HERIOT WATT UNIVERSITY

ANNUAL ACCOUNTS AND FINANCIAL STATEMENTS 2008

For the year ended 31 July

HERIOT-WATT UNIVERSITY

Report and Financial Statements

Year Ended 31st July 2008

Registered Number : RC 00216

Heriot-Watt University is a charity registered in Scotland number SC000278

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Strategic Positioning

Vision
Our vision captures our aspiration to influence the vision of society through education and research, as evidenced by the success of our alumni in the organisations in which they now play leading roles around the world. Our vision provides a simple statement that all of our staff can relate to:

> 'Heriot-Watt will create the next generation of leaders who will advance global business and technological know-how.'

Mission
The mission of the University is similar to that of other research-led universities and it captures the essence of what Heriot-Watt does, which is:

- To enable students and staff to fulfil their potential
- To enrich all the communities with which it engages
- To create and transfer knowledge

This core purpose is one of the key means by which Heriot-Watt fulfils the value for money obligations that are consequential with it being awarded significant grants for both teaching and research activities.

Strategic Objective
Heriot-Watt University is a research-led university operating in an environment where the focus on performance is becoming increasingly important. We wish to be recognised by our stakeholders as a high performance university and our strategy is therefore to align our performance with that of the other leading research-led universities in the UK.

Performance Objectives
Our strategic objectives are set out in Focus on the Future the University's strategy document. Focus on the Future is an ambitious and decisive strategy to set our direction to 2018 and to place Heriot-Watt University at the forefront of research and research-led education in the UK and internationally. Its intention is to set the agenda to reshape the University and, in so doing, grow our academic base by 50% in ten years. It was first published in January 2008, before being formally launched in November 2008 and has formed the cornerstone on which all the strategy development undertaken by the University this year has been built.

Heriot-Watt University has a special place in Edinburgh and Scottish education. We are currently a leading institution in science, technology and business and excel as Scotland's most international university. Furthermore, the University provides more graduates per year across the physical sciences, mathematics, engineering and in the built environment than any other Scottish university. And, in the areas of life sciences, business, languages and design, we make further major contributions to the successful progression of highly qualified individuals. Our vision for the next decade is to become a world-leading university - a university which will produce the next generation of global leaders in business and technology. In order to deliver this ambition, we are committed to growth and investment, both in staff and infrastructure. In preparation for this strategic expansion we have, over the last year, conducted a root and branch review of all our activities, both academic and professional support. We have recognised our strengths and focused our vision to maximise the contribution we can make to society over the coming decade

Resources

The University has a combination of tangible and intangible resources that it can deploy in pursuit of its strategic objectives. Tangible resources include:

Locations

- Riccarton Campus;
- Galashiels Campus;
- Dubai Campus;
- Orkney Campus

Research Facilities

- Own specialist laboratories and research equipment
- Access to shared resources through collaborations with other universities
- Access to resources held by industrial partners

Our Court recently approved a new Estate Strategy that will transform the Riccarton Campus in Edinburgh through investment in new residential accommodation for students, new and upgraded learning and teaching spaces, improved research facilities and new staff office accommodation that will improve the service to students. Strong recruitment to our Dubai campus means that we are now reviewing plans for a larger facility with our infrastructure provider. Our campus in Galashiels is the focus of a major multi-sponsor £31.4 million investment project to create an innovative shared campus for HE and FE provision and is scheduled for completion in spring 2009.

Financial

At the year-end the University has net assets of £60 million

Further details are set out in the balance sheet on pages 18 to 19.

The group's £40 million revolving credit facility, agreed in 2007, has provided the group with the stability of having secure funding sources in place despite an increasingly uncertain external financial environment. As at the year-end drawings totalling £28 million had been made against this facility and of these £20 million were protected from financial market volatility by long term interest rate swaps.

People

The University employs 1,588 people (expressed as full time equivalents), of whom 435 are academics. The number of academics rose 11.5% in the year to July 2008 and the ratio of academic to total staff is now 27.4%.

The final stage of the Framework Agreement provided for a pay award of the higher of 2.5% and the RPI in September 2008. With RPI having peaked in September 2008 at 5% staff have been provided with a very significant benefit.

The first phase of our investment in new posts saw the start of a drive to recruit 25 new academic staff in November. This is the largest single recruitment event the University has ever attempted and will provide new posts in our strategic theme areas of Energy, Environment & Climate Change, Life – Physical Science Interface, Risk & Modelling and Transport & Infrastructure.

In September we introduced a voluntary severance scheme to reduce staffing in non strategic areas and the savings from this will contribute to the pool of investment in new staff.

Reputation

Heriot-Watt's reputation for academic achievement is a core intangible asset on which our strategic ambition rests. We are consistently in the top 20 universities in the UK in terms of grants awarded by the Engineering and Physical Sciences Research Council (EPSRC). The Research Assessment Exercise 2008 results will be announced on 17th December and we await the results with confidence.

Risk and Uncertainty

The University has a risk management strategy group that captures and monitors the main risks facing the University as it seeks to achieve its strategic plan. This is supported by a comprehensive risk management training programme to raise awareness of risk and to introduce a consistent way to assess, monitor and manage risk throughout the Schools, institutes and support service departments. The top ten risks identified by the group will probably feature in many university risk registers but articulation of the risks and agreement on their ranking for Heriot-Watt is critical to achieving shared understanding by the Planning & Management Executive and Court of the particular risks that the group is managing. There is strong representation by Court members at risk review meetings.

Throughout, the main focus of the University's management team and Court members is on the delivery of the agreed strategy, Focus on the Future.

Stakeholder Relationships

A University is a complex organisation with many stakeholders. There is not a single rank order of importance as priorities change depending on the particular context of issue management. However, it is possible to identify a sub-set of the stakeholder group that is consistently at the forefront of management focus.

These are:

- Students
- Research Councils & other funding bodies
- Scottish Funding Council
- Staff
- Alumni
- Court
- The community with which we engage
- Industry & commerce
- The society in which our graduates will play a leading role
- Bankers

We have identified the stakeholder groups that will need to be satisfied if we are to achieve our strategic plan objectives and the critical success factors that underpin each of their relationships.

Satisfying our stakeholders will require us to achieve our strategic aim of demonstrating performance consistent with that of the 1994 Group of universities. In order to understand our current position, we have undertaken a performance review of all teaching and research activities at the level of the individual courses and research groups, determining the financial performance and academic profile of each, making comparisons with similar activities within the University and also against benchmark institutions (predominately in the 1994 Group) as well as assessing trends. The academic profile has been measured using quantitative metrics that are widely used in the sector.

For undergraduate teaching, those metrics include: student entry qualifications, their progression rates, exit qualifications, employment statistics and measures of student satisfaction.

For research and knowledge transfer in many of our disciplines, appropriate metrics are input measures (peer-reviewed grants and contracts), training (numbers of PhD students) and outputs (mostly measured by bibliometry – numbers of papers published and citations). The University's Research Assessment Exercise outcome, due imminently, will provide further data.

Current Development, Performance and Operation of University Business
The University continues to make steady progress in implementing its strategy, Focus on the Future.

The implementation of the strategy requires a sustained increase in the surplus being generated to provide the necessary funds for future investments, in both major capital projects and the new academic staff, which are critical to achieving success. The plan submitted to the Scottish Funding Council in June 2008 is based upon the University achieving this sustained improvement in its financial performance. This outcome is predicated on reducing the cost base while increasing revenue from academic activities.

During the last year rising costs, particularly in energy and staff costs placed considerable pressure on the University's operating surplus. The 5% pay award this autumn will add circa £3 million to our pay bill and the energy increases a further £1 million in costs. This has been partly offset by fee income from student recruitment exceeding our expectations.

The strategic review will continue to identify ways to further improve the University's financial strength to deliver financial sustainability. We are actively reviewing several of our larger business processes with the intention of improving their efficiency and effectiveness and thereby releasing cash efficiencies. This coupled with our performance review plans to reduce costs in under-performing and non strategic areas of operation should ensure that the strategy will be delivered.

OPERATING AND FINANCIAL REVIEW

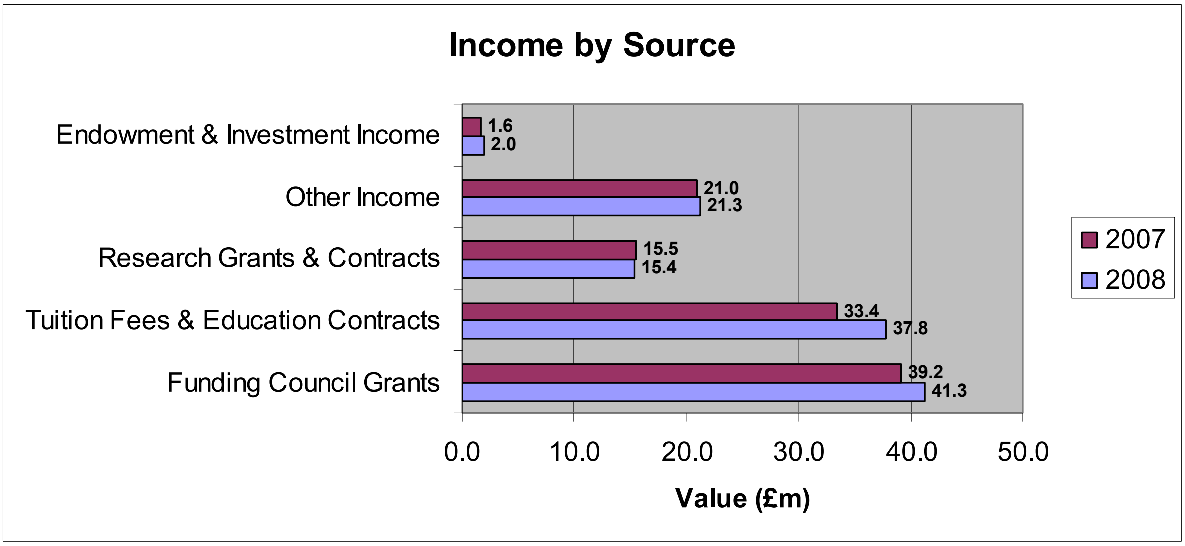
Scope of the financial statements
The financial statements which have been approved by the Court for the year-ended 31st July 2008 consolidate the transactions of the University and its subsidiary undertakings.

