the outcome.

By its 10 December 2012 meeting, the Court had received the Audit Committee and Risk Management Committee reports for the year ended 31 July 2012; it also had taken account of relevant events since 31 July 2012. The Audit Committee in particular is responsible for advising the Court on the effectiveness of policies and procedures for risk assessment and risk management as well as internal controls and governance. The Court considers, on the recommendation of the Audit Committee that a risk management

process wholly compliant with the guidance provided by the UK Corporate Governance Code, in so far as its provisions apply to the higher education sector, has been in place throughout the year ended 31 July 2012.

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

Charitable Status

The University had charitable status (No. SC005336) under the legislative framework operative throughout the 2011-12 financial year. The University Court considers that the University meets the 'Charity Test' set out in Section 7 of the Charities and Trustee Investment (Scotland) Act 2005. It will take such actions as are necessary to ensure continued full compliance with the legislation and retention of its charitable status.

The University's endowments are administered as the University of Edinburgh Endowment Fund, overseen by the Investment Committee. As at 31 July 2012 this included the Edinburgh College of Art Prize Fund and other Edinburgh College of Art endowments other than the Edinburgh Andrew Grant Bequest which is held within and administered by a separate charitable trust. 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, or in the case of other investment funds, for the University's general purposes. All of those purposes are charitable for the purposes of the legislation.

Corporate Governance Statement

continued

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 President 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's activities and the factors likely to affect its future development, performance and position are set out in the Operating and Financial Review and the Principal's Report. The financial position of the University, its cash flows and liquidity are set out in more detail in the Notes to the Financial Statements.

The University has considerable financial resources and its current forecasts and projections show it to be well placed to successfully manage its activities despite risks and uncertainties highlighted in the Reports and Financial Statements.

The Court is satisfied that the University has adequate resources to continue in operation for the foreseeable future and for this reason, the going concern basis continues to be adopted in the preparation of the Reports and Financial Statements.

The 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 this 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.

Responsibilities of the Court

continued

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.

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 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.

Statement of Responsibilities Relating to the Reports and Financial Statements

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

The Court is responsible for keeping proper accounting records, which disclose, with reasonable accuracy, the financial position of the University at any time and enable it to ensure that the financial statements are prepared in accordance with the Universities (Scotland) Acts 1858-1966, the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the Court of the University of Edinburgh, the University Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs

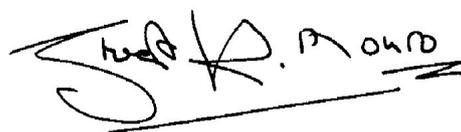
of the University and of the surplus or deficit and cash flows for that year.

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

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

The Court has taken reasonable steps to:

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



Professor Stuart Monro

Vice-Convener
10 December 2012

Membership of Court and Committees

Court Membership

Members of the University Court during the year ended 31 July 2012, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2012 and up to the date on which the Reports and Financial Statements were approved, were as follows:

The Rector (Convener), Mr I Macwhirter (5/5) (until 29 February 2012)

The Rector (Convener), Mr P McColl (2/2) (from 1 March 2012)

The Principal and Vice-Chancellor, Professor Sir Timothy O'Shea (6/7)

The Chancellor's Assessor, Sheriff Principal E F Bowen QC (3/5) (from 17 October 2011)

General Council Assessors

Mr A Johnston (7/7)

Professor A M Smyth (6/7)

Mrs M Tait (7/7)

Senatus Academicus Assessors

Dr M Aliotta (4/7)

Professor J Ansell (7/7)

Professor D J Finnegan (7/7)

Professor A Harmar (5/7)

City of Edinburgh Council Assessor

Rt Hon G Grubb, Lord Provost (0/5) (until 2 May 2012)

Rt Hon D Wilson, Lord Provost (1/1) (from 2 July 2012)

Co-opted Members

Professor S Monro (Vice-Convener) (7/7)

Professor J Barbour (4/7) (until 31 July 2012)

Mr P Budd (3/7)

Dr C Masters (4/7)

Mr G M Murray (6/7) (until 31 July 2012)

Mrs E Noad (6/7)

Ms A Richards (6/7)

Mr D Workman (6/7) (until 31 July 2012)

Mr D Bentley (from 1 August 2012)

Dr R Black (from 1 August 2012)

Mr L Matheson (from 1 August 2012)

Non-Teaching Staff Assessor

Mr D Brook (2/7)

Student Members

Mr M McPherson (5/6) (until 10 June 2012)

Mr M Williamson (6/6) (from 10 June 2012)

Mr J McAsh (1/1) (from 11 June 2012)

Mr A Burnie (1/1) (from 11 June 2012)

Members of the Audit Committee, Estates Committee, the Finance and General Purposes Committee, Investment Committee, the Nominations Committee, the Remuneration Committee and the Risk Management Committee during the year ended 31 July 2012 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2012 and up to the date on which the Reports and Financial Statements were approved were as follows:

Audit Committee

Convener: Ms A Richards (4/4)

Mr P Budd (1/4)

Mr A Johnston (4/4)

Mrs E Noad (3/4)

Mr M Sinclair (4/4)

Mr A Trotter (3/4)

Estates Committee

Convener: Senior Vice-Principal Professor N Brown (4/4) (until 31 July 2012)

Convener: Vice-Principal Professor J Seckl (from 1 August 2012)

Mr G M Murray (4/4) (until 31 July 2012)

Mr P Budd (0/4)

Dr K Waldron, University Secretary (2/4)

Vice-Principal Mr N Paul, Director of Corporate Services (3/4)

Senior Vice-Principal Professor M Bownes (0/4)

Vice-Principal Professor J Haywood (3/4)

Vice-Principal Professor D Miell (4/4)

Dr A Cornish, Director of Planning and Deputy Secretary (4/4)

Mr A Currie, Director of Estates and Buildings (4/4)

Mr H Edmiston Registrar, College of Medicine and Veterinary Medicine (4/4)

Mr J Gorringe, Director of Finance (1/4) (until 31 August 2012)

Mr R Kington Director of Accommodation Services (4/4)

Membership of Court and Committees

continued

Mr M McPherson, President, EUSA 4/4) (until 10 June 2012)

Dr B Nelson, Registrar, College of Science and Engineering (4/4)

Mr J McAsh (from 11 June 2012)

Mr P McNaul, Director of Finance (from 1 September 2012)

Finance and General Purposes Committee

Convener: Professor S Monro (6/6)

The Principal and Vice-Chancellor, Professor Sir Timothy O'Shea (5/6)

Senior Vice-Principal, Professor N Brown (6/6) (until 31 July 2012)

Dr K Waldron, University Secretary (6/6)

Mr J Gorringer, Director of Finance (5/6) (until 31 August 2012)

Mr M McPherson, President of the Students' Association (5/5) (until 10 June 2012)

Professor J Barbour (2/6) (until 31 July 2012)

Professor A M Smyth (4/6)

Dr M Aliotta (4/6)

Mr G M Murray (4/6) (until 31 July 2012)

Dr C Masters (6/6)

Vice-Principal Professor J Seckl (from 1 September 2012)

Mr D Bentley (from 1 August 2012)

Mr L Matheson (from 1 August 2012)

Mr J McAsh (1/1) (from 11 June 2012)

Mr P McNaul, Director of Finance (from 1 September 2012)

Investment Committee

Convener: Mr A McFarlane, external member of Committee (5/5)

The Principal and Vice-Chancellor, Professor Sir Timothy O'Shea (1/5)

Professor S Monro (4/5)

Mr L Matheson (2/5)

Mr R Davidson, external member of Committee (5/5)

Mr B Hughes, external member of Committee (5/5)

Ms M Cuffe, external member of Committee (5/5)

Nominations Committee

Convener: Professor S Monro (2/2)

The Principal and Vice-Chancellor, Professor Sir Timothy O'Shea (2/2)

Mrs E Noad (2/2)

Professor A M Smyth (2/2)

Dr K Waldron, University Secretary (1/2)

Professor J Ansell (1/1) (from 7 November 2011)

Dr R Black (from 1 August 2012)

Remuneration Committee

Convener: Professor S Monro (2/2)

The Principal and Vice-Chancellor, Professor Sir Timothy O'Shea (2/2)

D Workman (2/2) (until 31 July 2012)

Dr C Masters (2/2)

Ms A Richards (1/2)

Mr A Johnston (from 1 August 2012)

Risk Management Committee

Convener: Vice-Principal Mr N A L Paul (4/4)

Mrs M Tait (3/4)

Dr K Waldron, University Secretary (2/4)

Mr F Gribben, Registrar, College of Humanities and Social Science (1/4)

Mr H Edmiston Registrar, College of Medicine and Veterinary Medicine (4/4)

Dr B Nelson, Registrar, College of Science and Engineering (4/4)

Mr J Gorringer, Director of Finance (2/4) (until 31 August 2012)

Mr B Gilmore, Director of IT Infrastructure (3/4)

Dr T Harrison, Assistant Principal, Academic Standards and Quality Assurance (2/4)

Professor J Ansell, Academic Representative (3/4)

Mr P McNaul, Director of Finance (from 1 September 2012)

Independent Auditor's Report to the Members of the University Court of the University of Edinburgh

We have audited the Group and University financial statements of The University of Edinburgh for the year ended 31 July 2012 set out on pages 20 to 61. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the University Court of The University of Edinburgh, as a body, in accordance with Universities (Scotland) Acts 1858-1966 and, in the University Court's role as charity trustees, in accordance with section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 as amended. Our audit work has been undertaken so that we might state to the University Court of the University of Edinburgh those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University Court of The University of Edinburgh, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University Court of The University of Edinburgh and auditor

As explained more fully in the Statement of Responsibilities relating to the Reports and Financial Statements set out on page 15, the University Court of The University of Edinburgh are responsible for the preparation of the financial statements which give a true and fair. We have been appointed as auditor under section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report to you in accordance with the regulations made under that Act. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the University Court of the University of Edinburgh; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Principal's Report, Operating and Financial Review, Corporate Governance Statement and Membership of Court and Committees to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and University's affairs as at 31 July 2012 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice: accounting for further and higher education; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matters prescribed by the terms of our engagement

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation, and any other terms and conditions attached to them; and
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum.

Matters on which, under the terms of our engagement, we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations 2006 (as amended) and the terms of our engagement require us to report to you if, in our opinion:

- the information given in the Operating and Financial Review is inconsistent in any material respect with the financial statements; or
- adequate and proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



MJ Rowley

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006
Saltire Court
20 Castle Terrace
EH1 2EG

Group Income and Expenditure Account

For the year ended 31 July 2012

	Note	2012 £ 000's	2011 Restated £ 000's
INCOME			
Funding council grants	2	189,438	189,508
Tuition fees and education contracts	3	150,298	131,060
Research grants and contracts	4	193,119	180,990
Other income	5	155,378	137,549
Endowment and investment income	6	12,654	10,123
Total Income		700,887	649,230
EXPENDITURE			
Staff costs	7	354,673	331,177
Other operating expenses	9	268,853	243,929
Depreciation	13	31,569	25,579
Interest payable	10	4,818	4,798
Total Expenditure		659,913	605,483
SURPLUS ON CONTINUING OPERATIONS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION			
		40,974	43,747
Gain/(Loss) on disposal of fixed assets	13	206	(66)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND DISPOSAL OF ASSETS BUT BEFORE TAXATION			
		41,180	43,681
Taxation	11	(31)	(20)
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND TAXATION AND BEFORE MINORITY INTEREST			
		41,149	43,661
Minority interest		(30)	16
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST			
		41,119	43,677
Surplus transferred from/(to) accumulated income in endowment funds		546	(1,454)
SURPLUS FOR THE YEAR RETAINED WITHIN GENERAL RESERVES	12	41,665	42,223

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 2012

	Note	2012 £'000	2011 £'000
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION AND BEFORE TAXATION		40,974	43,747
Gain/(Loss) on disposal of fixed assets in the year	13	206	(66)
Realisation of revaluation gains of previous years	24	3,670	603
Difference between historical cost depreciation and the actual depreciation calculated on the revalued amount:			
On the depreciation charge for the year	24	6,700	6,700
On impairment of fixed assets in the year		-	4,139
HISTORICAL COST SURPLUS BEFORE TAXATION		51,550	55,123
HISTORICAL COST SURPLUS AFTER TAXATION, MINORITY INTEREST AND TRANSFERS FROM/TO SPECIFIC ENDOWMENT FUNDS		52,035	53,665

Group Statement of Total Recognised Gains and Losses

For the year ended 31 July 2012

	Note	2012 £'000	2011 £'000
SURPLUS AFTER DEPRECIATION OF ASSETS AT VALUATION, TAXATION AND MINORITY INTEREST		41,119	43,677
(Depreciation)/Appreciation on fixed asset investments	14	(77)	390
(Depreciation)/Appreciation on endowment asset investments	15	(4,036)	22,833
Charges on endowment asset investments	15	(394)	(368)
Unrealised surplus on revaluation of tangible fixed assets- Heritage assets	13 & 34	8,058	-
New endowments	22	5,775	12,695
Addition of ECA (note 36)	36	1,018	-
Endowments transferred to deferred capital grants	22	-	(450)
Actuarial (loss)/gain in respect of pension schemes	31	(28,374)	7,453
TOTAL GAIN RECOGNISED DURING THE CURRENT YEAR		23,089	86,230
Prior Year Adjustment		-	158,703
TOTAL GAIN RECOGNISED DURING THE CURRENT YEAR		23,089	244,933
Reconciliation:			
Opening reserves and endowments at 1 August as previously stated		1,203,948	1,117,718
Total recognised gains for the year		23,089	86,230
CLOSING RESERVES AND ENDOWMENTS AT 31 JULY		1,227,037	1,203,948

Balance Sheets

as at 31 July 2012

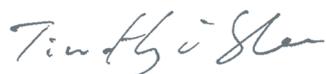
	Note	Group		University	
		2012 £ 000's	2011 £ 000's	2012 £ 000's	2011 £ 000's
FIXED ASSETS					
Tangible assets	13	1,387,293	1,323,685	1,382,327	1,318,793
Negative goodwill	36	(28,363)	-	(28,363)	-
Investments	14	20,634	23,561	21,107	24,034
		1,379,564	1,347,246	1,375,071	1,342,827
ENDOWMENT ASSETS					
	15	238,329	236,512	238,329	236,512
CURRENT ASSETS					
Stocks and stores in hand		2,602	2,197	2,046	1,701
Debtors	16	89,083	85,016	84,603	83,861
Assets held for resale		1,446	4,955	1,446	4,955
Investments: bank deposits	30	309,831	211,082	297,877	193,831
Cash at bank and in hand	30	12,426	12,979	7,393	2,972
		415,388	316,229	393,365	287,320
CREDITORS: Amounts falling due within one year	17	(236,594)	(230,048)	(215,721)	(204,445)
NET CURRENT ASSETS					
		178,794	86,181	177,644	82,875
TOTAL ASSETS LESS CURRENT LIABILITIES					
		1,796,687	1,669,939	1,791,044	1,662,214
CREDITORS: Amounts falling due after more than one year	18	(109,970)	(54,025)	(109,870)	(53,925)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(11,005)	(6,800)	(11,005)	(6,800)
TOTAL NET ASSETS EXCLUDING PENSIONS LIABILITIES					
		1,675,712	1,609,114	1,670,169	1,601,489
PENSION LIABILITIES	31	(99,274)	(68,174)	(99,274)	(68,174)
TOTAL NET ASSETS INCLUDING PENSION LIABILITIES					
		1,576,438	1,540,940	1,570,895	1,533,315

Balance Sheets

as at 31 July 2012

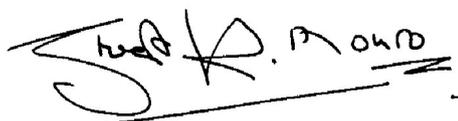
Represented by:	Note	Group		University	
		2012 £ 000's	2011 £ 000's	2012 £ 000's	2011 £ 000's
DEFERRED CAPITAL GRANTS	21	349,371	336,992	347,389	334,384
ENDOWMENTS					
Expendable	22	158,476	158,686	158,476	158,686
Permanent	22	79,853	77,826	79,853	77,826
		238,329	236,512	238,329	236,512
RESERVES					
Revaluation Reserve	23	714,883	717,272	714,883	717,272
	24	373,099	318,338	369,568	313,321
General Reserve excluding pension reserve					
Pension Reserve	31	(99,274)	(68,174)	(99,274)	(68,174)
General Reserve including pension reserve		273,825	250,164	270,294	245,147
Total Reserves		988,708	967,436	985,177	962,419
MINORITY INTERESTS		30	-	-	-
TOTAL FUNDS		1,576,438	1,540,940	1,570,895	1,533,315

The financial statements on pages 20 to 61 were adopted by Court on 10 December 2012 and were signed on its behalf by:



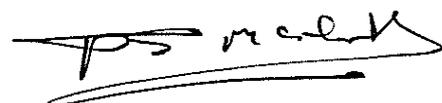
Professor Sir Timothy O'Shea

Principal



Professor S Monro

Member of the University Court



Phil McNaull

Director of Finance

Group Cash Flow Statement

For the year ended 31 July 2012

	Note	2012 £'000	2011 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	44,158	85,992
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	26	7,621	6,339
TAXATION	11	(31)	(20)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	27	(6,002)	(32,410)
MERGER WITH ECA AND HGU	36	2,038	-
MANAGEMENT OF LIQUID RESOURCES	28	(98,749)	(56,140)
FINANCING	29	48,619	(1,194)
(DECREASE)/INCREASE IN CASH IN THE PERIOD	30	(2,346)	2,567
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)			
(Decrease)/ Increase in cash in the period		(2,346)	2,567
Cash outflow in liquid resources	28	98,749	56,140
Change in net debt resulting from cashflows	29	(48,619)	1,194
Debt acquired on merger with ECA	36	(7,500)	-
Movement in net funds for the period	30	40,284	59,901
Net funds at start of year	30	173,851	113,950
Net funds at close of year	30	214,135	173,851

Notes to the Financial Statements

For the year ended 31 July 2012

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. Accounting for Business Combinations

The University merged with the Edinburgh College of Art on 1 August 2011 and the Human Genetics Unit of the Medical Research Council on 1 October 2011. The merger was accounted for by the "acquisition method of accounting" in order to comply with the requirements of FRS 6, Acquisitions and Mergers. Fair values are attributed to the net separable assets and liabilities. The benefit arising as a consequence of no consideration having been paid by the University for the net value of the assets acquired is included in the consolidated balance sheet as a deduction from Fixed Assets. The fair value of the benefit is released to the income and expenditure account over the periods in which the non-monetary assets are recovered, whether through depreciation or disposal. The release is aligned with the corresponding depreciation charge relating to the assets.

iv. Recognition of Income

Tuition fees for each academic year are recognised in full in the financial year in which they are chargeable with the exception of fees for 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.

v. 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

Notes to the Financial Statements

continued

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.

vi. Leases

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

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

vii. Land and Buildings

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.

viii. 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.

ix. 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.

x. Assets Held for Resale

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

xi. 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

Notes to the Financial Statements

continued

over a four year period.