Results for the year
The group reported a surplus of £1.4 million for the year, which represents a decrease of £0.4 million compared to the prior year and the underlying surplus, excluding the annual pension adjustment, is in line with budget.

The table below summarises the consolidated income and expenditure reported for the last five financial years.

	2008	Re-stated 2007	2006	2005	2004
	£m	£m	£m	£m	£m
Income	117.8	110.7	99.5	94.6	90.9
Year on year change	*+6.4%*	*+11.3%*	*+5.2%*	*+4.1%*	*+4.1%*
Expenditure	(116.4)	(108.9)	(98.4)	(93.0)	(89.6)
Year on year change	*+6.9%*	*+10.7%*	*+5.8%*	*+3.8%*	*+3.6%*
Net surplus for the year	1.4	1.8	1.1	1.6	1.3
Underlying surplus excluding pension adjustment	0.6	1.0	1.2	1.7	1.3

In 2007-08 the University achieved income growth of 11.3% with total income increasing to £117.8 million. Positive income growth was recorded in all income categories except research grants and contracts, but with particularly strong growth from tuition fees and education contracts, as set out in the table below.



The University's sources of funding are widely diversified, as shown in the table above, and Heriot-Watt uses the public funds made available from the Scottish Funding Council (SFC) efficiently, with its total income being almost three times greater than its core base funding. In 2007-08 the recurrent grants received from the SFC for teaching and research increased by 1.0% (2007: 5.1%) and 14.2% (2007: 20.0%) respectively.

The strong performance of tuition fees and education contracts achieved was due to income growth across all categories of students, which reflected both higher student numbers and higher fee levels.

	2008	*Change*	2007
	£m	*%*	£m
UK and European Union students	10.5	*+11.5%*	9.4
Non-European Union students	14.8	*+10.7%*	13.3

Although no growth was achieved in research grants and contracts during the year considerable effort is being expended on developing new research proposals and this is having a positive impact in the number and value of the awards being made to the University. During the year the University was awarded £22 million in new awards, exceeding its target for the year by 29%.

The university conducted a detailed performance review of all of its academic activities in 2007 and this identified both research groups and taught courses where the academic and financial performance were below acceptable levels. The academic teams have been assessing each of these areas to develop plans to recover performance to adequate levels or to prepare to withdraw from those areas that are unlikely to improve. The second annual performance review commenced in September 2008. In spring / summer 2008 a quality review was conducted for the professional services areas as the start of an exercise to streamline service delivery (including assessment of quality, relevance and cost) and to reduce costs by 10% over a three year period.

Focus on the Future defined five interdisciplinary academic strategic themes: energy; environment and climate change; life-physical sciences interface; infrastructure and transport; and risk and modelling. In each theme, a team of academics from across the University identified a series of investment opportunities offering potential growth in income and enhancement of quality and reputation. Careful planning in the 2008-09 budget created a £1 million fund for investment in these opportunities with a major recruitment drive launched in November. 'Theme teams' were also established to prioritise opportunities in the professional services areas and £0.4 million has been budgeted to fund their investment recommendations. Proposals for thematic investment in cross-cutting learning and teaching activities will shortly be considered. Our underpinning academic disciplines are strategically supported via research pooling. Investments in all themes this year will be sustained through further investment each year, as set-out in the five-year plan.

The Edinburgh Business School again produced results better than budget in 2007-08. Shortly after the year end the directors made an offer to acquire Panmure House from Edinburgh City Council. Completion of this purchase is currently subject to contract.

The Edinburgh Conference Centre performance was flat over the year. The company has conducted a market survey and is now developing plans to improve its competitive position.

Although income increased during the year, this was largely offset by increases in both staff costs and other operating costs. Finance costs increased slightly during the year as the cost of borrowing increased due to the Credit Crunch.

	2008	*Change*	2007
	£m	*%*	£m
Income	117.8	*+6.4%*	110.7
Staff Costs	66.3	*+6.9%*	62.0
Other Operating Expenses	43.0	*+8.4%*	39.6
Depreciation	5.2	*-5.8%*	5.5
Interest Payable	1.9	*+21.5%*	1.6

Cash flow management

The group's focus on cash flow has continued to ensure that cash is available as necessary for educational activities for implementation of the strategic plan.

Net debt increased by £2.6 million during the year, to £16.3 million, which can be attributed to the increased rate of capital investment, with fixed asset additions increasing year on year by £6.4 million, to £14.3 million.

The focus on cash flow permitted the majority of this capital investment to be funded from improved operating cash flows.

Further detail as to the individual cash items comprising the group's cash flow statement can be found in notes 26 to 29 of the notes to the accounts on pages 38 and 39.

The net debt position for the group, excluding the Edinburgh Business School's cash balances, which are legally separate from those of the University, is £24.7 million.

In October 2007 the group entered into a new interest rate swap contract, which increased the amount of the University's bank loans protected by long term fixed rates from £15 million to £20 million and extended the maturities from 2014 to 2037.

Unless special terms are agreed, it is group policy to pay invoices at the end of the month following the month in which the invoice is dated. At 31st July 2008 there were 30 days (2007 - 21 days) of purchases in trade creditors. No interest was payable under the terms of the Late Payment of Commercial Debts (Interest) Act 1998.

Capital projects
During the year the group, as stated above, increased its gross capital investment to £14.3 million, which was an increase of £6.4 million. This was in the context of a decline in receipts from deferred capital grants of more than 10%, to only £5.8 million, meaning that net capital investment rose strongly from £1.3 million in 2006-07 to £8.5 million in 2007-08.

The principal focus of spend on capital investment during the year was on:-

- completing the construction of the Postgraduate Centre (scheduled to open in January 2009)
- the refurbishment of lecture theatres on the Edinburgh campus
- completing the Co-location project in Galashiels with Borders College (scheduled to complete in March 2009)
- the development of a new Student Administration system.

Further significant capital spend was also incurred to enhance existing research capabilities, funded by grants from the SRIF (Scientific Research Investment Fund) scheme.

Fundraising
This year the fundraising programme has contributed £1.8 million towards the capital investment in the University's new Postgraduate Centre and fundraising continues to support scholarships and other capital and academic initiatives.

Student Numbers
The University's student numbers, expressed as both total headcount and as full-time equivalents, for the current and the previous year were:

		Headcount		Full time equivalents	
On Campus (Scotland)		2008	2007	2008	2007
Home/EU	Undergraduate	4,956	4,922	4,949	4,798
	Postgraduate	857	780	754	698
International	Undergraduate	385	382	382	378
	Postgraduate	776	712	759	699
Total		6,974	6,796	6,844	6,573

		Headcount		Full time equivalents	
Transnational Programmes & Dubai Campus		2008	2007	2008	2007
	Undergraduate	3,039	2,115	1,430	1,092
	Postgraduate	9,190	8,739	1,740	2,066
Total		12,229	10,854	3,170	3,158

The above tables highlight the success the University has had in attracting international students, both to its Scottish campuses and its transnational degree programmes, with international and transnational students representing 43% (by full time equivalents) of the total student population.

Year end position of the University

During the year the University's net current liabilities increased by £8 million.

This increase is attributable to a number of changes in both the trading element of the group's working capital and movements in short term cash and debts balances.

The main changes in the trading element of working capital being:-

- Trade debtors increased by £2.1 million and the University is progressively introducing new credit control procedures to ensure that agreed credit terms are met, particularly in the current economic environment.
- Trade creditors increased by £2 million, which was driven by the introduction of new procurement processes, such as purchase card and PECOS, which has been successful in ensuing that suppliers are consistently paid in accordance with the terms agreed.
- Deferred income increased by £0.6 million due to the successful introduction of the University's new advance deposit policy for overseas post graduate students.

The main changes in short term cash and debts balances being:-

- Bank loans increased by £3 million, which reflects the higher rate of capital investment during the year.
- Grants in advance from SFC increased by £4.1 million, reflecting grants received for tangible fixed assets in the course of construction or purchase.

The SFC assessment of Financial Health based on Heriot-Watt's most recently submitted plan was SECURE in each of the three years.

The group has implemented Statement of Recommended Practice (HE SORP 2007): Accounting for Further and Higher Education 2007, for which full implementation is required for accounting periods ending on or after 31st July 2008. This has resulted in the adoption of new accounting policies for the year-ended 31st July 2008 and the re-statement of the results for the comparative year, the year-ended 31st July 2007.

In particular, the adoption by the group of component accounting for its tangible fixed assets has had a material impact, with the brought forward balances for tangible fixed assets and deferred capital grants being reduced by £10 million and £5.1 million respectively and a reduction in the general reserve of £4.9 million.

Main trends and factors influencing future performance

The main trends and factors which are likely to affect the university's future development, performance and position, in addition to the specific conclusions of our strategic review, include:

Academic Profile

- The results of the 2008 Research Assessment Exercise

External Factors

- Exceptional uncertainty in the economic climate
- Government regulation (price and volume controls),

- Uncertainty over the Scottish Government's plans to fund Higher Education
- The impact of the credit crunch on USS and LGPS pension scheme funding.
- Exchange rates (the perception of Heriot-Watt's sterling denominated fees in other countries)
- Uncertainty over the trends in fuel and energy prices

Corporate Activity to improve financial sustainability

- Implementation of the new Strategic Plan
- Implementation of a voluntary severance scheme
- Continued development of a consistent set of KPIs in line with the Strategic Plan
- Ability to better align debtor and creditor cash cycles to ensure cash to fund future expansion
- Completion of our new Postgraduate Centre
- Completion of the Scottish Borders Campus project with Borders College at Galashiels
- Implementation of our Estate strategy
- Continuing to implement process reviews to identify opportunities to improve our effectiveness and efficiency
- Delivering the efficiency and effectiveness improvements identified by the performance review via the implementation of agreed recovery plans
- Continued focus on strong governance

Employees

The implementation of the National Framework agreement continued during the year. The final pay increase of 5%, reflecting RPI at September 2008, was paid to staff with effect from the 1st October 2008.

The improvement and modernisation of terms and conditions is a welcome benefit and we now have a more appropriate pay and conditions framework to encourage development of each individual as well as the university. The University is now rolling out a programme to introduce a Performance Development Review process to all staff.