Donated equipment is capitalised at depreciated replacement cost at the date of receipt and is depreciated over a four-year period.

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

xii. 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.

xiii. 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.

xiv. 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.

xv. 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.

xvi. 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.

xvii. 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 Revenue & Customs 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.

xviii. 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:

- Universities Superannuation Scheme (USS);
- University of Edinburgh Staff Benefits Scheme (EUSBS);
- Medical Research Council (MRC);

Notes to the Financial Statements

continued

- Lothian Pension Fund(LPF); 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, LPF 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.

xix. Comparatives

In compliance with FRS28, 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

	2012 £ 000's	2011 £ 000's
2. FUNDING COUNCIL GRANTS		
Recurrent grant		
Teaching	76,757	79,392
Research	83,243	82,160
Specific grants		
Information systems	8,212	5,871
Infrastructure grants for research, teaching and learning	2,535	6,645
Other including research pooling	14,699	12,482
Deferred capital grants released in year		
Buildings (note 21)	3,207	2,262
Equipment (note 21)	785	696
	189,438	189,508
	2012 £ 000's	2011 Restated £ 000's
3. TUITION FEES AND EDUCATION CONTRACTS		
Home and EU higher education students	27,211	27,073
Rest-of-UK (Old Fee Rate)	20,186	20,010
Non-EU Fees	85,427	68,652
Research training support grants	12,581	10,891
Short course and other fees and support grants	4,893	4,434
	150,298	131,060

Tuition Fees and contracts have been restated due to presentational changes in the information requested by the Scottish Funding Council.

	2012 £ 000's	2011 £ 000's
4. RESEARCH GRANTS AND CONTRACTS		
Research councils	94,473	84,212
UK based charities	43,624	42,999
UK central government bodies, local and health authorities	17,316	17,781
UK industry, commerce and public corporations	7,852	10,080
EU government bodies	19,611	17,329
EU other	1,262	721
Other overseas	4,484	4,463
Other sources	4,497	3,405
	193,119	180,990

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 £8,561,000(2011 - £6,660,000) 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 £3,681,000 (see note 21) (2011 - £3,260,000).

Notes to the Financial Statements

continued

	2012	2011
	£ 000's	Restated £ 000's
5. OTHER INCOME		
Residences, catering and conferences	43,668	39,434
Specific grants, donations and other designated income:		
Academic and related activities	23,639	25,290
Academic services and support activities	16,951	10,029
General Income :		
Academic and related activities	28,418	24,163
Income generating, academic services & support activities	35,458	34,245
Released from deferred capital grants		
Buildings (note 21)	2,727	2,023
Equipment (note 21)	3,056	2,365
Benefit on acquisition	1,461	-
	155,378	137,549
Other income has been restated to reflect recent guidance on accounting for Research Training and Support Grants		
	2012	2011
	£ 000's	£ 000's
6. ENDOWMENT AND INVESTMENT INCOME		
Income from expendable endowments (note 22)	5,118	5,210
Income from permanent endowments (note 22)	2,567	2,473
Other investment income	527	475
Other interest receivable	4,442	1,965
	12,654	10,123
	2012	2011
	Number	Number
7. STAFF		
Staff numbers (expressed as full time equivalents as at 31st July) were as follows :		
Academic and related support	3,693	3,339
Research grants and contracts	1,785	1,698
Library, computer and other academic support services	556	511
Administration and central services	588	518
Premises	685	649
Other including income generating operations	109	102
Residences and catering operations	455	438
	7,871	7,255
Staff numbers (expressed as an employee count and excluding hours to be notified staff) were as follows:		
Staff on open ended contracts	6,676	6,134
Staff on fixed term contracts	2,102	1,885
	8,778	8,019
Percentage of employees on fixed term contracts	23.95%	23.51%

Notes to the Financial Statements

continued

	2012 £ 000's	2011 £ 000's
7. STAFF (Continued)		
Analysis of the cost of the above staff by activity:		
Academic and related support	190,108	176,766
Research grants and contracts	85,778	83,203
Library, computer and other academic support services	22,044	21,172
Administration and central services	23,617	22,456
Premises	16,520	15,987
Other including income generating operations	5,366	4,691
Residences and catering operations	10,888	10,306
Unfunded pensions	2,047	(606)
Pension costs less employer contributions payable (note 31)	(1,695)	(2,798)
	354,673	331,177
Analysis of the above staff cost by type:		
Salaries and wages	272,100	257,721
Social security costs	22,391	20,899
Other pension costs (note 31)	56,071	50,864
Severance costs	2,064	2,299
Unfunded pensions	2,047	(606)
	354,673	331,177
8. SENIOR POST HOLDERS		
Remuneration of higher paid staff, excluding pension contributions was:	2012	2011
	Number	Restated Number
£70,000 - £79,999	85	92
£80,000 - £89,999	77	66
£90,000 - £99,999	43	46
£100,000 - £109,999	32	28
£110,000 - £119,999	25	25
£120,000 - £129,999	22	19
£130,000 - £139,999	15	14
£140,000 - £149,999	8	7
£150,000 - £159,999	6	10
£160,000 - £169,999	9	9
£170,000 - £179,999	5	8
£180,000 - £189,999	6	8
£190,000 - £199,999	6	9
£200,000 - £209,999	3	3
£210,000 - £219,999	4	1
£220,000 - £229,999	1	-
£240,000 - £249,999	1	1
£250,000 - £259,999	-	1
£260,000 - £269,999	2	-
£270,000 - £279,999	-	-
£280,000 - £289,999	-	1
£350,000 - £359,999	1	1
	351	349

Staff are included in the range that reflects their contractual remuneration for that year. The 2011 figures have been restated to include employee pensions contributions that have been salary sacrificed. These were previously excluded.

Notes to the Financial Statements

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8. SENIOR POST HOLDERS (Continued)	2012	2011
Emoluments of the Principal	£000's	£000's
Remuneration	227	229
Benefits in kind	1	2
	228	231
Pension contributions	57	55
	285	286

Regular pension contributions for the Principal paid to the USS at the same rate as for other academic staff amounted to £57,047 (2011:£54,702)

Compensation for loss of office

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

	2012	2011
	£000's	£000's
Payments to USS for enhanced pension benefits	397	254
Other payments in respect of loss of office	65	322
	462	576

Severance pay was in accordance with the Remuneration Committee Policy

	2012	2011
	£ 000's	Restated £ 000's
9. ANALYSIS OF OTHER OPERATING EXPENSES BY ACTIVITY		
Academic and related expenditure	62,216	55,808
Research grants and contracts*	70,895	61,925
Library, computer and other academic support services	23,087	14,237
Administration and central services	17,091	16,075
Premises - Refurbishment and maintenance	26,326	36,071
- Utility costs	17,057	13,245
- Other premises costs	10,667	8,628
Other including income generating operations	19,076	18,719
Residences and catering operations	22,438	19,221
	268,853	243,929
Other operating expenses include:		
Operating lease rentals	11,857	1,605
Fees charged by external auditors :		
Audit of these financial statements	65	63
Audit of financial statements of subsidiaries pursuant to legislation incl Andrew Grant Bequest	49	41
Taxation services*	21	234
Non-audit services*	221	46

Other income has been restated to reflect recent guidance on accounting for Research Training and Support Grants

*Taxation services includes exceptional fees in 2010-11 in respect of the agreement of a retrospective VAT partial recovery for years to 1996 included in income for 2010-11. Non-audit services include payments for the audit of US GAAP accounts, research grant audits, work in relation to ECA and property developments. Research grants and contracts spend includes £6 million for HPCX upgrade.

Notes to the Financial Statements

continued

	2012 £ 000's	2011 £ 000's
10. INTEREST PAYABLE		
Bank and other loans	3,938	2,949
Finance leases	250	257
Net charge on pension scheme liabilities (note 31)	630	1,592
	4,818	4,798
11. TAXATION		
UK corporation tax charge on subsidiaries' profits	31	20
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	35,466	37,370
Surplus generated by subsidiary undertakings	6,199	4,853
Total	41,665	42,223

13. TANGIBLE ASSETS

Group	Land and	Buildings	Equipment	Heritage	Total
	Buildings	under		Assets	
	£ 000's	Construction	£ 000's	£ 000's	£ 000's
Cost or valuation as at 31 July 2011	1,169,551	2,208	93,924	158,744	1,424,427
Acquisition of HGU and ECA	45,440	-	1,271	2,460	49,171
Revaluation	-	-	-	8,058	8,058
Additions at cost	18,883	4,421	15,560	260	39,124
Transfers	1,832	(1,832)	-	-	-
Disposals	(1,180)	-	(637)	-	(1,817)
As at 31 July 2012	1,234,526	4,797	110,118	169,522	1,518,963
Depreciation as at 31 July 2011	32,029	-	68,713	-	100,742
Charge for the year	17,762	-	13,807	-	31,569
Disposals	(4)	-	(637)	-	(641)
As at 31 July 2012	49,787	-	81,883	-	131,670
Net book value					
As at 31 July 2012	1,184,739	4,797	28,235	169,522	1,387,293
As at 31 July 2011	1,137,522	2,208	25,211	158,744	1,323,685

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

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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.

Gains on disposals of land and building fixed assets amounted to £206,000 (2011 – Loss £66,000).

Land and Buildings with a net book value of £173,518,000 (2011 - £167,327,000) 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	Land and Buildings £ 000's	Buildings under Construction £ 000's	Equipment £ 000's	Heritage Assets £ 000's	Total £ 000's
Cost or valuation as at 31 July 2011	1,165,982	2,208	81,654	158,744	1,408,588
Acquisition of HGU and ECA	45,440	-	1,271	2,460	49,171
Revaluation	-	-	-	8,058	8,058
Additions at cost	17,717	4,421	15,353	260	37,751
Transfers	1,832	(1,832)	-	-	-
Disposals	(1,180)	-	(637)	-	(1,817)
As at 31 July 2012	1,229,791	4,797	97,641	169,522	1,501,751
Depreciation as at 31 July 2011	30,258	-	59,537	-	89,795
Charge for the year	17,582	-	12,688	-	30,270
Disposals	(4)	-	(637)	-	(641)
As at 31 July 2012	47,836	-	71,588	-	119,424
Net book value					
As at 31 July 2012	1,181,955	4,797	26,053	169,522	1,382,327
As at 31 July 2011	1,135,724	2,208	22,117	158,744	1,318,793

There is a standard security over various properties belonging to the University which has been granted as part of a loan arrangement and further standard securities have been granted over certain properties in favour of the University of Edinburgh Staff Benefit Scheme as part of a pension funding guarantee arrangement.

The net book value of tangible fixed assets includes an amount of £2,408,931 (2011 - £2,438,788) of buildings fixtures and fittings held under finance leases. The depreciation charge on these assets for the year was £29,856 (2011 - £29,856).

Notes to the Financial Statements

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Net Book value historical cost equivalent

	Group		University	
	2012 £ 000's	2011 £ 000's	2012 £ 000's	2011 £ 000's
Land and Buildings	675,449	644,762	669,881	642,964
Equipment	28,235	25,211	26,053	22,117
	703,684	669,973	695,934	665,081

The group depreciation charge has been matched by:

	2012 £ 000's	2011 £ 000's
Deferred capital grant released (note 21)	13,456	10,606
Revaluation reserve transferred to general reserves (note 23)	6,700	7,303
Earnings in subsidiaries	1,299	1,321
General income	10,114	6,349
	31,569	25,579

14. INVESTMENTS WITHIN FIXED ASSETS

	Group		University	
	2012 £ 000's	2011 £ 000's	2012 £ 000's	2011 £ 000's
Movements in the year				
University General Reserve Fund				
Balance at 1 August	19,385	18,589	19,385	18,589
Disposals	(3,156)	(270)	(3,156)	(270)
Net (depreciation)/appreciation	(89)	1,066	(89)	1,066
Balance at 31 July	16,140	19,385	16,140	19,385
University General Fund				
Balance at 1 August	3,895	3,505	3,895	3,505
Net (depreciation)/appreciation	(77)	390	(77)	390
Balance at 31 July	3,818	3,895	3,818	3,895
Other Investments				
Balance at 1 August	281	81	754	514
Additions	95	200	-	-
Loans Advanced	300	-	395	240
Balance at 31 July	676	281	1,149	754
Total Investments within Fixed Assets	20,634	23,561	21,107	24,034
Represented by:				
Investment in subsidiary companies at cost	-	-	358	358
Loans to subsidiary companies	-	-	410	315
Fixed interest stocks	10,887	11,711	10,887	11,706
Equities	8,643	11,524	8,643	11,524
Bank deposits	401	45	401	45
Working capital	27	-	27	5
Other investments	676	281	381	81
Total investments within fixed assets	20,634	23,561	21,107	24,034
Investments at cost	20,499	20,586	20,932	21,141

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 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.

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.

Flowave TT Limited

The University owns 100 per cent of the issued share capital of Flowave TT Limited, consisting of 1 ordinary share of £1 each. The Company's principal activity is the development and subsequent operation of land based facilities for the testing of marine energy and other devices in simulated wave and tidal current conditions.

Old College Capital LLP

The University is the sole limited partner of Old College Capital LLP. The main purposes of the partnership include making early and mid stage investments into selected companies that emerge from the University.

Research into Results Limited

The University owns 100 percent of the issued share capital of Research into Results Limited. The company, registered in Scotland and limited by guarantees of £1 from each of two members, is consolidated in these financial statements.

SSTRIC Limited

The University Court is the sole member of SSTRIC Limited, a company limited by guarantee.

The University of Edinburgh Development Trust

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

The Andrew Grant Bequest

The Andrew Grant Bequest is a charity registered in Scotland, Registered Charity No SC001097. The trust is classed as a "quasi-subsiary" of the University under the guidelines of FRS5: Reporting the Substance of Transactions. The primary purpose of the charity is to manage the monies in the Andrew Grant bequest in accordance with the terms of the original benefactions from Andrew Grant.

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.

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 utility 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.

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 seed corn 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

continued

	Group and University	
	2012	2011
	£ 000's	£ 000's
15. ENDOWMENT ASSETS		
As at 1 August	236,512	200,348
New endowments investment (note 27)	8,263	11,135
Disposal of investments	(1,126)	(1,617)
Acquisition of ECA (note 36)	1,018	-
(Decrease)/increase in market value of investments (note 22)	(4,036)	22,833
Charges on investments	(394)	(368)
Decrease/increase in cash balances held by the University	(1,743)	4,360
Decrease in working capital	(164)	(179)
Decrease in cash balances held by fund manager	(1)	-
As at 31 July	238,329	236,512
Represented by :		
Fixed interest stocks	52,965	50,474
Property	-	9,705
Equities – other	159,924	166,056
Bank deposits held at fund managers	10,422	4,490
Cash Balances held by the University and Development Trust (note 30)	2,655	4,450
Bank deposits held by the University	9,273	-
Working capital	3,090	1,337
Total endowment assets	238,329	236,512
Endowment Assets – at cost	192,300	182,788

	Group		University	
	2012	2011	2012	2011
	£ 000's	£ 000's	£ 000's	£ 000's
16. DEBTORS				
Amounts falling due within one year				
Debtors	78,497	77,029	71,335	70,755
Amounts owing from subsidiary companies	-	-	3,069	5,445
Prepayments and accrued income	10,586	7,987	10,199	7,661
	89,083	85,016	84,603	83,861

Notes to the Financial Statements

continued

	Group		University	
	2012 £ 000's	2011 £ 000's	2012 £ 000's	2011 £ 000's
17. CREDITORS				
Amounts falling due within one year				
Unsecured loans (note 19)	1,302	1,141	1,302	1,141
Finance lease (note 19)	117	106	117	106
Creditors	28,938	32,098	30,701	28,601
Social security and other taxation payable	7,963	7,766	7,815	7,609
Accruals and deferred income	198,274	188,937	175,786	166,988
	236,594	230,048	215,721	204,445
18. CREDITORS				
Amounts falling due after more than one year				
Bank loans (note 19)	107,701	51,639	107,701	51,639
Obligations under finance leases (note 19)	1,657	1,774	1,657	1,774
Other creditors	612	612	512	512
	109,970	54,025	109,870	53,925

	Group and University	
	2012 £ 000's	2011 £ 000's
19. BORROWINGS		
Bank loans		
Bank loans are repayable as follows:		
In one year or less	1,302	1,141
Between two and five years	18,160	14,169
In five years or more	89,541	37,470
	109,003	52,780
Less: falling due within one year (note 17)	(1,302)	(1,141)
Total bank loans (note 18)	107,701	51,639

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:

- £10,000,000 at a fixed rate of 6.99% p.a., repayable in 2015;
- £30,000,000 at a fixed rate of 6.98% p.a., repayable in equal instalments between years 2026 and 2030; and
- £12,450,000 at an annual interest rate of 0.23% above Bank of England base rate, repayable between 2011 and 2025.
- £50,000,000 at a fixed rate of 4.10% repayable between 2015 and 2037
- £7,324,000 at fixed rate at 5.89% repayable between 2012 and 2036

	2012 £ 000's	2011 £ 000's
Finance leases		
Obligations under finance leases due as follows:		
In one year	117	106
Between two and five years	627	542
After five years	1,030	1,232
	1,774	1,880

Notes to the Financial Statements

continued

	Group and University	
	2012	2011
	£ 000's	£ 000's
20. PROVISIONS FOR LIABILITIES AND CHARGES		
Unfunded pensions		
As at 1 August	6,800	8,077
Assumed on merger with ECA	3,044	-
Utilised in year	(796)	(615)
Transfer from Income and Expenditure account	1,957	(662)
As at 31 July	11,005	6,800