Staff have been kept up-to-date during the year with strategy development, implementation and financial and academic performance through a variety of communication channels.

Student Representation

The University has had a long and successful track record of involving its students in decision-making which influences the University's key areas of performance. Students are represented on the Court, several Committees of Court and on each of the main Boards established by the University's Planning and Management Executive, where their input is sought on matters affecting development of the University strategy. In 2007-08 a new Student Experience Working Group (SEWG) was established. The SEWG, which also includes student representation, has a broad remit, encompassing many aspects of the student experience at Heriot-Watt.

The National Student Survey (NSS) is of growing national importance as a key indicator of students' satisfaction with their higher education learning experience. Heriot-Watt participated in the NSS for the second time in 2008 and, in accord with the sector, as a whole saw some overall incremental improvement in the results over the previous year. The University, in partnership with its student body, co-ordinated by the Students' Association, has established an annual process of dissemination and review of NSS results and development of action plans by the Schools to address the issues emerging from the Survey results. Developments aimed at achieving continual progress in enhancing the student learning experience are being led by the Learning and Teaching Board.

Donations

No donations in excess of £200 were made during 2007-08 to UK political organisations.

One charitable donation, for £5,000, was made to a charitable organisation to fund the purchase a statute of James Clerk Maxwell.

Insurance

The group has insurance policies in place for its officers and for potential claims against them in connection with their role in managing the organisation.

Pensions

The group's employees are members of one of four pension schemes, the Universities Superannuation Scheme (USS), the Lothian Pension Fund (LPF) and the Scottish Teachers Superannuation Scheme (STSS) and the Supplementary Pension Scheme (SPS). Of these the first three are still active, with members still employed by the group.

Further disclosures relating to each scheme are set out in note 31 on pages 40 to 48. All four schemes provide benefits to members based on final pensionable pay. For both the Lothian Pension Fund and the Supplementary Pension Scheme the underlying assets and liabilities of the University's share of the fund are identifiable and the disclosures required by Financial Reporting Standard 17 'Retirement Benefits' have been fully adopted.

During the year the group paid total employer contributions of £8.0 million, details of which are shown in the table below.

	2008	*Change*	2007
	£000	%	£000
Employer Contributions			
Universities Superannuation Scheme	5,683	*+25.1%*	4,542
Lothian Pension Fund	2,176	*+14.0%*	1,908
Scottish Teachers Superannuation Scheme	111	*+8.8%*	102
Total	7,970	*+21.6%*	6,552

In the year the employer contributions for all three active schemes increased by more than the rate of inflation, driven by a number of factors:

- Above average pay increases as a consequence of implementing the National Framework agreement
- The implementation of Pension+Plus for USS members on 1st April 2008
- The 1% increase in the LPF's employer contribution rate, to 21.9%, on 1st April 2008

Both USS and LPF are currently preparing their latest triennial valuation reports, the reference date for which is 31st March 2008. These reports will be published on the 4th December and the 12th December respectively.

Early indications from both schemes to their participating employers are that employer contribution rates are expected to be increased. USS has already indicated that a range of 2-4% is very probable; no firm indication has been received from LPF.

Minority investments

The group has had, for a number of years, a policy for the commercialisation of its research base, in some cases through the creation of 'spin-out' companies, in which it retains a minority investment. As at 31 July 2008 there were twelve investments (2007 - eleven) in a range of different companies. The market value of these investments is not reflected in the group's financial statements.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of existing employees becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the recruitment, training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Prof. Anton Muscatelli
Principal & Chief Accounting Officer

Lord George Penrose
Chairman of Court

CORPORATE GOVERNANCE STATEMENT

Introduction

The University is committed to exhibiting best practice in all aspects of corporate governance and this statement describes the principal governance provisions which presently apply. The Court of the University keeps these provisions under review to take account of best practice from time to time including the principles set out in the Guide for Members of Higher Education Governing Bodies in the UK prepared by the Committee of University Chairmen (CUC). This incorporates internal control guidance for directors on the Combined Code as amended by the British Universities Finance Directors Group.

In the opinion of the Court, the University complied with the Governance Code of Practice and General Principles and the provisions of the Code provided by the CUC throughout the year ended 31 July 2008. The Court also regularly reviews its governance provisions in line with both recommendations made by SFC and any changes made in the CUC Code.

Governing Body

The Court, which has twenty five members including the Chairman, who is always one of the lay members, is the ultimate decision taking body. Fifteen of the Court members are directly elected, six are co-opted and four are ex officio. The Court has responsibility for the University's strategic direction, reputation, financial well-being, the well-being of staff and students and, in association with the Senate, establishing and maintaining high standards of academic conduct and probity.

To discharge these responsibilities:

- The Court met five times during the year. The principal business of the Court is the consideration and approval of strategic plans and annual budgets, the monitoring of staffing, student, estates and finance issues, the setting and review of appropriate performance measures and ensuring that there is a clear definition of delegated powers and lines of accountability. At each meeting the Court receives a management report from the Principal as well as reports from its Committees. The University's senior management attend Court meetings along with Deans and Deputy Principals to ensure optimum communication within the University.
- The terms of reference of all of the Court Committees are agreed by the Court
- The Court has a Remuneration Committee made up of lay members. The Principal and Secretary are in attendance if required but are not present when their personal remuneration is considered. There is also a Nominating & Review Committee of Court made up of lay members, Principal and Vice-Principal, with the lay members being in the majority. The Remuneration and Nominating Committees meet at least once per year under the convenorship of the Chairman of Court.
- The Court has an Audit Committee made up of lay members that met five times during the year, four of these with the External and Internal Auditors and one joint meeting with the Finance Committee. It receives and considers reports and recommendations for the improvement of internal controls along with management responses. It also reviews the University's annual financial statements.
- The Court also has Finance, Estate Strategy and Staffing Strategy Committees each of which has a different lay member of Court as convenor.
- There is an Emergency Committee consisting of the Chairman of Court, the convenor of the Finance Committee, a member of Court, the Principal and Vice Principal ex officio, and two of the University's elected members of staff on Court. The Committee deals with emergency business which may arise between Court meetings.
- Where the University has commercial interests, the Court, through the University's management, appoints directors to the boards of companies appropriate to the nature and size of the University's shareholding.
- The University has taken necessary steps to ensure compliance with FRS8 on Related Party transactions and any interests which require to be disclosed to members of Court are recorded in the Court minutes. The Register of Interest for members of Court is maintained and updated annually.
- The Secretary of the University is the Clerk to the Court.

Corporate Strategy

The University's strategy is documented in a plan which is reviewed and updated on an annual basis. The University's new strategic plan, Focus on the Future, was approved by Court in June 2008 and submitted to the SFC and was launched to the public in November 2008.

Statement of responsibilities of the University Court

The Court is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University, and enable it to ensure that the financial statements are prepared in accordance with the University's Charter, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education, Accounts Directions from SFC 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, the 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.

The University acknowledges that the Court assumed new responsibilities in April 2006 when the Office of the Scottish Charity Regulator (OSCR) assumed its new statutory responsibilities and powers as a statutory non Ministerial Department. The University believes that the delivery of its mission by its charitable activities provides continuing public benefit. It aims to comply with OSCR's regulatory requirements as they are developed, including the requirement to maintain independent control by its trustees.

In causing the Accounts to be prepared the Court has ensured that:

- they are prepared on the going concern basis in that the Court is satisfied that the University has adequate resources to continue in operation for the foreseeable future.
- suitable accounting policies are selected and applied consistently.
- judgements and estimates are made that are reasonable and prudent.
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the Accounts.

The Court has taken reasonable steps to:

- ensure that funds from SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and any other conditions which the Funding Council may from time to time prescribe. Under the terms of the Financial Memorandum the designated officer, who is required to ensure such compliance, is the Principal and Vice-Chancellor.
- ensure that there are appropriate financial and other internal controls in place to safeguard public funds and funds from other sources. This system of internal control is continuously reviewed and developed in line with current best practice.
- safeguard the assets of the University and prevent and detect fraud.
- secure the economical, efficient and effective management of the University's resources and expenditure.
- ensure that the University management has an adequate system of internal control, and regularly monitors and reviews 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 misstatement or loss.
- maintain a safe and secure environment for the staff and students.

Risk Management and Internal Controls
The University's system of internal financial control includes the following:

- definition of the responsibilities of, and the authority delegated to, heads of academic and administrative operating groups.

- A comprehensive planning process for each operating group, together with detailed annual income, expenditure, capital and cash flow budgets, overseen by the Deputy Principal (Strategy & Resources) together with the Director of Finance and the Director of Planning.

- Monthly reviews of financial results involving variance reporting and updates of forecast outturns and regular reviews of academic performance

- Clearly defined requirements for approval of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Court.

- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Court.

- An Internal Audit function, contracted out to Scott Moncrieff, whose annual programme is approved by the Audit Committee and who reports to the Audit Committee. Considerable effort is made by management to ensure that, where possible, all recommendations from internal audit reports are implemented to agreed time plans.

- During the year management identified several areas with potentially significant weaknesses and prioritised the available internal audit resource to investigate them. From these investigations four recommendations were made in the highest category on matters relating to workforce management arrangements.

- Recommendations from the external auditors are also implemented to the agreed time plans with priority allocated in accordance with the ranking set out in the audit reports.

- The strategic risk management group, comprising senior members of the management team, with lay members of Court in attendance, which identifies, evaluates and manages the University's significant risks.

- The Audit Committee on behalf of Court which, with the assistance of both external and internal audit, considers the wider aspects of internal control within the University. It also, with the assistance of internal audit, considers the issue of value for money within the University.

Over the last three years the University has successfully used its approach to risk management to focus it's available audit resource to the best effect. This has generated a significant number of positive recommendations and good progress is being made in implementing these across the group, as shown in the table below.