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. It also has a liability 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	Other grants &	Research	Total
	Council	benefactions	Income	
	£ 000's	£ 000's	£ 000's	£ 000's
As at 1 August				
Buildings	165,861	156,663	-	322,524
Equipment	1,770	5,796	6,902	14,468
	167,631	162,459	6,902	336,992
Acquisition of ECA	4,700	-	-	4,700
Cash receivable				
Buildings	6,164	3,570	-	9,734
Equipment	354	2,486	8,561	11,401
	6,518	6,056	8,561	21,135
Released to Income and Expenditure Account				
Buildings	3,207	2,727	-	5,934
Equipment	785	3,056	3,681	7,522
	3,992	5,783	3,681	13,456
As at 31 July				
Buildings	173,518	157,506	-	331,024
Equipment	1,339	5,226	11,782	18,347
	174,857	162,732	11,782	349,371

Notes to the Financial Statements

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21. DEFERRED CAPITAL GRANTS (Continued)

University	Funding Council	Other grants & benefactions	Research Income	Total
	£ 000's	£ 000's	£ 000's	£ 000's
As at 1 August				
Buildings	165,861	155,355	-	321,216
Equipment	1,770	4,496	6,902	13,168
	167,631	159,851	6,902	334,384
Acquisition of ECA				
	4,700	-	-	4,700
Cash receivable				
Buildings	6,164	3,570	-	9,734
Equipment	354	2,486	8,561	11,401
	6,518	6,056	8,561	21,135
Released to Income and Expenditure Account				
Buildings	3,207	2,674	-	5,881
Equipment	785	2,483	3,681	6,949
	3,992	5,157	3,681	12,830
As at 31 July				
Buildings	173,518	156,251	-	329,769
Equipment	1,339	4,499	11,782	17,620
	174,857	160,750	11,782	347,389

Notes to the Financial Statements

continued

	Group and University		2012 Total £ 000's	2011 Total £ 000's
	Restricted Permanent £ 000's	Restricted Expendable £ 000's		
22. ENDOWMENT FUNDS				
Capital	68,749	138,049	206,798	175,183
Accumulated income	9,077	20,637	29,714	25,165
At 1 August Restated	77,826	158,686	236,512	200,348
Capital Recategorised	(2,538)	2,538	-	-
Accumulated income Recategorised	(4)	4	-	-
Capital Restated	66,211	140,587	206,798	175,183
Accumulated income Restated	9,073	20,641	29,714	25,165
At 1 August Restated	75,284	161,228	236,512	200,348
New endowments	5,119	656	5,775	12,695
Addition of ECA (note 35)	1,018	-	1,018	-
(Depreciation)/Appreciation of endowment investments	(1,245)	(2,791)	(4,036)	22,833
Investment charge on capital	(132)	(262)	(394)	(368)
Investment income for the year (note 6)	2,567	5,118	7,685	7,683
Expenditure for the year	(2,758)	(5,473)	(8,231)	(6,229)
Transferred to Deferred Capital Grants	-	-	-	(450)
As at 31 July	79,853	158,476	238,329	236,512
Represented by:				
Capital	71,130	138,079	209,209	206,798
Accumulated income	8,723	20,397	29,120	29,714
	79,853	158,476	238,329	236,512
Analysis of fund purpose:				
Chairs and lectureships			51,848	52,993
Prizes and scholarships			110,178	108,194
Other			76,303	75,325
			Group and University	
			2012 £ 000's	2011 £ 000's
23. REVALUATION RESERVE				
As at 1 August			717,272	569,621
Prior year adjustment			-	158,703
As at 1 August as restated			717,272	728,324
Revaluation of tangible assets during the year - Heritage Assets (note 34)			8,058	-
Diminution in investment during the year			(77)	390
Transfer to general reserve - depreciation on revalued assets (note 24)			(6,700)	(6,700)
Disposals in the year (note 24)			(3,670)	(603)
Impairment in the year			-	(4,139)
As at 31 July			714,883	717,272

Notes to the Financial Statements

continued

	Group 2012 £ 000's	Group 2011 £ 000's	University 2012 £ 000's	University 2011 £ 000's
24. MOVEMENT ON RESERVES				
GENERAL RESERVE INCLUDING PENSION LIABILITY				
At 1 August	250,164	189,046	245,147	183,783
Surplus attributable to the year	41,665	42,223	43,151	42,469
Depreciation on revalued assets (note 23)	6,700	6,700	6,700	6,700
Realisation of revaluation gains of previous years	3,670	603	3,670	603
Impairment on revalued assets	-	4,139	-	4,139
Pension actuarial (loss)/gain	(28,374)	7,453	(28,374)	7,453
Balance at 31 July	273,825	250,164	270,294	245,147

Represented by Income and Expenditure Account and Pension Reserve:

INCOME AND EXPENDITURE ACCOUNT				
At 1 August	318,338	265,879	313,321	260,616
Surplus attributable to the year	41,665	42,223	43,151	42,469
Transfer to pension reserve - ECA liability assumed	3,791	-	3,791	-
Transfer from pension reserve	(1,065)	(1,206)	(1,065)	(1,206)
Transfer from revaluation reserve	10,370	11,442	10,370	11,442
Balance at 31 July	373,099	318,338	369,568	313,321

	Group and University	
	2012 £ 000's	2011 £ 000's
PENSION RESERVE		
At 1 August	(68,174)	(76,833)
Transfer to pension reserve- ECA liability assumed	(3,791)	-
Current service cost	(10,634)	(9,605)
Employer contributions	12,260	12,347
Contributions in respect of unfunded benefits	69	56
Net finance cost to assets (note 10)	(630)	(1,592)
Transfer (from)/to Income and Expenditure Account	(2,726)	1,206
Actuarial (loss)/gain (note 31)	(28,374)	7,453
At 31 July	(99,274)	(68,174)

Notes to the Financial Statements

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	Group	
	2012 £000's	2011 £000's
25. RECONCILIATION OF CONSOLIDATED SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Surplus before tax and minority interest	41,180	43,681
Pension service cost in excess of contributions payable (note 31)	(1,695)	(2,798)
Depreciation (note 13)	31,569	25,579
Release of negative goodwill	(1,461)	-
Impairment of fixed assets (note 13)	-	4,139
(Increase)/diminution of fixed asset investment: General Reserve Fund (note 14)	89	(1,066)
Deferred capital grants released to income (note 21)	(13,456)	(10,710)
Loss on disposal of fixed assets	(206)	66
Donation of heritage assets	(260)	(41)
Bank, other loan & finance lease interest payable (note 10)	4,188	3,206
Net interest on pension scheme assets (note 10)	630	1,592
Decrease in stocks	(242)	(225)
(Increase)/decrease in debtors	(3,858)	657
Increase in accruals and deferred income	2,136	24,887
(Decrease)/increase in creditors	(2,963)	8,425
Increase/(decrease) in provisions (note 20)	1,161	(1,277)
Endowment income (note 22)	(7,685)	(7,683)
Other investment income (note 6)	(527)	(475)
Interest receivable (note 6)	(4,442)	(1,965)
NET CASH INFLOW FROM OPERATING ACTIVITIES	44,158	85,992
26. RETURN ON INVESTMENT AND SERVICING OF FINANCE		
Endowment funds dividends and interest received	7,798	7,862
Other investment income	527	475
Interest received	3,397	1,212
Interest paid	(3,851)	(2,953)
Finance lease interest paid	(250)	(257)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	7,621	6,339
	2012 £ 000's	2011 £ 000's
27. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchases of tangible assets	(38,142)	(64,032)
Proceeds from sale of fixed assets	4,891	5,736
Purchase of investments (note 14)	(395)	(200)
Proceeds from the sale of investments (note 14)	3,156	270
Deferred capital grants received - funding councils and research equipment	19,849	10,782
Deferred capital grants received - other capital benefactions	6,001	11,857
Purchase of endowment investment assets (note 15)	(8,263)	(11,135)
Disposal of endowment investment assets (note 15)	1,126	1,617
New endowments received (note 22)	5,775	12,695
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(6,002)	(32,410)

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	2012 £000's	2011 £000's
28. MANAGEMENT OF LIQUID RESOURCES		
Transfer to bank investments	(98,749)	(56,140)
NET CASH OUTFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES	(98,749)	(56,140)
29. FINANCING		
New Loan	50,000	-
Loan repayments	(1,275)	(1,122)
Capital repayment of finance lease obligations	(106)	(72)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING	48,619	(1,194)

30. ANALYSIS OF NET FUNDS

	As at 1 August 2011 £000's	Cashflows £000's	Other Changes £000's	As at 31 July 2012 £000's
Cash in hand and at bank	12,979	(553)	-	12,426
Endowment assets:				
Cash balance held by University and Development Trust (note 15)	4,450	(1,795)	-	2,655
Total cash in hand and at bank	17,429	(2,348)	-	15,081
Debt due within 1 year	(1,141)	1,141	(1,302)	(1,302)
Debt due after 1 year	(51,639)	(49,864)	(6,198)	(107,701)
Finance leases	(1,880)	106	-	(1,774)
Debt assumed on merger with ECA (note 36)	-	(7,500)	7,500	-
Current asset investments:				
Bank deposits	211,082	98,749	-	309,831
TOTAL FUNDS	173,851	40,284	-	214,135

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 2012 £000's	Year to 31 July 2011 £ 000's
USS – Contributions paid	43,771	40,799
EUSBS – Charge to Income and Expenditure Account	10,200	9,300
STSS – Contributions paid	619	178
LPF – Charge to Income and Expenditure Account	115	-
SPF – Charge to Income and Expenditure Account	213	305
MRC – Charge to Income and Expenditure Account	662	-
Other – Charge to Income and Expenditure Account	491	282
	56,071	50,864

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	Year to 31 July 2012 £ 000's	Year to 31 July 2011 £ 000's
Outstanding contributions to pension schemes at the Balance Sheet date were as follows:		
The Universities Superannuation Scheme	4,437	3,551
The University of Edinburgh Staff Benefits Scheme	970	997
The Medical Research Council Scheme	77	-
The Lothian Pension Fund	2	-
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	287	213
Payment to retired members in respect of the FSSU Supplementation scheme	23	16

Pensions salary sacrifice arrangement – pensions

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 trustee 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; 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.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level as at 31 March 2012 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 (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality.

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The financial assumptions were derived from market yields prevailing at the valuation date. An “inflation risk premium” adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England’s target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and 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 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

Male members’ mortality S1NA [“light”] YoB tables No age rating
 Female members’ mortality S1NA [“light”] YoB tables rated down 1 year

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 CMI 2009 projections with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme’s technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% 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 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% 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 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to make good the shortfall by 31 March 2021. The next formal triennial actuarial valuation will be at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

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 but the allowance for promotional salary increases was not as high. 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.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of Salaries.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

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New Entrants

Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal Pension Age

The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement

Flexible retirement options were introduced.

Member Contributions Increased

Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Cost Sharing

If the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension Increase Cap

For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

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 on a technical provisions basis as at the date of the last triennial actuarial valuation are set out below:

Assumption	Change in assumption	Impact on shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 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 trustees believe 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

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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 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.

At 31 March 2012, USS had over 145,000 active members and the institution had 5,125 active members participating in the scheme.

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, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. A full actuarial valuation is in the process of being carried out as at 31 March 2012 and the deficit estimated at £57.7 million. A valuation has been conducted at 31 July 2012, based on the Scheme membership as at 31 March 2012 and the details are 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 - £22.5 m). 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 August 2009. Since 31 March 2009 global investment markets have continued to fluctuate and at 31 March 2012 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 2012 does not introduce any material distortion in the results, provided that the actual experience of the Fund has been broadly in line with their assumptions.

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

	At 31 July 2012	At 31 July 2011	At 31 July 2010
Rate of increase in salaries	3.60%	4.50%	4.25%
Rate of increase in pensions in payment pre 31 December 2010 (see note below)	1.90%	2.70%	2.75%
Rate of increase in pensions earned post 31 December 2012 (see note below)	2.60%	3.50%	3.25%
Discount rate	4.00%	5.60%	5.60%
Inflation assumption - (RPI) (see note)	2.60%	3.50%	3.25%
Inflation assumption - (CPI) (see note)	1.80%	2.70%	2.75%

Note: The assumption in respect of the rate of increase in pensions and the inflation assumption at 31 July 2012 are based on CPI. Prior year 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 2012	At 31 July 2011
Retiring today		
Males	21.2	20.4
Females	23.5	23.0
Retiring in 20 years		
Males	22.5	22.3
Females	25.0	24.9

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 2012 £ million	Long term rate of return	Value at 31 July 2011 £ million	Long term rate of return	Value at 31 July 2010 £ million
Equities	8.00%	132.6	8.00%	130.2	8.00%	127.0
Fixed Interest Government Bonds	2.50%	47.9	3.60%	41.6	4.26%	62.3
Corporate Bonds	3.90%	16.9	5.30%	17.2	-	-
Property	7.00%	23.6	7.00%	22.9	7.00%	6.8
Private equity	7.00%	13.8	7.00%	10.9	7.00%	10.9
Other – mainly cash	1.60%	0.4	1.50%	1.3	0.50%	1.2
Total market value of assets		235.2		224.1		208.2
Present value of scheme liabilities		(324.0)		(289.9)		(282.2)
Deficit in the scheme		(88.8)		(65.8)		(74.0)

The expected cost of providing staff pensions to employees contributing to the EUSBS scheme is recognised in the Income and Expenditure Account on a systematic basis over the expected average remaining lives of members of the funds, in accordance with 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 was 20.3% of pensionable salaries.

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.

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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

The assumed life expectancy at age 60 of existing pensioners was 25.5 years for men and 27.5 years for women.

The results of the above valuation were rolled forward to calculate an updated liability of £21.97 billion at 31st March 2011. The main changes in assumptions used were as follows:

March 2011 Valuation

Gross rate of return	5.6%
Real rate of return	0.7%
Real rate of return in excess of earnings	2.9%

As the scheme is unfunded, no surplus or shortfall can be identified. On the advice of the actuary, it was agreed to increase the institution contribution rate by 1.4% to 14.9% of pensionable salaries as from 1st April 2009. Future pension contribution rates will be set by the schemes actuary at a level to meet the cost of pensions as they accrue.

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 2011 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 2011 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 2012 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 2012	At 31 July 2011	At 31 July 2010
Rate of increase of salaries	3.6%	4.5%	4.3%
Rate of increase in pensions in payment	1.8%	2.7%	2.8%
Discount rate	4.0%	5.6%	5.6%
Inflation assumption - RPI	2.6%	3.5%	3.2%
Inflation assumption - CPI	1.8%	2.7%	2.8%

Salary increases are assumed to be 3.0% p.a. until 31 July 2013 reverting to the long term rate shown thereafter.

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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 2012	At 31 July 2011
Current Pensioners		
Males	21.0	20.6
Females	23.4	23.9
Future Pensioners		
Males	23.3	22.6
Females	25.3	26.0

The contribution rate payable by the University is 21.3% of pensionable salaries. In addition, further contributions of £306,000 will be made for each of the years to March 2013 and March 2014.

The assets in the total fund at year end amounted to £11,312 million (2011 : £10,983 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 2012 £'000s	Long term rate of return	Value at 31 July 2011 £'000s	Long term rate of return	Value at 31 July 2010 £'000s
Equities	8.0%	15,020	7.0%	14,455	8.0%	13,264
Bonds	3.1%	2,675	4.7%	2,473	4.5%	2,476
Property	7.0%	1,646	5.1%	1,141	7.0%	1,238
Other – mainly cash	2.8%	1,235	4.0%	951	0.5%	707
Total market value of assets		20,576		19,020		17,685
Present value of scheme liabilities						
- Funded		(25,761)		(20,435)		(19,785)
- Unfunded		(713)		(772)		(737)
Deficit in the scheme - net pension liability		(5,898)		(2,187)		(2,837)

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.18% (2011 : 0.173%).

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.

Lothian Pension Fund (LPF)

As a result of the merger with the Edinburgh College of Art the University obtained membership of the Lothian Pension Fund (LPF) with effect from 1 August 2011. LPF 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 2011 by a qualified independent actuary. To update this to provide appropriate information in respect of the former Edinburgh College of Art staff members, the actuary has used the following valuation data:

- The membership data submitted for the valuation at 31 March 2011 and
- Other relevant information provided by Edinburgh 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 2012 does not introduce any material distortion in the results, provided that the actual experience of the Fund has been broadly in line with their assumptions.

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

	At 31 July 2012	At 31 July 2011
Pensioners Rate of increase of salaries	3.6%	5.0%
Rate of increase in pensions in payment (see Note)	2.2%	2.7%
Discount rate	4.0%	5.3%
Inflation assumption - RPI	2.6%	3.5%
Inflation assumption - CPI	1.8%	2.7%

Salary increases are assumed to be 1.0% p.a. until 31 July 2015 reverting to the long term rate shown thereafter. Note: The assumption in respect of the rate of increase in pensions and the inflation assumption 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 2012	At 31 July 2011
Current Pensioners		
Males	20.4	20.8
Females	22.8	24.1
Future Pensioners		
Males	22.6	22.3
Females	25.4	25.7

The contribution rate payable by the University is 17.3% of pensionable salaries. In addition a further contribution of £123,700 for the year to March 2013 will be made.

The assets in the total fund at year end amounted to £3,540 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 2012 £'000s	Long term rate of return	Value at 31 July 2011 £'000s
Equities	5.5%	14,246	7.0%	15,596
Bonds	2.9%	1,665	4.6%	1,777
Property	3.7%	2,035	5.1%	1,974
Other – mainly cash	2.8%	555	4.0%	395
Total market value of assets		18,501		19,742
Present value of scheme liabilities				
- Funded		(22,682)		(23,308)
- Unfunded		(218)		(225)
Deficit in the scheme - net pension liability		(4,399)		(3,791)

On the basis of the actuary's calculations, the asset share in respect of the University at that date was 0.52%.

The expected cost of providing staff pensions to employees contributing to the LPF 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.

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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 9 deferred members participating in this scheme.