Year	No. of external audit recommendations	Completed	No. of internal audit recommendations	Completed
2005-06	17	100%	68	75%
2006-07	15	100%	108	51%
2007-08	17	59%	110	30%

Going Concern
The Court is satisfied that the University continues to operate as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF HERIOT-WATT

c

We have audited the group and parent University financial statements of Heriot-Watt University for the year ended 31st July 2008 which comprise the group Income and Expenditure Account, the group and parent University Balance Sheets, the group Cash Flow Statement, the group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the University Court and Auditors

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

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

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

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

Basis of audit opinion

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNIVERSITY COURT OF HERIOT-WATT

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and parent University as at 31st July 2008 and of the group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31st July 2008 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31st July 2008 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

15 DECEMBER 2008

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st JULY 2008

	Note	2008 £000	Re-stated 2007 £000
Income			
Funding body grants	2	41,258	39,219
Tuition fees and education contracts	3	37,818	33,378
Research grants and contracts	4	15,423	15,493
Other income	5	21,271	20,984
Endowment and investment income	6	2,050	1,634
Total Income		117,820	110,708
Expenditure			
Staff costs	7	66,320	62,020
Other operating expenses	8	42,930	39,580
Depreciation	10	5,164	5,484
Interest and other finance costs	9	1,886	1,552
Total Expenditure		116,300	108,636
Surplus on continuing operations after depreciation of tangible assets and before taxation		1,520	2,072
Profit / (loss) on disposal of assets		-	(3)
Surplus on continuing operations after depreciation and disposal of assets but before taxation		1,520	2,069
Taxation		-	-
Surplus on continuing operations after depreciation and disposal of assets and taxation		1,520	2,069
Surplus for the year transferred to accumulated income in endowment and restricted funds		(127)	(267)
Net surplus for the year retained within general reserves	24	**1,393**	**1,802**

All transactions are in respect of continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THIS YEAR ENDING 31st JULY 2008

	Note	2008 £000	Re-stated 2007 £000
Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax		1,393	1,802
(Depreciation) / appreciation of endowment asset investments	14	(1,073)	245
New endowments	14	222	1,534
Actuarial (loss) / gain in respect of pension schemes		(4,416)	7,549
Total recognised (losses) / gains relating to the year		**(3,874)**	**11,130**
Prior year adjustment	25	-	(1,200)
Total recognised (losses) / gains since last financial statements		**(3,874)**	**9,930**

Reconciliation

	2008 £000	Re-stated 2007 £000
Opening reserves and endowments	26,696	16,766
Total recognised (losses) / gains relating to the year	(3,874)	9,930
Closing reserves and endowments	**22,822**	**26,696**

BALANCE SHEETS
AS AT 31st JULY 2008

		Group		*University*	
			Re-stated		*Re-stated*
	Note	*2008*	*2007*	*2008*	*2007*
		£000	*£000*	*£000*	*£000*
Fixed Assets					
Tangible assets	*10*	99,988	90,835	89,651	80,209
Intangible assets	*11*	232	312	-	-
Investments	*12*	2,430	2,606	7,161	7,160
Total Fixed Assets		102,650	93,753	96,812	87,369
Endowment Assets	*14*	6,654	7,505	5,327	5,709
Current Assets					
Stock		5	5	-	-
Debtors	*15*	22,623	19,473	24,942	23,769
Cash at bank and in hand		11,668	10,216	2,481	4,696
		34,296	29,694	27,423	28,465
Less: Creditors - amounts falling due within one year	*16*	(49,921)	(37,342)	(47,758)	(36,916)
Net Current Liabilities		(15,625)	(7,648)	(20,335)	(8,451)
Total Assets less current liabilities		93,679	93,610	81,804	84,627
Less: Creditors - amounts falling due after more than one year	*17*	(26,499)	(25,445)	(24,614)	(25,415)
Less: Provisions for liabilities	*18*	(373)	(406)	(373)	(406)
Net Assets Excluding pension liability		66,807	67,759	56,817	58,806
Pension liability	*31*	(7,123)	(3,480)	(7,123)	(3,480)
Net Assets Including Pension Liability		**59,684**	**64,279**	**49,694**	**55,326**

BALANCE SHEETS
AS AT 31st JULY 2008

	Note	*Group* 2008 £000	*Group* *Re-stated* 2007 £000	*University* 2008 £000	*University* *Re-stated* 2007 £000
Deferred capital grants	*19*	36,631	37,151	34,928	35,397
Endowment Funds					
Expendable	*20*	2,735	2,532	2,735	2,532
Permanent	*20*	3,919	4,973	2,592	3,177
		6,654	7,505	5,327	5,709
Reserves					
Income & expenditure account excl. pension reserve	*24*	23,291	22,671	16,562	17,700
Pension reserve	*24*	(7,123)	(3,480)	(7,123)	(3,480)
Income & expenditure account incl. pension reserve		16,168	19,191	9,439	14,220
Restricted funds	*21*	190	177	-	-
Investment reserve	*22*	43	258	-	-
Other reserve	*23*	(2)	(3)	-	-
Total Funds		**59,684**	**64,279**	**49,694**	**55,326**

The Financial Statements on pages 16 to 49 were approved by the University Court on 15th December 2008 and were signed on its behalf by:-

Lord George Penrose Chairman of Court	Prof. Anton Muscatelli Principal & Chief Accounting Officer	Phil McNaull Director of Finance & IS/IT

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDING 31st July 2008

	Note	2008 £000	*Re-stated* 2007 £000
Net cash inflow from operating activities	*26*	6,143	4,329
Returns on investment and servicing of finance	*27*	(159)	(132)
Capital expenditure and financial investment	*28*	(8,661)	(1,658)
Financing	*29*	4,129	(3,878)
Increase / (decrease) in cash in the year		**1,452**	**(1,339)**

Reconciliation Of Net Cash Flow To Movement In Net Debt

		2008 £000	2007 £000
Increase / (decrease) in cash in the year		1,452	(1,339)
Financing		(4,129)	3,878
Change in net funds		(2,677)	2,539
Net debt at 1 August		(13,658)	(16,197)
Net debt at 31 July	*30*	**(16,335)**	**(13,658)**

NOTES TO THE ACCOUNTS
For the year ending 31st July 2008

1. **Principal Accounting Policies**

Fundamental accounting concept

The financial statements have been prepared on the going concern basis, with the parent undertaking having agreed to provide adequate funds, if required, so that all the undertakings within the group may meet their liabilities as they fall due.

Prior year adjustments

The group has implemented the requirements of the Statement of Recommended Practice (HE SORP 2007): Accounting for Further and Higher Education 2007, for which full implementation is required for accounting periods ending on or after 31st July 2008. The effect of the change in accounting policy is disclosed in note 25 to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable accounting standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost accounting convention as modified by the revaluation of endowment asset investments.

Basis of consolidation

These financial statements, and associated notes, reflect the group income and expenditure account, statement of total recognised gains and losses and cash flow statement for the year ended 31 July. Balance sheets, and their associated notes, as at 31st July are prepared for the parent (Heriot-Watt University) and the group.

The group financial statements include the University and its subsidiaries, as detailed in notes 12 and 13, in compliance with FRS 2 'accounting for subsidiary undertakings' and FRS 9 'associates and joint ventures'. The results of subsidiaries acquired or disposed of during the year are included in the group income and expenditure account from the day of acquisition or up to the date of disposal.

All intra-group sales and profits are eliminated fully on consolidation.

In accordance with FRS 2 'accounting for subsidiary undertakings', the activities of the Heriot-Watt University Students' Union have not been consolidated, both on grounds of materiality and the fact that it is a separate legal entity in which the University has no financial interest and no control or significant influence over policy decisions.

Recognition of income

Income from tuition fees is recognised in the year for which it is received and includes all fees chargeable to students or their sponsors. The costs of any fees waived by the University and any scholarships given to students are included as expenditure.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

Income from donations is credited to the income and expenditure account in the year in which it is earned, unless specific restrictions apply.

All income from short-term deposits and endowments is credited to the income and expenditure account in the year in which it is earned.

Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the group substantially all the benefits and risks of ownership of an asset, are treated as if the asset has been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Repairs and maintenance

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 period it is incurred. The group has a planned maintenance programme, which is reviewed on an annual basis.

Taxation

The University is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act (ICTA 1988).

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 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 subsidiaries, excluding the Edinburgh Business School, transfer their annual profits to the University by gift aid. In certain circumstances Value Added Tax is recoverable, but where this is not possible the cost is included in the relevant expenditure.

EBS Americas is a corporate organisation in the USA and, as such, is liable to US taxation.

Retirement benefits

All new members of staff have the option of joining a pension scheme. The schemes currently open to new members of staff are the Universities Superannuation Scheme (USS) and the Lothian Pension Fund (LPF).

Existing employees are entitled to maintain their membership of the Scottish Teachers Superannuation Scheme (STSS) and the Supplementary Pension Scheme (SPS).

Full provision has been made for those pension costs which do not arise from externally funded defined benefit schemes.

The subsidiary undertakings do not operate any other pension schemes. Employees of the subsidiary undertakings are members of the University’s pension schemes. The amount charged against profits represents either the contributions payable to the individual plans in respect of the year or the service cost expected to arise from employee service in the current year.

USS

Heriot-Watt 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 trustee administered fund. Because of the mutual nature of the scheme, Heriot-Watt is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 ‘Retirement Benefits’, accounts for the scheme as if it were a defined contribution scheme. As a result, The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

LPF

The LPF is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of Heriot-Watt University. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are calculated so as to spread the cost of pensions over employees' working lives with the University. The Contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. The amount charged to the statement of financial activities represents the service cost expected to arise from employee service in the current year.

STSS

Heriot-Watt University participates in the STSS pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of Heriot-Watt University. Heriot-Watt University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

SPS

The SPS is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of Heriot-Watt University. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The Contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. The amount charged to the statement of financial activities represents the service cost expected to arise from employee service in the current year.

Intangible Fixed Assets

Costs incurred by the Edinburgh Business School in the production of courses and in the translation of existing courses into non-English languages are recognised in the period in which they occur. Similar costs incurred by a third party and subsequently purchased by the Business School have been capitalised and are being written down on a straight line basis over a period of 4 years, the expected economic life of the course.

Goodwill arising from the purchase of third party shares in EBS Americas has been taken to the balance sheet and is being written down on a straight line basis over a period of 20 years, its expected useful economic life.

Tangible fixed assets

Freehold land is not depreciated.

Buildings are included in the balance sheet at historical cost and are depreciated on a straight line basis over their expected useful economic life as follows:

External fabric	50 years
Internal fabric	35 years
Mechanical & engineering	20 years

Where land and buildings are acquired or built with the aid of specific grants they are capitalised and depreciated as above.

Costs incurred after the initial purchase are capitalised to the extent that they increase the expected future benefits to the group from the existing asset beyond its previously assessed standard of performance; the cost of such enhancements being added to the gross carrying amount of the asset concerned.

Equipment

Equipment costing less than £5,000 per individual item or group of related items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost.

All assets are depreciated on a straight line basis over their expected useful economic life as follows:

General equipment	-	5 years
Computers	-	5 years
Furniture & fittings	-	5 years
Motor vehicles	-	4 years

Assets under construction are included in the balance sheet at cost.

EBS Americas: all equipment capitalised by EBS Americas as at the date of the takeover (9th February 2007). Equipment purchased subsequently costing less than $10,000 per individual item or group of related items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost and depreciated on a straight line basis over its expected useful economic life.

Acquisition with the aid of specific grants

Where tangible fixed assets are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Investments

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

Current asset investments, which may include listed investments, are shown at the lower of cost and net realisable value.

Stock

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

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, cash at bank and money market deposits. No other investment, however liquid, is included as cash.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the financial year, with all resulting exchange differences being taken to the income and expenditure account in the period in which they arise.

Research grants and contracts

Income from grants for sponsored research is included only to the extent of direct and indirect expenditure incurred on each project during the year.

Expenditure is written off in the year in which it is incurred except for equipment costing more than £5,000 which is capitalised in accordance with the group's capitalisation policy.

Other income received in advance is included in the balance sheet within creditors: amounts falling due within one year.

Charitable donations

Endowment funds

All charitable donations received are accounted for as follows:

- Restricted expendable: both the capital and the income elements are retained on the balance sheet until they are expended for the purpose specified by the donor.
- Restricted permanent: both the capital and the income elements are retained on the balance sheet, the capital element on a permanent basis and the income element until it is expended for the purpose specified by the donor
- Unrestricted expendable: recognised as a donation in the income and expenditure account in the year received.

Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Gift Aid

Gift Aid payments and receipts are recognised in the income and expenditure account in the year in which they are made.

2. Funding Body Grants

	Group	
		Re-stated
	2008	*2007*
	£000	*£000*
Recurrent teaching grant	24,486	24,245
Funding for increased STSS contributions	33	50
Recurrent research grant	14,007	12,269
LTIF grants	160	281
SRIF grants	872	828
Release of deferred capital grants	887	909
Other grants	813	637
	41,258	39,219

3. Tuition Fees and Education Contracts

	Group	
	2008	2007
	£000	£000
UK Higher education students	8,041	7,192
European Union students (ex. UK)	2,456	2,224
Non European Union students	14,753	13,330
Higher education contracts	6,089	5,157
Research training support grants	3,274	2,582
Short course fees	1,236	1,171
Examination and graduation fees	1,969	1,722
	37,818	33,378

4. Research Grants and Contracts

	Group	
	2008	2007
	£000	£000
Research councils	6,927	6,596
Charities	337	414
UK government	2,001	1,842
UK industry	2,865	3,258
EU Commission	1,012	1,197
Other sources	2,281	2,186
	15,423	15,493

5. Other Income

	Group	
		Re-stated
	2008	2007
	£000	£000
Residences, catering and conferences	9,611	10,850
Other services rendered	4,223	3,425
Royalties	12	45
Donations	965	986
Release of deferred capital grants	328	303
Other income	6,132	5,375
	21,271	20,984

6. Endowment and Investment Income

	Group	
	2008	*2007*
	£000	*£000*
Income from specific endowment assets	491	460
Income from restricted funds	28	21
Net return on pension assets	628	371
Other investment income	4	6
Other interest receivable	899	776
	2,050	1,634

7. Staff Costs

	Group	
	2008	*2007*
	£000	*£000*
Wages and salaries	54,049	51,690
Social security costs	4,446	4,194
Other pension costs	7,825	6,136
	66,320	62,020

Analysed between:	Group	
	2008	*2007*
	£000	*£000*
Academic	26,431	24,000
Academic support	19,635	18,295
Other support	1,162	1,298
Administrative & central services	10,755	10,198
Estates	3,883	3,547
Catering and residences	4,377	4,605
Other	77	77
	66,320	62,020

The average monthly number of persons employed by the group during the year, expressed as full-time equivalents, was:

	Number	*Number*
Academic	435	390
Academic support	522	504
Other support	31	39
Administrative & central services	271	268
Estates	128	123
Catering and residences	199	198
Other	2	16
	1,588	1,538

Staff Costs (continued)

The number of staff who received emoluments in the following ranges was:

	2008 *£000*	*2007* *£000*
£70,001 - £80,000	11	13
£80,001 - £90,000	8	7
£90,001 - £100,000	8	3
£100,001 - £110,000	7	8
£110,001 - £120,000	3	6
£120,001 - £130,000	3	3
£130,001 - £140,000	1	2
£140,001 - £150,000	1	-
£150,001 - £160,000	2	-
£190,001 - £200,000	-	1
	44	43

The above emoluments include amounts payable to the Principal by Heriot-Watt University of:

	2008 *£000*	*2007* *£000*
Salary	160	168
Benefits in kind	8	8
	168	176
Pension contributions	26	21

The pension contributions are in respect of the Universities Superannuation Scheme (USS) and are paid at the same rate as for other employees.

Costs of £1,109 (2007: £1,637) were incurred by the Principal during the year in respect of overseas activities carried out in pursuance of the strategy approved by the governing body.

8. Other Operating Expenses

		Group *2008* *£000*	*2007* *£000*
	Other operating expenses include:		
*	External auditors' remuneration - audit	46	50
	External auditors' remuneration – non-audit services	17	91
**	Internal auditors' remuneration	34	71
	Loss / (Profit) on disposal of tangible fixed assets	-	3
	Hire of other assets - operating leases - other	655	583
	Finance lease charges	3	3

* Inc. £31,752 (2007: £31,304) for Heriot-Watt University

** Inc. £33,711 (2007: £70,533) for Heriot-Watt University

9. Interest and Other Finance Costs

	Group	
	2008	*2007*
	£000	*£000*
Finance lease interest	3	3
On bank loans: repayable within 5 years, by instalments	-	2
On bank loans: repayable wholly or partly in more than 5 years	1,883	1,547
	1,886	1,552

10. Tangible Fixed Assets

	Land &Buildings	*Equipment*	*Work In Progress*	*Total*
	£000	*£000*	*£000*	*£000*
Group				
Cost				
At 1 August 2007 as re-stated	124,560	24,868	6,769	156,197
Additions	-	2,082	12,235	14,317
Transfers	2,507	923	(3,430)	-
Disposals	-	(22)	-	(22)
At 31 July 2008	127,067	27,851	15,574	170,492
Depreciation				
At 1 August 2007 as re-stated	46,411	18,951	-	65,362
Charge for year	2,775	2,389	-	5,164
Disposals	-	(22)	-	(22)
At 31 July 2008	49,186	21,318	-	70,504
Net Book Value				
At 31 July 2008	77,881	6,533	15,574	99,988
At 1 August 2007 as re-stated	78,149	5,917	6,769	90,835

Analysed between:

	£000	*£000*	*£000*	*£000*
Funded by capital grants	34,755	1,876	-	36,631
Own funded	43,126	4,657	15,574	63,357
At 31 July 2008	77,881	6,533	15,574	99,988

The net book value of the group's tangible fixed assets includes an amount of £14,236 (2007: £33,060) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £18,824 (2007: £18,824).

The land and buildings of Heriot-Watt Sports Village Ltd are subject to a first standard security in respect of the grants received from **sport**scotland.

Included in cost for the group is £15,574,000 (2007: £6,769,000) relating to assets in the course of construction, of which £11,374,000 (2007: £6,354,000) relates to freehold land and buildings and £4,200,000 (2007: £415,000) relates to equipment.

Tangible Fixed Assets (continued)

	Land & Buildings	*Equipment*	*Work In Progress*	*Total*
	£000	*£000*	*£000*	*£000*
University				
Cost				
At 1 August 2007 as re-stated	112,843	23,989	6,654	143,486
Additions	-	1,899	12,290	14,189
Transfers	2,507	923	(3,430)	-
Disposals	-	(11)	-	(11)
At 31 July 2008	115,350	26,800	15,514	157,664
Depreciation				
At 1 August 2007 as re-stated	44,825	18,452	-	63,277
Charge for year	2,468	2,279	-	4,747
Disposals	-	(11)	-	(11)
At 31 July 2008	47,293	20,720	-	68,013
Net Book Value				
At 31 July 2008	68,057	6,080	15,514	89,651
At 1 August 2007 as re-stated	68,018	5,537	6,654	80,209

Analysed between:

	£000	*£000*	*£000*	*£000*
Funded by capital grants	33,052	1,876	-	34,928
Own funded	35,005	4,204	15,514	54,723
At 31 July 2008	68,057	6,080	15,514	89,651

The net book value of the University's tangible fixed assets funded by capital grants includes £9,312,000 (2007: £5,709,000) in cash received for assets either under construction or in the course of being purchased as at the year-end date.

Included in cost for the University is £15,514,000 (2007: £6,654,000) relating to assets in the course of construction, of which £11,374,000 (2007: £6,239,000) relates to freehold land and buildings and £4,140,000 (2007: £415,000) relates to equipment.

11. Intangible Fixed Assets

	Group & University		
	Goodwill	*Course materials*	*Total*
	£000	*£000*	*£000*
Cost			
At 1 August 2007	172	524	696
Additions	-	-	-
At 31 July 2008	172	524	696
Amortisation			
At 1 August 2007	4	380	384
Charge for year	8	72	80
At 31 July 2008	12	452	464
Net Book Value			
At 31 July 2008	160	72	232
At 1 August 2007	168	144	312

12. Investments

	Group		*University*	
	2008	*2007*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Listed investments on the London Stock Exchange	2,374	2,551	-	-
Investment in subsidiary companies at cost	-	-	7,105	7,105
Minority investments in unquoted companies	56	55	56	55
	2,430	2,606	7,161	7,160

Minority investments in unquoted companies include investments made by the group in spin-out companies, which are stated at cost.