Medical Research Council Pension Scheme (MRCPS)

As a result of the merger with Human Genetics Unit the University obtained membership of the Medical Research Council Pension Scheme (MRCPS) with effect from 1 October 2011. The MRC is a final salary pension scheme. Under the definitions set out in FRS17, the MRCPS is a multi employer 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:

The MRC operates a funded pension scheme (MRCPS) providing benefits based on service and final pensionable pay at the normal retirement age of 65. The scheme is a defined benefit scheme that prepares its own scheme statements. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of between 6.0% and 6.5% pensionable earnings to the Scheme. In addition to the principal section, the supplementary benefits section exists to provide additional benefits in the event of ill-health retirement or death-in-service. It is solely funded by members' contributions.

The required MRCPS contribution rate is assessed every three years in accordance with advice of the Government Actuary; the present MRCPS employers' contribution rate is 11 per cent. The latest actuarial assessment of the MRCPS was at 31 December 2010 at which the market value of the assets of the MRCPS was £884 million (2007 - £869 million). The actuarial value of the assets was sufficient to cover 110 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. Triennial valuations are conducted under the Pensions Act 2004 on a scheme specific funding basis. The scheme is 110% funded on an ongoing basis. The present MRCPS employers' contribution rate of 11% will rise to 13% in 2012/13.

The valuation below has been based on the data for the most recent actuarial valuations as at 31 December 2010 in order to assess the liabilities of the scheme at 31 March 2012. The mortality assumptions included within the figures are that male (female) members who retire at typical ages will live to approximately age 88 (90).

Financial assumptions used to calculate scheme liabilities 2011/12	At 31 July 2012
Rate of increase on pensionable salaries	3.6%
Rate of increase on pension payments	2.1%
Discount rate	4.6%
Inflation rate	2.0%

The contribution rate payable by the University increased on 1 April 2012 from 13% to 14.6% of pensionable salaries.

	Long term rate return	Value at 31 July 2012
		£
Equities and property	6.9%	787,429
Bonds and cash	3.1%	112,708
Total		900,137
Actuarial value of liability		(887,192)
Surplus in scheme		12,945

The last full valuation was carried out as at 31 December 2010.

The contribution rate payable by the University increased on 1 April 2012 from 13% to 14.6% of pensionable salaries. In addition, further contributions of £123,700 for 2012/2013 will be made.

Notes to the Financial Statements

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FRS17 Disclosures

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

	Year to 31 July 2012 £000's	Year to 31 July 2011 £000's
Analysis of the amount charged to staff costs (note 7) within operating surplus		
Current service cost	10,634	9,605
Past service cost	-	-
Total operating charge	10,634	9,605
Less contributions paid	(12,329)	(12,403)
Pensions costs less contributions payable (note 7)	(1,695)	(2,798)
Analysis of the amount debited to other finance cost		
Expected return on pension scheme assets	17,663	15,438
Interest on pension scheme liabilities	(18,293)	(17,030)
Net cost to pension scheme assets (note 10)	(630)	(1,592)
Analysis of the amount recognised in the statement of recognised gains and losses (STRGL)		
Difference between expected and actual return on scheme assets	(3,657)	2,714
Experience gains arising on scheme liabilities	20,683	539
Other changes in assumptions underlying the present value of the scheme liabilities	(45,400)	4,200
Actuarial (loss)/gain recognised in the STRGL	(28,374)	7,453
Movement in deficit during year		
	Year to 31 July 2012 £000's	Year to 31 July 2011 £000's
Deficit in schemes at 1 August	68,174	76,833
Movement in year:		
Acquisition of ECA	3,791	-
Employer service cost (net of employee contributions)	10,634	9,605
Employer contributions	(12,329)	(12,403)
Net interest/return on assets	630	1,592
Actuarial loss/(gain)	28,374	(7,453)
Deficit in schemes at 31 July	99,274	68,174

Notes to the Financial Statements

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FRS17 Disclosures (Continued)		
Asset and Liability Reconciliation		
	Year to 31 July 2012 £000's	Year to 31 July 2011 £000's
Reconciliation of Liabilities		
Liabilities at start of period	311,107	302,722
Acquisition of ECA	23,533	-
Service cost	10,634	9,605
Interest cost	18,293	17,030
Employee contributions	443	299
Actuarial loss/(gain)	24,717	(4,739)
Benefits paid – funded	(15,284)	(13,754)
Benefits paid – unfunded	(69)	(56)
Liabilities at end of period	373,374	311,107
Reconciliation of Assets		
Assets at start of period	242,933	225,889
Acquisition of ECA	19,742	-
Expected return on assets	17,663	15,438
Actuarial (loss)/gain	(3,657)	2,714
Employer contributions	12,329	12,403
Employee contributions	443	299
Benefits paid - funded	(15,284)	(13,754)
Benefits paid - unfunded	(69)	(56)
Assets at end of period	274,100	242,933

History of experience gains and losses	Year to 31 July 2012	Year to 31 July 2011	Year to 31 July 2010	Year to 31 July 2009	Year to 31 July 2008
Difference between the expected and actual return on assets:					
Amount £000's	(3,657)	2,714	18,579	(30,940)	(36,911)
Percentage of scheme assets	(1.43%)	1.12%	8.10%	(16.10%)	(18.00%)
Experience (losses) and gain on scheme liabilities:					
Amount £000's	19,221	539	(4,422)	10,530	(3,719)
Percentage of scheme liabilities	5.5%	0.2%	(1.40%)	3.5%	(1.30%)
Total amount recognised in STRGL:					
Amount £000's	(29,836)	7,453	34,234	(18,756)	(55,938)
Percentage of scheme liabilities	(8.50%)	2.4%	11.3%	(6.30%)	(19.30%)

Notes to the Financial Statements

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32. CAPITAL COMMITMENTS

	Group and University	
	2012	2011
	£000's	£000's
Commitments contracted for at 31 July	62,008	14,600

Of the above commitments, £36,578,000 (2011:£6,227,000) will be funded through grants and benefactions.

33. FINANCIAL COMMITMENTS

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

	2012	2011
	£ 000's	£ 000's
Land and Buildings		
Expiring within one year	4,543	146
Expiring within two to five years	2,308	825
Expiring in over five years	2,370	2,380
	9,221	3,351
Other		
Expiring within one year	52	35
Expiring within two to five years	493	447
Expiring in over five years	13	13
	558	495
Total Financial Commitments	9,779	3,846

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, sculptures, 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 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.

A. 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 contain 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

Notes to the Financial Statements

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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 Peplow, 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 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

Notes to the Financial Statements

For the year ended 31 July 2012

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.

School of Chemistry Museum

The School Museum has a collection of exhibits housed in the Joseph Black building. Items of note include Crum Brown's Model of NaCl, items used in the determination of the structure of DNA, photos of the first and oldest Chemistry Society in the world, press cuttings from the 1920s, testimonials and portraits of Joseph Black.

Heritage Collections of Edinburgh College of Art

The Heritage Collections of Edinburgh College of Art comprise archives, rare books and art collections. Over a 12 month transition period (post-merger with University of Edinburgh) the Archives Collection (300 linear metres) and Rare Book Collection (comprising 1,400 items) were transferred to the Centre for Research Collections, where finding aids continue to be developed and collections are made available for research and consultation. The Art Collections comprise a variety of subjects and genres. There are currently 12 individual collections including drawing, painting, artists books, casts, prints, sculpture, film and animation, textiles and small collections of ceramics and glass. The most significant is the Drawings & Paintings Collection which contains some 3,500 items, primarily retained student work. Management of the Art Collections, including access arrangements and collections development is under review and it is likely that a new structure will be in place by January 2013. The valuation of this collection is also currently under review.

B. UNIVERSITY POLICIES ON ACQUISITIONS, PRESERVATION, MANAGEMENT AND DISPOSAL

University of Edinburgh Museums & Galleries Collections Policies Document 2010-2015, Library Collections Policy etc are available on the website at <http://www.ed.ac.uk/schools-departments/information-services/services/library-museum-gallery/crc/collections/museumsupport>.

C. HERITAGE ASSETS CAPITALISED

Valuations: Over the 12 months of 2006, University Collections undertook a major project to value the University's formally curated collections, by a combination of methods. These were by external valuers (mainly specialist auction houses and dealers from Sotheby's Bernard Quaritch and Graham Wells), peer valuations and some in-house valuations. Annually since 2006, the overall valuation of items is reviewed and an uplift applied if required, commensurate with market activity, assessed internally by University Collections.