13. Subsidiary Undertakings

The group has major shareholdings in ordinary shares in the following companies incorporated in Scotland:

		Number of shares	Percentage owned
	Edinburgh Business School (Limited by Guarantee)	-	100%
	EBS Americas LLC	450	100%
	Edinburgh Conference Centre Limited	2,100,000	100%
[1]	Heriot-Watt Properties Limited	2	100%
[1]	Heriot-Watt Services Limited	2	100%
	Heriot-Watt Sports Village Limited	5,000,100	100%
	Heriot-Watt Trading Limited	5,000	100%
[1]	Scottish College of Textiles Limited	6	100%
[2]	SISTech Limited	250	50%

Subsidiary Undertakings (continued)

The consolidated financial statements of the group include the transactions of the above companies, with the exception of those marked below.

1 These companies are dormant.

2 For SISTech Limited the figures are not consolidated as they are deemed to be insignificant.

14. Endowment Assets

	Group		*University*	
		Re-stated		*Re-stated*
	2008	*2007*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Balance at 1 August	7,505	6,926	5,709	5,261
Increase in cash balances held	222	334	222	334
(Depreciation) / appreciation of endowment asset investments	(1,073)	245	(604)	114
Balance at 31 July	6,654	7,505	5,327	5,709
Represented by:				
Equities (listed)	5,253	6,325	3,926	4,529
Cash balances	1,401	1,180	1,401	1,180
	6,654	7,505	5,327	5,709

15. Debtors

	Group		*University*	
	2008	*2007*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Amounts falling due within one year:				
Debtors	6,184	4,089	3,785	2,667
Research debtors	7,306	7,622	7,306	7,622
Loans by parent undertaking	-	-	3,000	3,853
Amounts owed by group undertakings	-	-	2,377	2,261
Prepayments and accrued income	4,519	3,148	3,860	2,752
	18,009	14,859	20,328	19,155
Amounts falling due after more than one year:				
Prepayments and accrued income	4,614	4,614	4,614	4,614
	22,623	19,473	24,942	23,769

Included in loans by parent undertaking is £3,000,000 (2007: £3,853,000) due by Edinburgh Conference Centre Ltd to Heriot-Watt University of which £3,000,000 (2007: £3,801,000) is due after more than one year. The loan is repayable in full within 3 months of a written demand from the parent undertaking and bears interest at a rate of 1% over the bank base rate.

Included in prepayments and accrued income is £4,614,000 (2007: £4,614,000) due after more than one year which constitutes deemed consideration received by Heriot-Watt University from Borders College for the sale of its Galashiels site to the College in return for 17.5 years rent-free occupation of part of the site, commencing from the date of practical completion of the redevelopment of the site.

16. Creditors: Amounts Falling Due Within One Year

	Group		*University*	
	2008	*2007*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Bank loans	8,000	5,052	8,000	5,052
Loans from subsidiary companies	-	-	-	1,000
Obligations under finance leases	3	19	-	-
Grants in advance for research	12,204	11,789	12,204	11,789
Grants in advance from SFC	9,847	5,724	9,848	5,724
Other creditors	53	53	-	-
Trade creditors	4,019	2,015	3,736	1,947
Other taxation and social security	2,863	2,334	2,680	2,212
Accruals and deferred income	12,932	10,356	11,290	9,192
	49,921	37,342	47,758	36,916

17. Creditors: Amounts Falling Due After More Than One Year

	Group		*University*	
	2008	*2007*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Bank loans	20,000	18,801	20,000	18,801
Loans from subsidiary companies	-	-	-	2,000
Obligations under finance leases (between 2 to 5 years)	-	2	-	-
Deferred income	6,367	6,456	4,614	4,614
Other creditors	132	186	-	-
	26,499	25,445	24,614	25,415
The above loans are repayable as follows:				
In one year or less (note 17)	8,000	5,052	8,000	6,052
Between one and two years	-	1,742	-	52
Between two and five years	-	6,930	-	8,358
In five years or more	20,000	10,129	20,000	12,391
	20,000	18,801	20,000	20,801
	28,000	23,853	28,000	26,853

Bank loans comprise £8 million, repayable between October 2008 and February 2009 at rates of between 5.99% and 6.33% and £20 million repayable between 2016 and 2037, at rates of between 5.05% and 5.62%.

18. Provisions For Liabilities And Charges

	Group and University	
	Pensions	*Total*
	£000	*£000*
At 1 August 2007	406	406
Utilised during the year	(33)	(33)
At 31 July 2008	373	373
To be spent before 31 July 2009	33	33

19. Deferred Capital Grants

	Funding Council	*Other Grants*	*Total*
	£000	*£000*	*£000*
Group			
At 1 August 2007 as re-stated			
Buildings	21,448	10,675	32,123
Equipment	4,541	487	5,028
Total	25,989	11,162	37,151
Cash Received			
Buildings	2,024	316	2,340
Equipment	2,583	916	3,499
Total	4,607	1,232	5,839
Transfers			
Buildings	(259)	-	(259)
Equipment	(3,400)	56	(3,344)
Total	(3,659)	56	(3,603)
Released to Income and Expenditure			
Buildings	(1,158)	(289)	(1,447)
Equipment	(447)	(862)	(1,309)
Total	(1,605)	(1,151)	(2,756)
At 31 July 2008			
Buildings	22,055	10,702	32,757
Equipment	3,277	597	3,874
Total	25,332	11,299	36,631

Cash received of £9,312,000 (2007: £5,709,000) is excluded from deferred capital grants and disclosed in creditors falling due within one year relating as it relates to grants received for which the matching tangible fixed asset was either still being constructed and/or was in the course of being purchased as at the year end date and so had not been capitalised.

Deferred Capital Grants (continued)

University			
At 1 August 2007 as re-stated			
Buildings	21,388	8,983	30,371
Equipment	4,541	486	5,027
Total	25,929	9,469	35,398
Cash Received			
Buildings	2,024	316	2,340
Equipment	2,583	916	3,499
Total	4,607	1,232	5,839
Transfers			
Buildings	(259)	-	(259)
Equipment	(3,400)	56	(3,344)
Total	(3,659)	56	(3,603)
Released to Income and Expenditure			
Buildings	(1,156)	(242)	(1,398)
Equipment	(447)	(861)	(1,308)
Total	(1,603)	(787)	(2,706)
At 31 July 2008			
Buildings	21,997	9,057	31,054
Equipment	3,277	597	3,874
Total	25,274	9,954	34,928

20. Endowments

		Group			*University*	
	Restricted Expendable £000	*Restricted Permanent £000*	*Total £000*	*Restricted Expendable £000*	*Restricted Permanent £000*	*Total £000*
At 1 August 2007	2,532	4,973	7,505	2,532	3,177	5,709
Additions	108	-	108	108	-	108
Depreciation	(99)	(974)	(1,073)	(99)	(505)	(604)
Income for year	408	83	491	408	-	408
Expenditure for the year	(214)	(163)	(377)	(214)	(80)	(294)
At 31 July 2008	2,735	3,919	6,654	2,735	2,592	5,327

			Re-stated			*Re-stated*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 August 2006	2,095	4,831	6,926	2,095	3,166	5,261
Additions	73	-	73	73	-	73
Appreciation	47	198	245	47	67	114
Income for year	383	77	460	383	3	386
Expenditure for the year	(66)	(133)	(199)	(66)	(59)	(125)
At 31 July 2007	2,532	4,973	7,505	2,532	3,177	5,709

21. Restricted Funds

	Group 2008 £000	Group 2007 £000	University 2008 £000	University 2007 £000
Balance at 1 August	177	171	-	-
Income in the year	28	21	-	-
Expenditure in the year	(15)	(15)	-	-
Balance at 31 July	190	177	-	-

22. Investment Reserve

	Group 2008 £000	Group 2007 £000	University 2008 £000	University 2007 £000
Balance at 1 August	258	(5)	-	-
Revaluation for the year	(215)	263	-	-
Balance at 31 July	43	258	-	-

23. Other Reserve

	Group 2008 £000	Group 2007 £000	University 2008 £000	University 2007 £000
Balance at 1 August	(3)	-	-	-
Revaluation for the year	1	(3)	-	-
Balance at 31 July	(2)	(3)	-	-

24. General Reserve

	Group 2008 £000	Group 2007 £000	University 2008 £000	University 2007 £000
Reported Balance at 1 August	19,191	14,400	14,220	9,430
Prior year adjustment (tangible fixed assets)	-	(4,560)	-	(4,282)
Re-stated balance at 1 August	19,191	9,840	14,220	5,148
Net surplus / (deficit) retained for the year	1,393	1,802	(393)	1,637
Transfer from reserves	(4,416)	7,549	(4,388)	7,435
Balance at 31 July	16,168	19,191	9,439	14,220

	Group 2008 £000	Group 2007 £000
The net surplus retained for the year is analysed as follows:		
University deficit	(393)	(163)
Gift Aid from subsidiaries	-	1,800
Surplus retained by subsidiaries	1,786	165
	1,393	1,802

General Reserve (continued)

Reconciliation:

	Group		*University*	
	2008	*2007*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Income and expenditure reserve	23,291	22,671	16,562	17,700
Pension reserve	(7,123)	(3,480)	(7,123)	(3,480)
Balance at 31 July	16,168	19,191	9,439	14,220

Represented by:

	Group		*University*	
	2008	*2007*	*2008*	*2007*
Income and expenditure account	*£000*	*£000*	*£000*	*£000*
At 1 August	22,671	21,583	17,700	16,755
(Deficit) / surplus for the year	1,393	1,802	(393)	1,637
Transfer to pension reserve	(773)	(714)	(745)	(692)
At 31 July	23,291	22,671	16,562	17,700

	Group		*University*	
	2008	*2007*	*2008*	*2007*
Pension Reserve	*£000*	*£000*	*£000*	*£000*
Deficit at 1 August	(3,480)	(11,743)	(3,480)	(11,607)
Current service cost	(1,849)	(2,211)	(1,806)	(2,154)
Employer contributions	1,979	1,935	1,926	1,881
Contributions in respect of unfunded benefits	15	14	15	14
Other pension costs	-	(73)	-	(73)
Past service gains	-	678	-	663
Net return on assets	628	371	610	361
Actuarial gains	(4,416)	7,549	(4,388)	7,435
Deficit at 31 July	(7,123)	(3,480)	(7,123)	(3,480)

25. Prior Year Adjustments

Full implementation of Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (HE SORP 2007) during the year ended 31 July 2008 requires a prior year adjustment of the endowment assets and liabilities of the group at 1 August 2007 and the 2006-07 comparatives and the opening reserves at 1 August 2006 and the 2006-07 comparatives. The following table identifies group balances re-stated in these financial statements.

	Note	*Reported in 2006-07*	*Adjust-ment*	*Re-stated*
		£000	*£000*	*£000*
STRGL				
New endowments	*14*	1,534	(1,200)	334
Balance Sheet				
Endowments assets	*14*	8,705	(1,200)	7,505
Cash at bank		9,016	1,200	10,216
Deferred capital grants	*19*	(41,066)	(1,200)	(42,266)
Endowments liabilities	*20*	(8,705)	1,200	(7,505)

Full implementation of Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (HE SORP 2007) during the year ended 31 July 2008 requires a prior year adjustment of the tangible fixed assets of the group at 1 August 2007 and the 2006-07 comparatives and the opening reserves at 1 August 2006 and the 2006-07 comparatives. The following table identifies balances re-stated in these financial statements.

	Note	*Reported in 2006-07*	*Adjust-ment*	*Re-stated*
		£000	*£000*	*£000*
Income and Expenditure Account				
Depreciation	*10*	4,969	515	5,484
Deferred capital grants released		(2,454)	(144)	(2,598)
Balance Sheet				
Tangible assets	*10*	100,881	(10,046)	90,835
Deferred capital grants	*19*	(42,266)	5,115	(37,151)
General reserve	*24*	(27,602)	4,931	(22,671)

26. Reconciliation Of Surplus Before Tax To Net Cash Inflow From Operating Activities

	Group	
	2008	*Re-stated 2007*
	£000	*£000*
Income & expenditure		
Surplus on continuing operations after depreciation and disposal of assets and taxation	1,520	2,069
Interest receivable	(916)	(788)
Interest payable	1,886	1,552
Fixed assets & deferred capital grants		
Depreciation of tangible fixed assets	5,164	5,484
Amortisation of intangible fixed assets	80	76
Loss on disposal of tangible fixed assets	-	3
Deferred capital grants released to income	(2,756)	(2,598)
Transfer from deferred capital grants to creditors	(3,603)	(5,709)
Endowments & pensions		
Transfer from accumulated income to specific endowments	(114)	(261)
Transfer from accumulated income to restricted funds	(13)	(6)
Pension (income)	(773)	(714)
Net return on pension assets	(628)	(371)
Working capital		
Decrease / (Increase) in fixed asset investments	176	(291)
Decrease in stocks	-	16
(Increase) in debtors	(3,150)	(5,663)
Increase in creditors	9,504	11,366
(Decrease) in provisions	(33)	(102)
Reserves		
Increase in restricted funds	13	6
(Decrease) / increase in investment reserve	(215)	263
Increase / (decrease) in revaluation reserve	1	(3)
Net Cash Inflow from Operating Activities	6,143	4,329

27. Returns On Investment And Servicing Of Finance

	Group	
	2008	*2007*
	£000	*£000*
Income received on specific endowments	486	460
Expenditure paid on specific endowments	(303)	(199)
Interest received	899	776
Income received on restricted funds	28	21
Expenditure paid on restricted funds	(15)	(15)
Other investment income received	4	6
Interest paid	(1,886)	(1,552)
Net return on pension assets	628	371
Net Cash Outflow from Returns on Investment and Servicing of Finance	(159)	(132)

28. Capital Expenditure And Financial Investment

	Group	
		Re-stated
	2008	*2007*
	£000	*£000*
Purchase of tangible fixed assets	(14,317)	(7,879)
Purchase of intangible fixed assets	-	(172)
Payments to acquire endowment assets	(291)	(334)
Deferred capital grants received	5,839	6,654
Endowments received	108	73
Net Cash Outflow from Capital Expenditure and Financial Investment	(8,661)	(1,658)

29. Financing

	Group	
	2008	*2007*
	£000	*£000*
New amounts drawn down	4,147	5,000
Repayment of amounts borrowed	-	(8,859)
Capital element of finance lease rentals paid	(18)	(19)
Net Cash Outflow from Financing	4,129	(3,878)

30. Analysis Of Changes In Net (Debt) / Funds

	Re-stated At 1 August 2007	*Cash Flows*	*Non-cash Changes*	*At 31 July 2008*
	£000	*£000*	*£000*	*£000*
Cash at bank and in hand	10,216	1,452	-	11,668
	10,216	1,452	-	11,668
Debts due within one year	(5,052)	(2,948)	-	(8,000)
Debts due after one year	(18,801)	(1,199)	-	(20,000)
Finance leases	(21)	18	-	(3)
	(13,658)	(2,677)	-	(16,335)

Had the cash held under endowment asset investments been included above, the net cash outflow would have been £2,456,000 with net debt at 31 July 2008 of £14,934,000 (2007: £12,478,000). However, to reflect more accurately the restricted nature of the cash held for endowments the group considers the exclusion of this cash from the above figures gives a fairer view of the group's net debt.

31. Pension Schemes

The total pension charge in the financial statements reflects the costs incurred by the group during the year of £7,825,000 (2007 - £6,136,000).

	Group	
	2008	*2007*
	£000	*£000*
The total pension charge is analysed as follows:		
Universities Superannuation Scheme	5,683	4,542
Lothian Pension Fund	2,047	1,508
Scottish Teachers Superannuation Scheme	111	102
Supplementary Pension Scheme	(16)	(16)
	7,825	6,136

The pension costs are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuations of the USS and Lothian Pension Fund (LPF) schemes were on 31st March 2008 and of the Supplementary Pension Scheme (SPS) on 31st July 2004.

In accordance with FRS17 'Retirement Benefits' the total pension charges disclosed for both LPF and the SPS are the current service cost which represents the increase in the present value of the schemes' liabilities expected to arise from employee service in the current year.

Pension Schemes (continued)

Universities Superannuation Scheme

Heriot-Watt participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trustee deeds and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, Heriot Watt is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800 million of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

- Pre-retirement mortality : PA92 rated down 3 years
- Post retirement mortality : PA92 (c=2020) for all retired and non-retired members

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

- Males 19.8 years
- Females 22.8 years

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, the actuary estimates that the funding level would have been approximately 90%.

Pension Schemes (continued)

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (i.e. the valuation rate of interest). On the FRS 17 basis, using an AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was above 104%. An estimate of the funding level on a buy-out basis was approximately 78%.

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

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase / decrease by 0.5%	Decrease / Increase by £2.2 billion
Rate of pension increases	Increase / decrease by 0.5%	Increase / decrease by £1.7 billion
Rate of salary growth	Increase / decrease by 0.5%	Increase / decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation rated down by a further year)	Increase by £0.8 billion

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme's actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of the covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

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

The total contribution made for the year ended 31 July 2008 was £7,265,000 (2007: £6,602,000), of which employer's contributions totalled £5,683,000 (2007: £4,542,000) and employee's contributions totalled £1,582,000 (2007: £2,060,000). The agreed contribution rates set are 14% (2007: 14%) for the employer and 6.35% (2007: 6.35%) for employees. The employer's contributions include £90,000 (2007: £574,000) of outstanding contributions at the balance sheet date.

Pension Schemes (continued)

Lothian Pension Fund

A full actuarial valuation was carried out at 31 March 2008 by a qualified independent actuary.

The major assumptions used by the actuary were:

	2008	*2007*
Price increases	*3.8%*	*3.3%*
Salary increases	*5.3%*	*4.8%*
Pension increases	*3.8%*	*3.3%*
Discount rate	*6.7%*	*5.8%*

The assets in the scheme and the expected rate of return at the last actuarial review date were:

	Long term rate of return % p.a.	*Assets at 31 July 2008 £000*	*Long term rate of return % p.a.*	*Assets at 31 July 2007 £000*
Equities	*7.8%*	37,419	*8.0%*	38,814
Bonds	*5.7%*	4,485	*5.2%*	3,798
Property	*5.7%*	5,780	*6.0%*	6,689
Cash	*4.8%*	1,536	*5.1%*	3,188
Total		49,220		52,489

The following amounts represent Heriot-Watt University's share of the scheme at 31st July 2008 and were measured in accordance with the requirements of FRS 17:

Reconciliation of employer assets

	2008	*2007*
	£000	*£000*
At 1 August	52,489	45,264
Expected return on assets	3,917	3,310
Contributions by members	578	569
Contributions by employer	1,978	1,933
Benefits paid	(1,148)	(1,113)
Actuarial gains / (losses)	(8,594)	2,526
At 31 July	49,220	52,489

Pension Schemes (continued)

Reconciliation of present value of liabilities

	2008 £000	2007 £000
At 1 August	(55,755)	(57,007)
Current service cost	(1,849)	(2,211)
Interest cost	(3,270)	(2,932)
Contributions by members	(578)	(569)
Past service gains	-	678
Benefits paid	1,148	1,113
Actuarial gains / (losses)	4,021	5,173
At 31 July	(56,283)	(55,755)
Net pension liability (A-B)	(7,063)	(3,266)

Analysis Of Amount Charged To Operating Profit

	2008 £000	2008 % of payroll	2007 £000	2007 % of payroll
Amount charged to operating profit (A)				
Service cost	1,849	*19.1%*	2,211	*22.6%*
Past service cost	-	-	(678)	*(6.9)%*
Total Operating Charge (A)	1,849	*19.1%*	1,533	*15.7%*

Analysis Of Amount Credited To Other Finance Income

	2008 £000	2008 % of payroll	2007 £000	2007 % of payroll
Expected return on employer assets	3,917	*40.5%*	3,310	*33.9%*
Interest on pension scheme liabilities	(3,270)	*(33.8%)*	(2,932)	*(30.0%)*
Net Return (B)	647	*6.7%*	378	*3.9%*
Estimated net revenue account cost (A) – (B)	1,202	*12.4%*	1,155	*11.8%*

Analysis Of Amount Recognised In The Statement Of Total Recognised Gains And Losses (STRGL)

	2008 £000	2007 £000
Actual return less expected return on pension scheme assets	(8,594)	2,526
Experience (losses) / gains arising on the scheme liabilities	(12)	11
Changes in assumptions underlying the present value of the scheme liabilities	4,033	5,162
Actuarial (loss) / gain in pension plan	(4,573)	7,699
Actuarial (loss) / gain recognised in STRGL	(4,539)	7,650

Pension Schemes (continued)

Movement In Deficit During The Year

	2008 £000	2007 £000
(Deficit) at start of the year	(3,266)	(11,743)
Current service cost	(1,849)	(2,211)
Employer contributions	1,963	1,919
Contributions in respect of unfunded benefits	15	14
Past service gains	-	678
Net return on pension assets	647	378
Actuarial gains	(4,573)	7,699
(Deficit) at end of the year	(7,063)	(3,266)

History Of Experience Gains And Losses

	2008 £000	2007 £000
Difference between expected and actual return on assets	(8,594)	2,526
Value of assets	49,220	52,489
Percentage of assets	*(17.5%)*	*4.8%*
Experience (losses) / gains on liabilities	(12)	11
Total present value of liabilities	56,283	55,755
Percentage of the total present value of liabilities	-	-
Actuarial (loss) / gain recognised in STRGL	(4,539)	7,650
Total present value of liabilities	55,755	55,755
Percentage of the total present value of liabilities	*(8.1%)*	*13.7%*

Scottish Teachers Superannuation Scheme

The STSS operates on a notionally funded basis. It is a multi–employer scheme and it is not possible to identify each institution's share of the notional assets and liabilities. Therefore, contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the results for the year is the contribution payable to the scheme for that year.