Notes to the Financial Statements

For the year ended 31 July 2012

Collection	Method Valuation	Valuation Undertaken by	Information on qualifications of valuers can be found at
Library Special Collections of Rare Books, Manuscripts and Archives	External	Bernard Quaritch Ltd	http://www.quaritch.com/
Edinburgh University Collection of Historic Musical Instruments (EUCHMI)	External	Sothebys	http://www.sothebys.com/
The Fine Art Collections	External	Sothebys and Paolozzi Foundation	http://www.sothebys.com/ Not available
Cockburn Museum of Geology	Internal	Dr John Scally	http://www.ed.ac.uk/schoolsdepartments/information-services/services/library-museum-gallery/museums-and-galleries
Natural History Collections	External	Dr Margaret Reilly, Hunterian Museum, Glasgow	http://www.gla.ac.uk/hunterian/
Museum Heritage Collection	Internal	Dr John Scally	http://www.ed.ac.uk/schoolsdepartments/information-services/services/library-museum-gallery/museums-and-galleries
School of Scottish Studies Collections	External	Scottish Sound Archive	http://ssa.nls.uk/
School of Chemistry	Internal	Dr John Scally	http://www.ed.ac.uk/schoolsdepartments/information-services/services/library-museum-gallery/museums-and-galleries

D. ADDITIONS AND DISPOSALS

For heritage assets received since 2006, as detailed in the accounting policy, Works of art and other valuable artefacts (heritage assets that are valued at over £25,000 are capitalised and recognised in the balance sheet provided appropriate valuations are available. Since 2006 the University has received a large number of donated assets in addition to heritage assets bought by the University's Centre for Research Collections. Donated assets are not valued unless they are of special interest as the cost of doing so is not commensurate with the benefits of users of the financial statements. Donated assets that are capitalised are reported in the profit and loss account at valuation.

Heritage Assets

	2008 £ 000's	2009 £ 000's	2010 £ 000's	2011 £ 000's	2012 £ 000's
Opening balance as at 1 Aug	147,455	148,131	149,352	158,703	158,744
Additions	-	221	-	41	260
Acquisition of ECA (note 36)	-	-	-	-	2,460
Revaluation (note 23)*	676	1,000	9,351	-	8,058
Closing Balance as at 31 July	148,131	149,352	158,703	158,744	169,522

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

Notes to the Financial Statements

For the year ended 31 July 2012

	2012 £ 000's		
36. BENEFITS ARISING FROM AQUISITIONS			
As at 1 August	-		
Negative goodwill* arising in the year	29,824		
Release of negative goodwill to income	(1,461)		
As at 31 July	28,363		
Fair Value Table	NBV	Fair value adjustment	Fair value on acquisition
	£ 000's	£ 000's	£ 000's
Fixed assets - land	2,161	2,457	4,618
Fixed assets - buildings	21,764	19,058	40,822
Fixed assets - equipment	3,901	(2,630)	1,271
Fixed assets - heritage assets	2,460	-	2,460
Endowment Assets	1,018	-	1,018
Stocks	165	(2)	163
Debtors	799	(29)	770
Cash	2,038	-	2,038
Current Liabilities	(3,282)	-	(3,282)
Long term Liabilities	(7,500)	-	(7,500)
Provision for Unfunded pension-Liability	(3,044)	-	(3,044)
Deferred capital Grant Building	(4,208)	-	(4,208)
Deferred capital Grant Equipment	(737)	244	(493)
Endowment fund	(1,018)	-	(1,018)
Pension Liability	(3,791)	-	(3,791)
	10,726	19,098	29,824

The fair value table includes the following adjustments:

- Revaluation arising on the adoption of the University policy on the accounting for of land and buildings.
- Reduction in the net book values of equipment on adoption of the University accounting policy for capitalisation and depreciation.
- Reduction in the balance of deferred grants related to the adoption of the University accounting policy for capitalisation and depreciation of equipment.

Of the negative goodwill arising on mergers £18.1 million related to the Edinburgh College of Art and £11.7 million related to the Medical Research Council and Human Genetic Unit Merger

*Goodwill arises on consolidation and is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition. Goodwill is amortised over its estimated economic life of 10 years on a straight-line basis. A full year of amortisation is taken in the year of acquisition. Where there is impairment in the carrying value of goodwill, the loss is incurred in the results for the period. Negative goodwill relating to non-monetary assets is released to the income and expenditure account as those assets are recovered through depreciation or sale. Negative goodwill relating to the monetary assets is released to the income and expenditure account in the period the monetary assets are realised.

Notes to the Financial Statements

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37. STUDENT SUPPORT FUNDS

	2012 HE Childcare	2012 HE Discretionary undergraduate	2012 HE Discretionary Postgraduate	2012 Total	2011 Total
	£000's	£000's	£000's	£000's	£000's
Balance b/fwd	28	22	22	72	102
Allocation received in year	332	872	240	1,444	1,324
Expenditure	(268)	(1,079)	(262)	(1,609)	(1,240)
Repaid as clawback	-	-	-	-	-
Institution contribution to funds	93	-	-	93	-
Virements	(185)	185	-	-	-
Balance carried forward	-	-	-	-	186
Repayable as clawback	-	-	-	-	114
Retained by institution for students	-	-	-	-	72

Five Year Financial Summary

For the year ended 31 July 2012

GROUP INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR TO 31 JULY	2012 £ 000's	2011 £ 000's	2010 £ 000's	2009 £ 000's	2008 £ 000's
Income					
Funding Council Grants	189,438	189,508	197,778	183,524	176,905
Academic Fees and Support Grants	150,298	131,060	109,940	91,932	82,343
Research Grants and Contracts	193,119	180,990	185,279	174,648	143,322
Other Operating Income	155,378	137,549	131,391	127,041	133,014
Endowment Income and Interest Receivable	12,654	10,123	9,591	14,388	19,735
Total Income	700,887	649,230	633,979	591,533	555,319
Expenditure					
Staff Costs	354,673	331,177	339,749	328,287	297,135
Other Operating Expenses	268,853	243,929	243,008	231,160	227,618
Depreciation	31,569	25,579	24,333	21,957	21,119
Interest Payable	4,818	4,798	6,745	6,232	4,012
Total Expenditure	659,913	605,483	613,835	587,636	549,884
Surplus on Continuing Operations	40,974	43,747	20,144	3,897	5,435
Tax and Minority Interest	(61)	(4)	(11)	4	(30)
(Loss)/Gains on Disposal of Assets	206	(66)	(997)	(77)	471
Acquisition Gain on Merger	-	-	-	-	-
Transfers from/(to) Endowment Reserves	546	(1,454)	(820)	142	(674)
Surplus Retained within General Reserves	41,665	42,223	18,316	3,966	5,202
GROUP BALANCE SHEET AS AT 31 JULY	2012 £million	2011 £million	2010 £million	2009 £million	2008 £million
Fixed Assets	1,379	1,347	1,298	1,204	1,177
Endowment Assets	238	237	200	165	185
Net Current Assets	179	86	38	40	53
Non-Current Liabilities and Provisions	(121)	(61)	(63)	(64)	(69)
Pension Liability	(99)	(68)	(77)	(106)	(84)
TOTAL NET ASSETS	1,576	1,541	1,396	1,239	1,262
Represented by funding:					
Deferred Capital Grants	349	337	278	254	241
Endowments	238	237	200	165	185
Total Reserves	989	967	918	820	836
TOTAL FUNDS	1,576	1,541	1,396	1,239	1,262
Staff numbers (expressed as full time equivalents) as at 31 July	7,871	7,255	7,341	7,364	7,368

Five Year Financial Summary

For the year ended 31 July 2012

GROUP INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR TO 31 JULY	2012	2011	2010	2009	2008
Income					
Funding Council Grants	27.03%	29.19%	31.20%	31.03%	31.86%
Academic Fees and Support Grants	21.44%	20.19%	17.34%	15.54%	14.83%
Research Grants and Contracts	27.55%	27.88%	29.22%	29.52%	25.81%
Other Operating Income	22.17%	21.18%	20.72%	21.48%	23.95%
Endowment income and Interest Receivable	1.81%	1.56%	1.51%	2.43%	3.55%
Total Income	100.00%	100.00%	100.00%	100.00%	100.00%
Expenditure					
Staff Costs	53.75%	54.71%	55.35%	55.87%	54.04%
Other Operating Expenses	40.74%	40.29%	39.59%	39.34%	41.39%
Depreciation	4.78%	4.21%	3.96%	3.74%	3.84%
Interest Payable	0.73%	0.79%	1.10%	1.06%	0.73%
Total Expenditure	100.00%	100.00%	100.00%	100.00%	100.00%
Performance Measures:					
ROCE (Net Surplus after Tax / Capital Employed (Total Assets - Current Liabilities))	2.28%	2.62%	1.46%	0.31%	0.43%
Operating Surplus as % Turnover	5.85%	6.74%	3.18%	0.66%	0.98%
Total Income per FTE	£89,047	£89,487	£86,361	£80,328	£75,369
% Increase/Decrease in Income per FTE	-0.49%	3.62%	7.51%	6.58%	8.41%
% Increase/Decrease in Research Grant Income - EU	15.64%	-3.28%	12.84%	15.50%	17.57%
% Increase/Decrease in Research Grant Income - Research Councils	12.18%	2.27%	9.43%	28.89%	33.77%
% Increase/Decrease in Research Grant Income - Overseas	0.47%	5.58%	0.48%	36.15%	9.85%
Liquidity Ratio ((Current Assets - Stock) / Current Liabilities) <i>Extent to which current liabilities can be met from cash and liquid investments</i>	1.74	1.34	1.16	1.17	1.29
Days Ratio of Cash to Total Expenditure (Investments + Cash at Bank - Overdraft) / (Total Expenditure - Depreciation)*365 <i>The number of days expenditure that could be sustained from available funds</i>	187	141	105	113	98
Gearing (Creditors > 1 year / Endowment + General Reserves incl Pension Reserve) <i>Measures the extent to which the University is funded by long term debt</i>	8.96%	4.49%	5.75%	6.74%	7.36%