The scheme is contracted out of the State Earnings-Related Pension scheme.

The total contribution made for the year ended 31 July 2008 was £163,000 (2007: £151,000), of which employer's contributions totalled £111,000 (2007: £102,000) and employee's contributions totalled £52,000 (2007: £49,000). The agreed contribution rates for future years are 13.5% (2007: 13.5%) for employers and 6% (2007: 6%) for employees.

Pension Schemes (continued)

The last actuarial valuation of the scheme for which information is available was at 31st March 2001. The assumptions that have had the most significant effect on this valuation and other relevant information are as follows below.

Rate of return on investments in excess of rate of increases in earnings	2.0% per annum
Rate of return on investments in excess of rate of increases in prices	3.5% per annum
Market value of the assets at 31st March 2001	£4,433 million

As at 31st March 2001 actuarial valuation date, which was carried out using the prospective benefit method, the STSS showed that the present value of liabilities exceeded assets by £10,769 million. As such notional investments totalling £10,769 million are required to be credited to the scheme to balance the account.

The 2001 actuarial valuation date was carried out using an approach known as ‘superannuation contributions adjusted for past experience’ (SCAPE). Using SCAPE, with effect from 1st April 2001, the notional investments will earn a real rate of return (in excess of price increases) specified by the Government Actuary. In addition, the Teachers Superannuation (Scotland) Amendment Act 2003 states that, for the purposes of the actuarial review as at 31st March 2001, the balance in the account at that date shall be such that the value of the scheme’s assets equals the value of the scheme’s liabilities.

Supplementary Pension Scheme

A full actuarial valuation was carried out at 31 March 2004 by a qualified independent actuary.

The major assumptions used by the actuary were:

	2008	*2007*
Price increases	*3.8%*	*3.3%*
Pension increases	*3.8%*	*3.3%*
Discount rate	*6.7%*	*5.8%*

The assets in the scheme and the expected rate of return at the last actuarial review date were:

	Long term rate of return % p.a.	*Assets at 31 July 2008 £000*	*Long term rate of return % p.a.*	*Assets at 31 July 2007 £000*
Fixed interest & index linked securities	*4.7%*	990	*4.7%*	941
Total		990		941

Pension Schemes (continued)

The following amounts represent Heriot-Watt University's share of the scheme at 31 July 2008 and were measured in accordance with the requirements of FRS 17:

Reconciliation of employer assets

	2008	*2007*
	£000	*£000*
At 1 August	941	953
Expected return on assets	43	44
Contributions by employer	16	16
Benefits paid	(56)	(55)
Actuarial gains / (losses)	46	(17)
At 31 July	990	941

Reconciliation of present value of liabilities

	2008	*2007*
	£000	*£000*
At 1 August	(1,106)	(1,026)
Interest cost	(62)	(51)
Benefits paid	56	55
Actuarial gains / (losses)	77	(84)
At 31 July	(1,035)	(1,106)
Net pension liability (A-B)	(45)	(165)

Analysis Of Amount Credited To Other Finance Income

	2008	*2007*
	£000	*£000*
Expected return on employer assets	43	44
Interest on pension scheme liabilities	(62)	(51)
Net Return	(19)	(7)
Estimated net revenue account cost	(19)	(7)

Analysis Of Amount Recognised In The Statement Of Total Recognised Gains And Losses (STRGL)

	2008	*2007*
	£000	*£000*
Actual return less expected return on pension scheme assets	46	(18)
Experience gains / (losses) arising on the scheme liabilities	29	(7)
Changes in assumptions underlying the present value of the scheme liabilities	48	(76)
Actuarial gain / (loss) in pension plan	123	(101)
Actuarial gain / (loss) recognised in STRGL	123	(101)

Pension Schemes (continued)

Movement In Deficit During The Year

	2008 *£000*	*2007* *£000*
(Deficit) at start of the year	(165)	(73)
Employer contributions	16	16
Net return on pension assets	(19)	(7)
Actuarial gains / (losses)	123	(101)
(Deficit) at end of the year	(45)	(165)

History Of Experience Gains And Losses

	2008 *£000*	*2007* *£000*
Difference between expected and actual return on assets	46	(18)
Value of assets	990	941
Percentage of assets	*4.6%*	*(1.9)%*
Experience gains on liabilities	29	(7)
Total present value of liabilities	1,035	1,106
Percentage of the total present value of liabilities	*2.8%*	*(1.0)%*
Actuarial gains / (losses) recognised in STRGL	123	(101)
Total present value of liabilities	1,035	1,106
Percentage of the total present value of liabilities	*11.9%*	*(9.1)%*

32. Post Balance Sheet Events

There are no material post Balance Sheet events.

33. Capital Commitments

Provision has not been made for the following capital commitments at 31 July 2008:

	Group	
	2008 *£000*	*2007* *£000*
Commitments contracted	5,178	9,686
Authorised but not contracted	300	1,441
	5,478	11,127

34. Financial commitments

At 31 July 2008 there were annual commitments under non-cancellable operating leases as follows:

	Group	
	2008	*2007*
	£000	*£000*
Other:		
Expiring within one year	277	306
Expiring between two to five years inclusive	52	315
	329	621

35. Contingent Liability

There are no material contingent liabilities.

36. Related Party Transactions

There are no material related party transactions.

37. Access Funds

		Group	
	Childcare	*Hardship*	*Total*
	£000	*£000*	*£000*
At 1 August 2007	13	47	60
Funding Council grants	36	343	379
Disbursed to students	(49)	(381)	(430)
Balance unspent at 31 July 2008	-	9	9
Repayable to funding body	-	-	-

Funding council grants are available solely for students; the group acts only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

38. Financial Instruments

The University has not adopted fair value accounting and therefore does not recognise financial instruments in the financial statements under Financial Reporting Standard 26 'financial instruments: measurement and recognition'.

The University holds the following fixed rate interest rate swap arrangements:

- A swap entered into on 28th June 2002 for £10 million at 5.05%, expiring on 30th September 2016 and amortising on a straight line basis from 31st December 2008.
- A swap entered into on 28th June 2002 for £5 million at 5.62%, expiring on 30th September 2016 and amortising on a straight line basis from 31st December 2008.
- A swap entered into on 5th October 2007 for £5 million at 5.03%, rising to £18 million on 30th September 2016, expiring on 31st March 2037 and amortising on a straight line basis from 30th September 2014.

MEMBERS OF COURT
At 15th December 2008

Chancellor	Baroness Susan Greenfield[1]	CBE, MA, Dphil, DSc, FRCP
Chairman of Court	The Rt Hon Lord George Penrose[1,3]	CA
	Gavin J N Gemmell[1, 2]	*CBE, CA*
Principal & Vice-Chancellor	Professor Anton Muscatelli	FRSA, FRSE, AcSS
Vice-Principal	Professor Andrew C Walker	BA, MSc, PhD, CPhys, FInstP, FRSE
City of Edinburgh	Councillor Tim McKay[1]	
Convocation	Graeme Bissett[1]	BA, CA
	Malcolm Durie[1]	BSc, CEng
	Judith McClure[1]	CBE, MA, DPhil, FRSA, FSA
Senate	Dr Robert Mochrie	BSc, MSc, PhD
	Professor John Sawkins	MA, MSc, PhD, FHEA
	Dr Gillian Thomson	BSc, PhD, CSci, CChem, MRSC, AMIChemE
	Professor Adrian Todd	BSc, PhD, CEng, CSci, FIChemE, FEI, FRSE
Staff	Professor Dugald Duncan[3]	BSc, PhD
	James Maguire	
	Jim Polson[2]	*Chartered MCIPD*
	Jane Queenan	LlB, MBA
Graduates	Moyra Kedslie[4]	BA, PhD, FCCA, FRSA
	Yvonne Savage[1]	BA
Students Association	Ruth Bush[1,2]	MSc
	Ewan Wood	
Co-opted	Neil Fraser[1]	BA
	Andrew Muirhead[1]	FCIBS, MBA
	Dr Alan Parsley[1]	BSc, PhD
	Ray Perman[1]	BA, MBA
	Ed Weeple[1]	CB, MA
	David Woods[1]	MA MSc FIA

[1] Lay Member of Court
[2] *Member until 31st July 2008*
[3] Member from 1st August 2008

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At 15th December 2008

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ESTATE STRATEGY COMMITTEE	Mr N Fraser (Convenor) Ms R Bush (from 1 August 2008) Mr J Draper Mr R Durie Dr E Finch Mr R Kent Mr J Maguire Professor V A Muscatelli Lord G Penrose (from 1 August 2008) Mr J Polson Professor A C Walker Professor J I B Wilson
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REMUNERATION COMMITTEE	Lord G Penrose (Convenor) (from 1 August 2008) Mr G Bissett Dr J McClure (from 1 September 2008)

MEMBERSHIP OF COMMITTEES OF COURT
At 15th December 2008

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Professor A C Walker
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